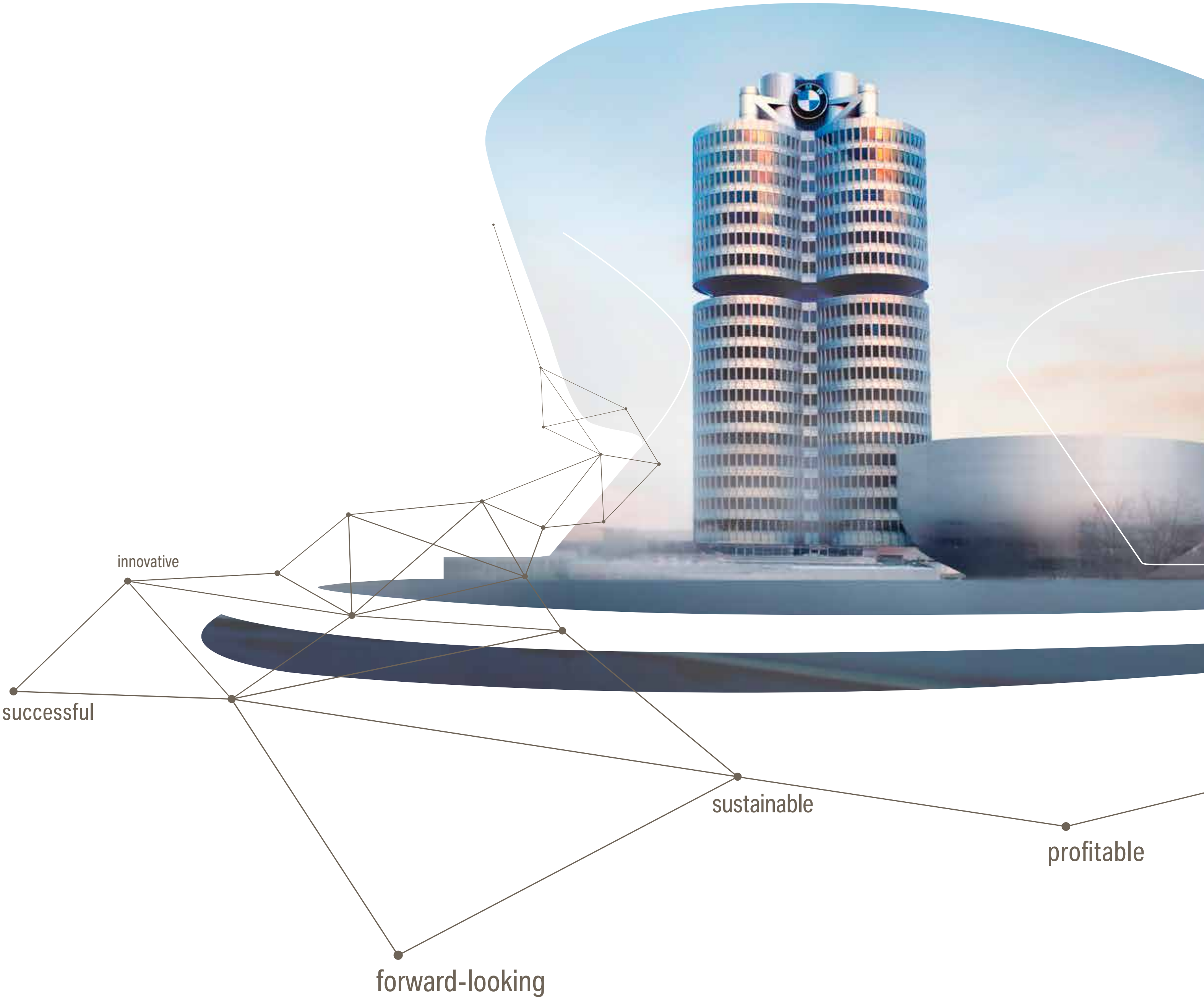
ANNUAL REPORT
2014



BMW GROUP

Rolls-Royce
Motor Cars Limited

Contents

BMW Group in figures

	2010	2011	2012	2013	**2014**	Change in %
Principal non-financial performance indicators						
BMW Group						
Workforce at end of year[1]	95,453	100,306	105,876	110,351	**116,324**	5.4
Automotive segment						
Sales volume[2]	1,461,166	1,668,982	1,845,186	1,963,798	**2,117,965**	7.9
Fleet emissions in g CO_2/km[3]	148	145	143	133	**130**	–2.3
Motorcycles segment						
Sales volume[4]	98,047	104,286	106,358	115,215	**123,495**	7.2
Further non-financial key performance figures						
Automotive segment						
Sales volume						
BMW[2]	1,224,280	1,380,384	1,540,085	1,655,138	**1,811,719**	9.5
MINI	234,175	285,060	301,526	305,030	**302,183**	–0.9
Rolls-Royce	2,711	3,538	3,575	3,630	**4,063**	11.9
Total[2]	**1,461,166**	**1,668,982**	**1,845,186**	**1,963,798**	**2,117,965**	**7.9**
Production volume						
BMW[5]	1,236,989	1,440,315	1,547,057	1,699,835	**1,838,268**	8.1
MINI	241,043	294,120	311,490	303,177	**322,803**	6.5
Rolls-Royce	3,221	3,725	3,279	3,354	**4,495**	34.0
Total[5]	**1,481,253**	**1,738,160**	**1,861,826**	**2,006,366**	**2,165,566**	**7.9**
Motorcycles segment						
Production volume[6]						
BMW	99,236	110,360	113,811	110,127	**133,615**	21.3
Financial Services segment						
New contracts with retail customers	1,083,154	1,196,610	1,341,296	1,471,385	**1,509,113**	2.6

[1] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
[2] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2010: 53,701 units, 2011: 94,400 units, 2012: 141,165 units, 2013: 198,542 units, 2014: 275,891 units).
[3] EU-28.
[4] Excluding Husqvarna, sales volume up to 2013: 59,776 units.
[5] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2010: 55,588 units, 2011: 98,241 units, 2012: 150,052 units, 2013: 214,920 units, 2014: 287,466 units).
[6] Excluding Husqvarna, production up to 2013: 59,426 units.

BMW Group in figures

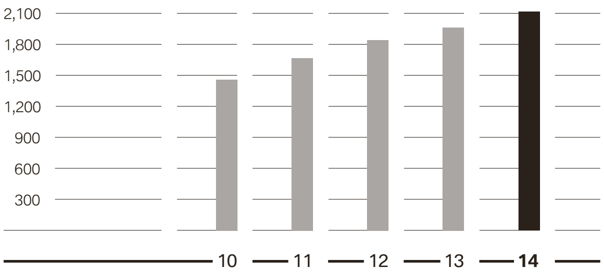
		2010	2011	2012	2013	**2014**	Change in %
Principal financial performance indicators							
BMW Group							
Profit before tax	€ million	4,853	7,383	7,803	7,893[1]	**8,707**	**10.3**
Automotive segment							
Revenues	€ million	54,137	63,229	70,208	70,630[1]	**75,173**	**6.4**
EBIT margin	% (change in %pts)	8.0	11.8	10.8	9.4	**9.6**	**0.2**
RoCE	% (change in %pts)	40.2	77.3	73.7	63.0[1]	**61.7**	**–1.3**
Motorcycles segment							
RoCE	% (change in %pts)	18.0	10.2	1.8	16.4	**21.8**	**5.4**
Financial Services segment							
RoE	% (change in %pts)	26.1	29.4	21.2	20.0[1]	**19.4**	**–0.6**
Further financial key performance figures							
in € million							
Capital expenditure		3,263	3,692	5,240	6,711[1]	**6,100**	**–9.1**
Depreciation and amortisation		3,682	3,646	3,541	3,741[1]	**4,170**	**11.5**
Operating cash flow Automotive segment		8,149	8,110	9,167	9,964[1]	**9,423**	**–5.4**
Revenues		**60,477**	**68,821**	**76,848**	**76,059**[1]	**80,401**	**5.7**
Automotive		54,137	63,229	70,208	70,630[1]	**75,173**	6.4
Motorcycles		1,304	1,436	1,490	1,504	**1,679**	11.6
Financial Services		16,617	17,510	19,550	19,874	**20,599**	3.6
Other Entities		4	5	5	6	**7**	16.7
Eliminations		–11,585	–13,359	–14,405	–15,955	**–17,057**	6.9
Profit before financial result (EBIT)		**5,111**	**8,018**	**8,275**	**7,978**[1]	**9,118**	**14.3**
Automotive		4,355	7,477	7,599	6,649[1]	**7,244**	8.9
Motorcycles		71	45	9	79	**112**	41.8
Financial Services		1,201	1,763	1,558	1,643	**1,756**	6.9
Other Entities		–41	–19	58	44	**71**	61.4
Eliminations		–475	–1,248	–949	–437[1]	**–65**	85.1
Profit before tax		**4,853**	**7,383**	**7,803**	**7,893**[1]	**8,707**	**10.3**
Automotive		3,887	6,823	7,170	6,561	**6,886**	5.0
Motorcycles		65	41	6	76	**107**	40.8
Financial Services		1,214	1,790	1,561	1,619[1]	**1,723**	6.4
Other Entities		45	–168	3	164	**154**	–6.1
Eliminations		–358	–1,103	–937	–527	**–163**	69.1
Income taxes		**–1,610**	**–2,476**	**–2,692**	**–2,564**[1]	**–2,890**	**–12.7**
Net profit		**3,243**	**4,907**	**5,111**	**5,329**[1]	**5,817**	**9.2**
Earnings per share[2] in €		**4.93/4.95**	**7.45/7.47**	**7.75/7.77**	**8.08**[1]**/8.10**[1]	**8.83/8.85**	**9.3/9.3**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Common/preferred stock. In computing earnings per share of preferred stock, earnings to cover the additional dividend of €0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

BMW Group in figures

Sales volume of automobiles*

in thousand units

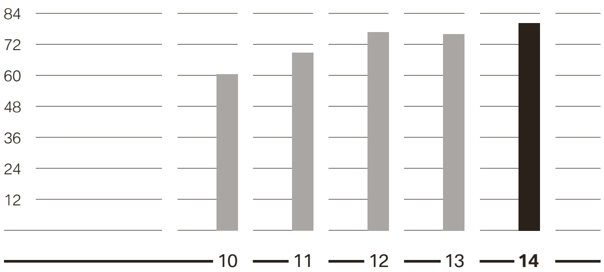


10	11	12	13	14
1,461.2	1,669.0	1,845.2	1,963.8	**2,118.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2010: 53,701 units, 2011: 94,400 units, 2012: 141,165 units, 2013: 198,542 units, 2014: 275,891 units).

Revenues

in € billion

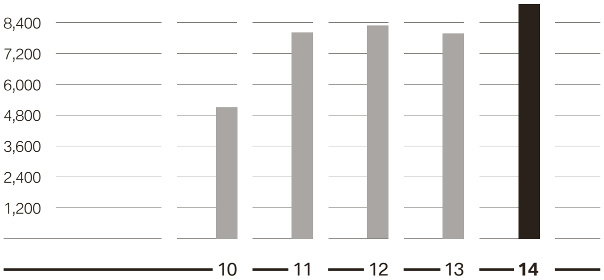


10	11	12	13	14
60.5	68.8	76.8	76.1*	**80.4**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Profit before financial result

in € million

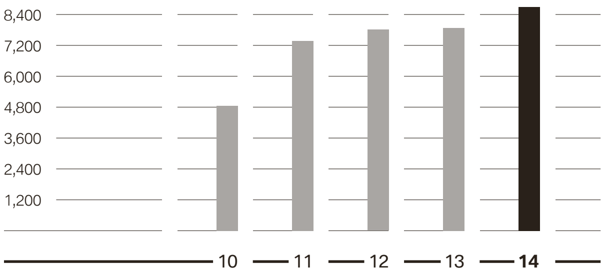


10	11	12	13	14
5,111	8,018	8,275	7,978*	**9,118**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Profit before tax

in € million



10	11	12	13	14
4,853	7,383	7,803	7,893*	**8,707**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Joachim Milberg
Chairman of the Supervisory Board

Dear Shareholders and Shareholder Representatives,

Back in 2007, the BMW Group set a new strategic course with the adoption of its strategy "Number ONE". Today, we can look back on the fifth successive year in which we have achieved record figures. Responsible management involves anticipating new developments and initiating the next moves in good time to ensure the future success of the business. This forward-looking approach applies equally to the Supervisory Board. By taking the step of announcing Harald Krüger's future appointment to the position of Chairman of the Board of Management at an early stage and implementing other decisions with respect to the board's composition, the resolutions adopted by the Supervisory Board in 2014 have set a clear-cut course for the future leadership of the BMW Group. At the same stage, we also announced our plan to ring in a change at the head of the Supervisory Board in 2015 by declaring our unanimous support in favour of the appointment of Dr Norbert Reithofer as its new Chairman. With the backing of major shareholders, we intend to propose his election to the Supervisory Board at the Annual General Meeting. These proposed changes in leadership have been initiated in order to strengthen the position of the BMW Group by ensuring a long-term management perspective.

Main emphases of the Supervisory Board's monitoring and advisory activities The Supervisory Board again advised the Board of Management during the past financial year and carefully monitored its governance of the business. Our work, both within the Supervisory Board and together with the Board of Management, was constructive and characterised by open, trustful interaction.

In a total of five Supervisory Board meetings, we deliberated on the current situation of the BMW Group as well as on macroeconomic developments in its most important sales markets. Additional key points of debate at our meetings were Group corporate strategy and planning. Furthermore, we developed concepts for a generational change at the chair level of both the Board of Management and the Supervisory Board, took decisions regarding the composition and compensation of the Board of Management and passed resolutions with respect to corporate governance.

We carefully monitored the performance of the BMW Group, both at scheduled meetings and at other times as the need arose. In particular, the Board of Management kept us well informed of all key sales and workforce figures. The Chairman of the Board of Management, Dr Norbert Reithofer, informed me promptly and directly about major business transactions and projects. In addition to scheduled meetings, Dr Karl-Ludwig Kley, the Chairman of the Supervisory Board's Audit Committee, and Dr Friedrich Eichiner, member of the Board of Management responsible for Finance, consulted with each other directly at other times as the need arose.

At the beginning of the year, the Board of Management presented us with a summary of new and revised models scheduled for market launch over the course of 2014.

In its regular reports on the financial condition of the Group, the Board of Management informed us of sales volume developments and market competition issues relevant for the Automotive and Motorcycles segments and highlighted fluctuations in the size of the workforce. Equally, we were kept up to date with respect to the market developments and economic prospects of the world's key regions. On the Financial Services side of the business, the Board of Management provided us with regular updates on new business with retail customers, changes in the portfolio of contracts with dealerships and retail customers as well as the total volume of business.

The Board of Management also reported to us on its intention to increase the size of the Group's production network, with particular regard to the planned expansion of the Spartanburg plant in South Carolina, USA, and the search for a new plant location in the NAFTA region, which is now due to be built in San Luis Potosí, Mexico. As part of this process, we also discussed with the Board of Management the general significance and scope of the "production follows the market" principle in the context of the global distribution of value added along the production chain.

Furthermore, both in business status reports and subsequent discussions with the Board of Management, numerous important current events and projects were addressed, such as the extension of the cooperation agreement with the Chinese joint venture partner Brilliance, the cooperation with Toyota and the current state of plans for the long-term development of production facilities in Russia. Other topics reported on and discussed at Supervisory Board meetings included the start-up of the new MINI at the Oxford plant, the current situation with recalls and the economic impact of the Ukraine conflict.

One Supervisory Board meeting was held in Shenyang, one of the locations operated by the BMW Brilliance Automotive Ltd. (BBA) joint venture in China. Representatives of the managements of BBA and the BMW sales company reported to us on sales volume trends and the car market in China in general as well as plans for additionally increasing production capacity in the plants located at Tiexi and Dadong in Shenyang. We also visited the production facilities of the Tiexi plant. Moreover, in the course of our on-site visits we gathered useful facts regarding cooperation with suppliers and dealerships in China. Reports from, and discussions with, local management representatives provided us with a useful overview of local developments in China and individual development projects, and helped provide a good insight into the specific needs of Chinese customers.

One two-day meeting of the Supervisory Board dealt with the BMW Group's corporate and product strategies as well as the Long-term Business Forecast. The format of the two-day meeting was designed to provide the opportunity for an in-depth discussion with the Board of Management on forward-looking topics and technical innovations.

In the first part of the meeting, together with the Board of Management we discussed the results of the corporate strategy Number ONE review, which is performed by the Board of Management once a year. Our discussions primarily focused on challenges involving further reductions in carbon emissions and also the electrification, digitisation and, in particular, the increasing connectedness of vehicle data. As part of its strategy review report, the Board of Management also looked at the importance of the "Future Retail" programme, which is designed to improve sales and after-sales services by consistently seeing things from the point of view of customers and intensifying their product and brand experience.

In the course of various vehicle presentations, we were given the opportunity to test selected BMW, MINI and Rolls-Royce brand cars on a test track. In addition, the current state of progress of selected vehicle development projects was presented and explained to us.

In the second part of the meeting we deliberated at length on the Long-term Business Forecast presented by the Board of Management for the years 2015–2020. After diligent examination, we approved the forecast.

We also gave in-depth consideration to the business development, strategic direction and role of the Financial Services segment going into the future. The Board of Management also reported on the latest developments on used car markets and explained individual measures designed to further improve the stability of the segment in times of crisis.

The two boards jointly discussed the annual budget put forward by the Board of Management towards the end of the year under report for the financial year 2015, and considered pertinent external factors.

The structure and amount of compensation of Board of Management members was examined once again in 2014 by both the Personnel Committee and the full Supervisory Board. In addition to comparing performance trends and board compensation on a multi-year basis, we also reviewed he development of the remuneration of senior management and employees of BMW AG within Germany over the course of time. An external compensation consultant, independent of both the Board of Management and BMW AG, was called upon to provide expert advice and assist us in evaluating DAX compensation studies. After a careful review, we concluded that the compensation of board members is appropriate and that the current compensation system is functioning well. Further information on the compensation of Board of Management members is provided in the Compensation Report (see chapter Statement on Corporate Governance).

Corporate governance The Supervisory Board and the Board of Management again jointly addressed the topic of corporate governance within the BMW Group in 2014. In the most recent Declaration of Compliance, issued in December 2014, the Board of Management and the Supervisory Board declared that the BMW Group has and will continue to comply with all of the recommendations of the German Government Corporate Governance Code Commission published on 30 September 2014 (Code version; 24 June 2014), with one exception, which relates to the presentation of information concerning Board of Management compensation using stipulated model tables. We remain committed to providing information on board compensation that is both as comprehensive and comprehensible as possible, taking into account all relevant financial reporting requirements. After careful consideration, we came to the conclusion that the additional use of the tables recommended in the Code would not improve the desired level of transparency and readability of the Compensation Report.

As part of the joint examination of corporate governance within the BMW Group, the Board of Management informed both the Personnel Committee and the full Supervisory Board on the status of implementation of the BMW Group's diversity concept. This programme does not only focus on gender, it is also aimed at promoting diversity in other areas, particularly in terms of cultural diversity and age mix within the workforce. We were also informed with respect to the proportion and number of women occupying positions at various levels of management and deliberated with the Board of Management on the planned measures to continue the process of raising that proportion, specifically at a senior level. Consideration was also given to draft legislation relating to equal participation of women and men in management positions in Germany and the potential impact of this legislation on the BMW Group.

With regard to its own composition, based on a detailed composition profile, the Supervisory Board has decided upon specific appointment targets, which are discussed in detail in the Corporate Governance Report. Based on a self-assessment, the Supervisory Board concluded that its composition at 31 December 2014 meets the targets set.

BMW AG has entered into contracts for personnel-related services with an external entity, in which members of the Supervisory Board have an indirect participation. During the year under report, the Personnel Committee approved an amendment to these contracts as a precautionary measure. None of the members of the Supervisory Board with an interest in the relevant entity participated in this vote. Apart from this one matter, there were no indications of potential conflicts of interest involving Supervisory Board members during the financial year 2014.

Supervisory Board members are required to provide information on a quarterly basis of any significant transactions they or other related parties (as defined by IAS 24), including close relatives and intermediary entities, have with BMW Group entities.

We are fully committed to assessing and continuously improving the efficiency of the work of the Supervisory Board and its committees. The Chairman of the Audit Committee and myself are therefore always glad to receive comments and suggestions for improvement from Supervisory Board members. The formal examination of the Supervisory Board's efficiency is also treated each year as a separate agenda point for discussion, without the members of the Board of Management being present. The efficiency examination in 2014, again prepared with the aid of a questionnaire, resulted in a number of suggestions being accepted for additional consideration.

Each of the five Supervisory Board meetings in 2014 was attended, on average, by over 95 % of its members, a fact that can be tied in to the analysis of attendance fees for individual members, as disclosed in the Compensation Report. No member of the Supervisory Board was absent at more than two meetings during the period under report. Presiding Board and committee meetings were fully attended in the vast majority of cases (see chapter Statement on Corporate Governance).

Description of Presiding Board activities and committee work In order to work more efficiently and prepare complex issues and decisions with greater thoroughness, 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.

The relevant chairmen reported in depth on the status of Presiding Board and committee work at the subsequent Supervisory Board meeting.

In a total of four meetings, the Presiding Board focused mainly on preparing topics for the meetings of the full Supervisory Board, unless this responsibility 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. The Presiding Board selected further topics of discussion 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.

The Audit Committee held four meetings and three telephone conference calls during 2014. Prior to their publication, the Interim Financial Reports were discussed with the Board of Management in those telephone conference calls. Representatives of the external auditors took part in the telephone conference call held to present the Interim Financial Report for the six-month period ended 30 June 2014. The report had been subjected to review by the external auditors.

The Audit Committee meeting held in spring 2014 was primarily dedicated to preparing the Supervisory Board meeting at which the financial statements were examined. Prior to proposing KPMG AG Wirtschaftsprüfungsgesellschaft for election as Company and Group auditor at the 2014 Audit Committee Meeting, we obtained a Declaration of Independence from KPMG. The Audit Committee also considered the scope and composition of non-audit-related services, including tax advisory services provided by KPMG entities to the BMW Group. There were no indications of conflicts of interest, grounds for exclusion or lack of independence on the part of the auditor.

The fee proposals for the audit of the year-end Company and Group Financial Statements 2014 and the review of the six-month Interim Financial Report were deemed appropriate by the Audit Committee. Subsequent to the Annual General Meeting 2014, the Audit Committee therefore appointed KPMG AG Wirtschaftsprüfungsgesellschaft for the relevant engagements and, with due consideration to the suggestions made by the full Supervisory Board, specified a number of audit focus areas.

The Head of Group Controlling reported to the Audit Committee on risk management processes within the BMW Group, provided information with respect to new developments and elucidated a number of risks which are required to be reported on in accordance with internal rules.

The Head of Group Financial Reporting provided the Audit Committee with an up-to-date overview of developments concerning the internal control system (ICS), which serves as the basis for financial reporting.

Testing performed during the year under report did not highlight any material ICS weaknesses which could jeopardise the system's effectiveness.

The Chairman of the BMW Group Compliance Committee reported to the Audit Committee on the concept that has been developed to strengthen local compliance functions as well as on the current compliance situation, which, as in the previous year, was deemed satisfactory overall. None of the information received relating to potential non-compliance or actual incidences of non-compliance identified in specific cases gave any indication of serious or systemic non-compliance with applicable requirements.

The Head of Group Internal Audit reported to us in the Audit Committee on the organisation of the Group Internal Audit as the BMW Group's "Third Line of Defence", informed us of the significant findings of audits conducted by Group Internal Audit, on both the industrial and financial services sides of the business, and explained the main points of emphasis for planned audits.

We concurred in the Audit Committee with the decision of the Board of Management to raise the Company's share capital in accordance with § 4 (5) of the Articles of Incorporation (Authorised Capital 2014) by €239,757 and to issue a corresponding number of new non-voting bearer shares of preferred stock, each with a par value of €1, at favourable conditions to employees.

The Personnel Committee convened six times during the financial year 2014. One major area of deliberation was the future composition of the Board of Management, with particular regard to preparing for successor decisions, including consideration of possible scenarios for the future change in the chair of the Board of Management.

In preparation for the full Supervisory Board's meetings, the Personnel Committee reviewed the structure and appropriateness of Board of Management compensation and prepared the Supervisory Board's decision with respect to board members' bonuses. In two cases we also gave our approval for one member of the Board of Management to accept the mandate for membership of the supervisory board of a non-BMW Group entity.

The Nomination Committee convened twice during the financial year 2014. At these meetings, we deliberated on successor planning for mandates of the shareholders' representatives on the Supervisory Board and considered proposals for candidates for the Supervisory Board elections at the Annual General Meeting 2015, taking the composition objectives stipulated for the Supervisory Board into due account.

The statutory Mediation Committee was not required to convene during the financial year 2014.

Generational change at head of Board of Management and Supervisory Board initiated The Supervisory Board worked through a number of scenarios with respect to succession planning at the head of the Supervisory Board and – together with the Chairman of the Board of Management, Dr Norbert Reithofer – assessed the range of options available for selecting a new Chairman of the Board of Management. Various constellations were examined, including the important issue of timing. We wanted to bring about a farsighted, timely change in leadership in order to strengthen the position of the BMW Group with a long-term perspective for management. We shared the opinion of major shareholders that Dr Reithofer's wealth of knowledge and experience should be retained within the BMW Group and that the Supervisory Board would benefit greatly from his playing a key role in its work.

The Supervisory Board therefore supports the proposal that Dr Norbert Reithofer be appointed to the position of Chairman of the Supervisory Board – subject to his election to that board. After carefully considering various scenarios, the conclusion was reached that a direct move by Dr Reithofer to the position of

Chairman of the Supervisory Board – without an interim phase – will strengthen the role of the Supervisory Board and is thus in the best interests of the BMW Group.

In order to ensure that this generational change can also take place in good time at the head of the Supervisory Board, in agreement with its other members, I have resigned my mandate as Supervisory Board member with effect from the end of the Annual General Meeting 2015.

In due consideration of these developments, the Supervisory Board has reached agreement with Dr Reithofer concerning the early termination of his Board of Management mandate and his service contract with effect from the end of the Annual General Meeting 2015.

Harald Krüger has been appointed Chairman of the Board of Management with effect from the end of the Annual General Meeting 2015, to coincide with Dr Reithofer's planned exit from the Board of Management. Harald Krüger brings a great deal of experience to this position from his previous board responsibilities. Since 2013, he has been in charge of Production, before which, from 2008 to 2012, he was first responsible for Human Resources and then for the MINI, BMW Motorrad, Rolls-Royce and BMW Group Aftersales division.

Other changes in the composition and organisational structure of the Board of Management Klaus Fröhlich, previously Head of Small and Mid-size Series BMW Group, was appointed as member of the Board of Management with effect from 9 December 2014, with responsibility for Development. His predecessor, Dr Herbert Diess, resigned from the Board of Management on 9 December 2014.

With effect from the end of the Annual General Meeting 2015, the Supervisory Board appointed Oliver Zipse, most recently Head of Corporate Planning and Product Strategy, as a member of the Board of Management. He will take over responsibility for Production from Harald Krüger.

The Supervisory Board also renewed the appointment of three Board of Management members in 2014.

Other personnel changes in the Supervisory Board In accordance with the regulations of the Co-Determination Act, the ten employee representatives were re-elected with effect from the end of the Annual General Meeting on 15 May 2014.

After 10 years of valuable and highly appreciated work in the Supervisory Board, Bertin Eichler did not stand for re-election. In his place, Christiane Benner (Executive Board member of IG Metall) was newly elected to the Supervisory Board as union representative. As a result, the Supervisory Board now has five female members (25%). Ulrich Kranz, Head of the BMW i product line, was newly elected to the Supervisory Board to succeed Dr Markus Schramm as executive staff representative. The Supervisory Board thanked the members leaving office for their constructive work and trusting cooperation within the Supervisory Board. The composition of the Presiding Board and the committees remained unchanged in 2014, with all previous members confirmed in their respective functions. The Corporate Governance Report includes an overview of the composition of the Supervisory Board and its committees (see chapter Statement on Corporate Governance).

Wolfgang Mayrhuber has resigned his mandate as member of the Supervisory Board with effect from the end of the Annual General Meeting 2015. We also wish to extend our thanks to him for more than ten years of valuable and highly appreciated service in the Supervisory Board, always working in the best interest of the Group.

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 2014. The results of the review were presented to the Audit Committee by KPMG representatives. 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 2014 and the Combined Management Report – as authorised for issue by the Board of Management on 19 February 2015 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

The Financial Statements and the Combined Management Report, the long-form audit reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in a timely manner.

These documents were examined and discussed thoroughly by the Audit Committee at the meeting held on 5 March 2015. The Supervisory Board subsequently examined these documents at its meeting on 12 March 2015, after receiving the committee chairman's report on the meeting of the Audit Committee. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives of the external auditors attended both meetings, reported on significant findings and answered any additional questions raised by the members of the Supervisory Board. They also confirmed that the risk management system put in place by the Board of Management is capable of identifying any events or developments that might impair the going-concern status of the Company and that no material weaknesses in either the internal control system or the risk management system were found with regard to the financial reporting process. Similarly, they confirmed that they had not identified any facts in the course of their audit work that were inconsistent with the contents of the Declaration of Compliance issued jointly by the two boards.

Based on thorough examination by the Audit Committee and the full Supervisory Board, we concurred with the results of the external audit. In accordance with the conclusion reached after the examination by the Audit Committee and Supervisory Board, no objections were raised. The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2014 prepared by the Board of Management were approved at the Supervisory Board meeting held on 12 March 2015. The separate financial statements have therefore been adopted.

The Supervisory Board also examined the proposal of the Board of Management to use the unappropriated profit to pay an increased dividend of €2.90 per share of common stock and €2.92 per share of non-voting preferred stock. We consider the proposal appropriate and therefore concur with it.

Expression of appreciation by the Supervisory Board We wish to express our appreciation to the members of the Board of Management and the entire workforce of the BMW Group worldwide for their concerted efforts and outstanding contribution to the record result we are able to post for the financial year 2014.

Munich, 12 March 2015

On behalf of the Supervisory Board

Yours
Joachim Milberg

Joachim Milberg
Chairman of the Supervisory Board

Norbert Reithofer
Chairman of the Board of Management

Dear Shareholders,

The successes a company has achieved in the past belong to its history. All that matters today is a company's future. Forward-looking companies renew themselves of their own initiative. It is crucial for a company to question its own actions, explore new directions and consistently implement innovations to benefit its customers. Financial strength allows companies to invest in the future – thereby securing long-term success and fulfilling responsibilities towards shareholders, associates and other stakeholders.

BMW will reach its 100th year in 2016. We naturally plan to celebrate this important milestone in our history. It is a testament to our value-based corporate philosophy, geared towards the long term and shaped by independent-minded decisions. But above all else, this centenary compels us to look to the future.

Investors in the BMW Group can look forward to long-term value enhancement, on the basis of healthy, organic growth. Our shareholders can rely on us to sustain our profitability. Strong competition, market volatility, political uncertainty, new trends in our environment – all of this is part of our daily business.

We firmly believe that mobility will remain a fundamental human need and a cornerstone of dynamic economies. We aim to lead the industry with our ideas in all areas of individual mobility, transporting sheer driving pleasure to a new age of sustainable mobility. This is an exciting direction for us – and a profitable one for our shareholders who accompany us along this path.

2014 financial year – fifth successive record year for the BMW Group In the 2014 financial year, the company's successful development since the global financial and economic crisis of 2008/2009 continued. We had set ourselves ambitious goals in a difficult environment: record sales of over two million vehicles; our highest-ever Group profit before tax, with a significant increase year-on-year; and an EBIT margin in our target range of eight to ten per cent for the Automotive Segment.

Today, we can say: we delivered on our promises. Group profit before tax climbed 10.3 per cent to 8.7 billion euros. Net profit increased by 9.2 per cent to more than 5.8 billion euros. The EBIT margin in the Automotive Segment stands at 9.6 per cent and therefore at the upper end of our target range.

Strong demand for our premium vehicles is the main factor contributing to record revenues of 80.4 billion euros. For the first time, we sold more than two million vehicles worldwide in a single year – 2.118 million BMW, MINI and Rolls-Royce vehicles, to be exact – fulfilling a wish for many customers. This represents an increase of 7.9 per cent over the previous year and a new sales high for the BMW Group.

With regard to our individual brands, there were new records for BMW, Rolls-Royce and BMW Motorrad. More than 1.8 million customers purchased a BMW in 2014. Our MINI brand maintained roughly the same high level as the previous year, with a total of 302,000 vehicles sold, despite the model changeover. Our MINI plant in Oxford in the UK produced its three-millionth MINI last year. With exactly 4,063 vehicles sold, Rolls-Royce remains in strong demand and continues to set the standard for the ultra-luxury class. BMW Motorrad also reported growth, with more than 123,000 deliveries, and once again outperformed the overall market. The anniversary model BMW R nineT and the fully electric C evolution proved popular with both customers and the automotive press.

The Financial Services segment once again made a solid contribution to the success of the BMW Group.

Impact of Strategy Number ONE reflected in key performance indicators We laid the foundation for this successful development back in 2007 with our Strategy Number ONE. This strategy guides all our business activities into 2020 and has already taken the company to a new dimension. We operate at an entirely different level of performance today than in 2007.

Customer deliveries climbed more than 40 per cent between the end of 2007 and the end of 2014. Group revenues increased by 44 per cent over the same period while pre-tax earnings more than doubled. During this time, BMW common shares performed much better than the DAX. Our associates, as well as our shareholders, benefit from this positive development through our preferred shares programme.

We owe our achievements to our associates worldwide Our successful business development is driven by our 116,324 associates worldwide. Their skills, their performance and their dedication – each in his or her own area of responsibility – contribute to the overall success of the company.

Our associates at all 30 BMW Group production sites in 14 countries are our most important success factor. We are investing extensively in vocational and professional training to qualify them for new demands and technologies, such as digitalisation. Between 2007 and the end of 2014 alone, we channelled around 1.8 billion euros into vocational and professional training – more than in our Efficient Dynamics technology package. People and technology have the same importance for us.

The younger generation ensures our future success: more than 1,500 apprentices worldwide embarked on a career with us in September 2014; 1,200 of them in Germany. A total of 4,595 young people are currently in vocational training with the BMW Group. This represents an increase of 150 over the previous year.

I would therefore like to thank all our associates on behalf of the Board of Management. I would also like to thank all our business partners, and especially our suppliers, who play such a key part in our success. And, of course, our thanks also extend to our entire retail organisation and the dealers who are our link to the customer.

Customers have the choice: sheer driving pleasure also available with electric and hybrid drivetrains The new BMW i family has further strengthened our image as the industry's leading innovator. 2014 was the first year of availability for the pure electric BMW i3. More than 16,000 customers chose this model, which was specially designed for urban areas. The BMW i8 has been available to customers since summer. Orders for the BMW i8 plug-in hybrid continue to well exceed the planned number of units for production. A total of 1,741 BMW i8 vehicles were delivered to customers from June to December.

We also use our know-how and experience with BMW i in series production of our other models. In autumn 2015, we will release our first plug-in hybrid BMW X model, the BMW X5 xDrive40e, which incorporates the technological expertise gained from BMW i. The new BMW 7 Series is also set to become the benchmark for lightweight design in its segment through the use of carbon fibre. Over time, all model series will be available with electric drive technology. Climate protection policies worldwide will remain challenging and growing urbanisation demands new mobility solutions.

We will continue to chart our own course with Efficient Dynamics, hybridisation and electromobility. There is no way back. Average emissions for our European fleet currently stand at 130 grams of CO_2 per kilometre. At the same time, we are focusing on sustainable production and efficient use of resources. Since 2006, we have reduced average resource consumption per vehicle produced by 45 per cent. Sustainability pays dividends – in every respect.

Targeted expansion of our global production network We continue to aim for a balanced distribution of sales between the three main economic regions of the world. This allows us to offset fluctuations in individual markets and avoid overdependence on any single region. In 2014, Europe accounted for around 43 per cent of sales, Asia 31 per cent and the Americas just under 23 per cent.

The global automobile market continues to expand: from around 62 million new vehicle registrations in 2007 to more than 80 million in 2014. We see no contradiction between participating in this growth and maintaining the desirability of our premium brands. In 2014, we continued to create the conditions necessary for strategic expansion of our global production network. In October, the first car rolled off the assembly line at our new plant in Araquari, Brazil. This gives us a permanent presence in an important growth region.

In Mexico, preparations are underway for the opening of a new plant with a capacity of up to 150,000 units in 2019. During celebrations to mark the 20th anniversary of our Spartanburg plant, we announced an increase in capacity there to 450,000 units. We are also stepping up local production at our facility in Shenyang, China, which is set to build six BMW models specifically for the Chinese market. We have already extended our joint venture with Brilliance to 2028, thereby paving the way for further growth in China.

The innovation of our engineers and developers ensures the company's continued success. In 2014, we invested more than 4.5 billion euros in research and development. Between now and 2018, we will expand and modify our FIZ Research and Innovation Centre in Munich. Once the final stage of expansion is complete, the investment will be equivalent to building a completely new plant.

Connectivity defines our times and will dominate the future The digital, connected world is a particularly important area for premium manufacturers when it comes to differentiation and growth. It affects both the vehicle itself and the way that vehicle is produced. Last year, at our Spartanburg and Dingolfing plants, we took a major step towards intensive human-robot collaboration. We use this form of cooperation selectively in areas where it adds value and relieves associates of heavy physical work, enabling them to stay healthy for a long time.

The car as a part of the Internet will change our industry even more than the shift to alternative drivetrains. As in-car connectivity increases, new competitors will seek access to customers in their vehicles. We are committed to shaping the age of in-car connectivity responsibly, in the interests of our customers. We already offer advanced driver assistance systems in our vehicles today. Moreover, we also have the capacity for highly autonomous driving.

Mobility services mainly used by young people We are selectively expanding our range of mobility services: car-sharing is one option that is particularly appealing to young people. London and Vienna are two further European cities outside of Germany that have now been added to our DriveNow offering. By the end of 2014, around 390,000 customers had already registered with DriveNow. Additional cities in Europe and in the US will follow in 2015.

The course is set for the future To mark our centenary on 7 March 2016, we deliberately choose to look to the future. Every age has its challenges and must find its own solutions. That is why we give younger generations the chance to shape the further development of the company according to their own ideas.

In December 2014, the Supervisory Board decided to make a change at the head of the company's Board of Management. Our Board of Management Member for Production Harald Krüger will take over as Chairman of the Board of Management after the 2015 Annual General Meeting. This generational change will enable the company to move forward with new ideas and impulses.

As you can see, much still remains to be done. New trends and challenges also bring new business opportunities and possibilities. I strongly believe that the BMW Group will grow dynamically, by innovatively shaping the individual mobility of the future in all its forms and continuing to be a responsible partner for society.

The course is set for the future.

Yours

Norbert Reithofer
Chairman of the Board of Management

General Information on the BMW Group
Business Model

This Combined Management Report combines the management reports of BMW AG and the BMW Group.

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

Business model
Bayerische Motoren Werke Aktiengesellschaft (BMW AG), which is based in Munich, Germany, is the parent company of the BMW Group. The primary business objective of the BMW Group is the development, manufacture and sale of engines as well as of all vehicles equipped with those engines. The BMW Group is subdivided into the Automotive, Motorcycles, Financial Services and Other Entities segments (the latter primarily comprising holding companies and Group financing companies).

Bayerische Motoren Werke G. m. b. H. came into being in 1917. Having been originally founded in 1916 as Bayerische Flugzeugwerke AG (BFW), it became Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918. The BMW Group comprises BMW AG and all subsidiaries, which BMW AG – either directly or indirectly – has the power to control. BMW AG is also responsible for managing the BMW Group. General conditions on the world's automobile and motorcycle markets (such as the competitive situation, government policies, statutory regulations), underlying trends within society as well as changes in raw materials prices, exchange rates and interest rates are some of the major external factors that exert an influence over our business.

The BMW Group is one of the most successful makers of cars and motorcycles worldwide and among the largest industrial companies in Germany. With BMW, MINI and Rolls-Royce, the BMW Group owns three of the strongest premium brands in the automotive industry. The vehicles it manufactures set the highest standards in terms of aesthetics, dynamics, technology and quality, a fact borne out by the BMW Group's leading position in engineering and innovation. In addition to its strong position in the motorcycles market, the BMW Group also offers its customers a successful range of financial services. In recent years, the Group has also established itself as a leading provider of premium services for individual mobility. At the end of the reporting period, the BMW Group had a workforce of 116,324 employees worldwide.

Long-term thinking and responsible action have always 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. As a result of these endeavours, we have ranked among the most sustainable companies in the automobile industry for many years.

The BMW Group operates on a global scale and is represented in more than 140 countries worldwide. Its research and innovation network is spread over twelve locations in five countries. At 31 December 2014 the Group's production network comprised a total of 30 locations in 14 countries.

BMW 3 Series and 4 Series models as well as petrol and diesel engines are manufactured at the BMW Group plant in Munich, next to the BMW Group's headquarters. Models of the BMW 1, 3 and 4 Series as well as the Z4 Roadster roll off the production lines at the Regensburg plant. The currently largest BMW Group plant is located in Dingolfing, where we build the BMW 3 Series Gran Turismo, the BMW 4 Series Gran Coupé, models of the BMW 5, 6 and 7 Series as well as hybrid BMW 5 and 7 Series vehicles. Chassis and drive components are also manufactured at this plant. The BMW Group Leipzig plant's production range covers models of the BMW 1 and 2 Series, the BMW X1 and the electrically powered BMW i3 as well as the BMW i8 hybrid sports car. The BMW 3 Series Sedan is assembled at the plant in Rosslyn (South Africa). The BMW Group plant in Spartanburg (USA) is responsible for producing the BMW X3, X4, X5 and X6 models. BMW X1 and models of the BMW 3 and 5 Series are built exclusively for the Chinese market at the two plants operated by the BMW Brilliance Automotive Ltd. joint venture in Shenyang (China).

Components for the worldwide production network are manufactured at the BMW Group plants in Landshut and Wackersdorf. The Eisenach plant is responsible for toolmaking. The two production sites in Moses Lake (USA) and Wackersdorf are operated by the SGL Automotive Carbon Fibers (ACF) joint venture and supply carbon fibre and carbon fibre fabrics for the production of BMW i models. The BMW Group's largest engine manufacturing plant in Steyr (Austria) makes petrol and diesel engines for the various BMW plants and diesel engines for the MINI. In 2012 the BMW Brilliance Automotive Ltd. joint venture opened an engine plant in Shenyang (China), which supplies petrol engines to its neighbouring plants.

The primary function of the BMW Group's assembly plants is to serve nearby regional markets. BMW cars are currently being assembled in Chennai (India), Jakarta (Indonesia), Cairo (Egypt), Kaliningrad (Russia), Kulim (Malaysia) and Rayong (Thailand). Production at the BMW Group's newest plant in Araquari (Brazil) currently covers the BMW 3 Series and the X1, and will be extended to include the BMW 1 Series, the X3 and the MINI Countryman over the course of 2015.

The MINI models – Hatch (3- and 5-door), Convertible, Coupé and Roadster – are manufactured at the Oxford plant (United Kingdom). The UK production triangle also includes the components plant in Swindon as well as the engine plant at Hams Hall, where petrol engines are manufactured for MINI and BMW. In Graz (Austria), Magna Steyr Fahrzeugtechnik manufactures the MINI Countryman and, since 2012, the MINI Paceman for the BMW Group. In 2014 the Dutch car manufacturer, VDL Nedcar bv (Born) began producing the MINI Hatch on behalf of the BMW Group.

The Rolls-Royce Phantom, Ghost and Wraith models are manufactured exclusively at the Goodwood plant (United Kingdom).

BMW motorcycle models roll off the production lines at the BMW Group plant in Berlin. Car brake discs are also produced at this location. Two further motorcycle assembly plants are located in Manaus (Brazil) and Rayong (Thailand).

The worldwide distribution network currently consists of around 3,250 BMW, 1,550 MINI and 130 Rolls-Royce dealerships. In China alone, more than 40 BMW dealerships and 30 MINI dealerships were opened in 2014. Products and services are sold in Germany through BMW Group branches and by independent authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent import companies. The dealership and agency network for BMW i currently covers some 650 locations. The sales network for BMW motorcycles is organised in a similar way to the automobile business. Currently, there are around 1,000 BMW Motorrad dealerships worldwide.

Our premium brands – BMW, MINI and Rolls-Royce – are well known and highly admired around the globe for their innovative technologies and state-of-the-art design. The BMW Group provides the full spectrum of individual mobility, ranging from premium-segment small vehicles through to ultra-luxurious and powerful vehicles. Our entire product range is linked by one characteristic: efficiency. The MINI brand is a veritable icon in the premium small car segment, offering unrivalled driving pleasure in its class. Rolls-Royce has a long and distinguished tradition in the ultra-luxury segment stretching back over more than 100 years. Our core BMW brand satisfies a broad spectrum of customer wishes, ranging from fuel-efficient, innovative models equipped with Efficient Dynamics through to high-performance, extremely efficient BMW M sub-brand vehicles, which bring the flair of motor sport onto the roads. All BMW vehicles share one thing in common: their impressive driving dynamics.

Our understanding of the term "premium" is now being taken to a new level with the BMW i brand. Inspired through and through by the desire for even greater sustainability, the BMW i epitomises the vehicle of the future – with its electric drivetrain, revolutionary lightweight construction, exceptional design and an entirely newly designed range of mobility services.

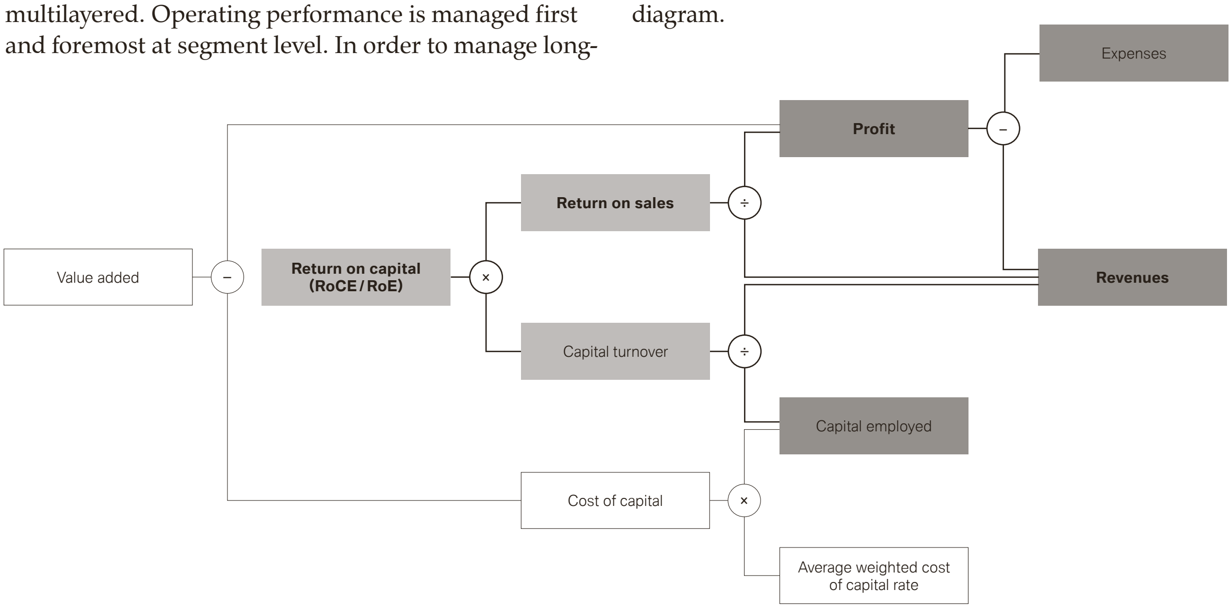
BMW Motorrad also focuses on the premium segment and offers a range of motorcycles for the Tourer, Enduro, Sport and Roadster segments as well as Maxi-Scooter for urban mobility. A wide range of accessories and equipment is also available, providing additional safety and comfort to customers.

The Financial Services segment, which works in tandem with the sales organisation, is represented in more than 50 countries around the world. Credit financing and the lease of BMW Group brand cars and motorcycles to retail customers is its largest line of business. The BMW Group's international multi-brand fleet business, operating under the brand name "Alphabet", provides fleet financing products and comprehensive management services for corporate car fleets in 19 countries. Within the multi-brand financing line of business, credit financing, leasing and other services are marketed to retail customers under the brand name "Alphera". The segment's range of products is rounded off by providing support to the dealer organisation and offering insurance and banking services.

General Information on the BMW Group Management System

The business management system applied by the BMW Group follows a value-based approach, with a clear focus on achieving profitable growth, increasing the value of the business for capital providers and safeguarding jobs. Corporate autonomy can only be ensured in the long term if the profit generated by the business sustainably exceeds the cost of equity and debt capital available to it, thus reflecting the profitable employment of capital.

The BMW Group's internal management system is multilayered. Operating performance is managed first and foremost at segment level. In order to manage long-term performance and assess strategic issues, additional key performance figures are measured at Group level for controlling purposes. The contribution made to business value growth during the financial year is measured in terms of "value added". This approach is translated for operational purposes at both Group and segment level by identifying the main financial and non-financial factors ("value drivers") which affect the value of the business. The link between value added and the relevant value drivers is shown in simplified form in the following diagram.



Due to the high aggregate impact of various factors, it is difficult to manage a business proactively simply by focusing on value added. This key figure therefore only serves for intermediate reporting purposes.

Value drivers which could have a significant impact on profitability and the value of the business are defined for each controlling level. The financial and non-financial value drivers referred to above are reflected in the principal key performance indicators used to manage the business.

In the case of project decisions, the system is supplemented by the application of project-relevant control logic, also utilising value-based and return-based performance indicators.

Management of operating performance at segment level
Operating performance is managed at segment level on the basis of capital rates of return. Depending on the business model, the segments are managed on the basis of total return or the return on equity capital. The performance of the Automotive and Motorcycles segments is measured on the basis of the return on capital employed (RoCE) and that of the Financial Services segment using the return on equity (RoE). Profitability (return on sales) and capital efficiency (capital turnover) are aggregated in the capital rate of return, together with a whole host of business-relevant information that has an impact on segment performance and changes in the value of the business.

Automotive segment
The principal key performance indicator for the Automotive segment is return on capital employed (RoCE), measured on the basis of segment profit before financial result and the average level of capital employed in operations. The strategic target for the Automotive segment's RoCE is 26 %.

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

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).

Due to the key importance of the Automotive segment for the Group as a whole, consideration is also given to additional key value drivers which have a significant impact on RoCE and hence on segment performance. The most important of these additional value drivers are deliveries to customers, segment revenues and – as the key performance indicator for profitability – the operating return on sales (i.e. EBIT margin). Average carbon emissions for the fleet are also taken into account, reflecting their potential impact on earnings in the short term in the form of ongoing development expenses – and in the long term due to regulatory requirements. For these purposes "carbon emissions for the fleet" corresponds to average emissions of CO_2 for new car sales in the EU-28 countries.

The use of additional key value drivers makes it easier to identify the reasons for changes in the RoCE and to define measures capable of influencing its development.

Motorcycles segment

As with the Automotive segment, operating performance for the Motorcycles segment is managed on the basis of RoCE. Capital employed is measured using the same procedures as in the Automotive segment. The strategic target for the Motorcycles segment's RoCE is 26 %.

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

The number of vehicles delivered to customers is also taken into account as a non-financial value driver.

Financial Services segment

As is common practice in the banking sector, the performance of the Financial Services segment is measured on the basis of return on equity (RoE). RoE for the Financial Services segment is defined as segment profit before taxes, divided by the average amount of equity capital attributable to the segment. The target is a sustainable return on equity of at least 18 %.

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

Strategic management at Group level

Strategic management of the Group is performed primarily at Group level, including quantification of the financial impact of strategic issues on long-term forecasting. The most significant performance indicators at Group level are Group profit before tax and the size of the Group's workforce at the year end. Group profit before tax is a good overall measure of the Group's performance after consolidation procedures, and provides a transparent basis for comparing performance, particularly over time. The size of the Group's workforce is monitored as an additional key non-financial performance indicator.

The two key performance indicators – Group profit before tax and size of the workforce – are supplemented by a measurement of value added. This highly aggregated performance indicator provides an insight into capital efficiency and the (opportunity) cost of capital required to generate Group profit. Value added corresponds to the amount of earnings over and above the cost of capital and gives an indication of whether the Group is meeting the minimum requirements for the rate of return expected by capital providers. A positive value added means that a company is creating more additional value than the cost of capital.

$$\begin{aligned}\text{Value added Group} &= \text{earnings amount} - \text{cost of capital}\\ &= \text{earnings amount} - (\text{cost of capital rate} \times \text{capital employed})\end{aligned}$$

Capital employed comprises the average amount of Group equity employed during the year as a whole, the financial liabilities of the Automotive and Motorcycles segments and pension provisions. "Earnings amount"

in € million	Earnings amount*		Cost of capital* (EC + DC)		Value added Group*	
	2014	2013	**2014**	2013	**2014**	2013
BMW Group	**9,051**	8,300	**5,212**	4,661	**3,839**	3,639

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

for these purposes corresponds to Group profit before tax and adjusted for interest expense incurred in conjunction with the pension provision and on the financial liabilities of the Automotive and Motorcycles segments (earnings before interest expense and taxes).

The cost of capital is the minimum rate of return expected by capital providers in return for the capital employed 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, measured using standard market procedures. The pre-tax average weighted cost of capital for the BMW Group in 2014 was 12 %, unchanged from the previous year.

Value management used to control projects

Operations in the Automotive and Motorcycles segments are influenced, to a large extent, by project work. Projects have a substantial impact on future performance. Project decisions are therefore a crucial component of financial 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 future years in which the project generates cash flows. Project decisions are taken on the basis of the capital value and internal rate of return calculated for the project.

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 of the project corresponds to the average return on capital employed in the project and, in terms of scope, is equivalent to the multi-year average RoCE for an individual project. It is therefore entirely consistent with the principal key performance indicator used for the Automotive and Motorcycles segments.

The criteria used for taking decisions as well as the long-term impact on periodic earnings is documented for all project decisions and incorporated in the long-term Group forecast. This 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.

General economic environment in 2014

Overall, the global economy grew by 3.3 % in 2014, with significant differences in growth rates recorded from region to region. After a weak start, the USA performed strongly over the year as a whole. The growth rate in China remained at a relatively high level, despite a moderate slowdown in economic momentum. As a result of the value added tax hike, Japan recorded a steeper drop in growth than had been expected. Even though recession was overcome in Europe as a whole, the recovery could hardly be described as dynamic, especially in the major economies. The ongoing weak performance of some major emerging markets, in particular Brazil and Russia, also held down the global growth rate. Although the Indian economy regained some momentum, the growth rate was still lower than in recent years.

In line with its previous announcements, the US Reserve Bank brought its bond-buying programme to an end during the year under report, resulting – in spring 2014 – in considerable turmoil for the currencies of some of the world's emerging market countries. However, so far, this first step to scale back its highly expansionary monetary policy has not had a major adverse impact, either in the USA or in other countries.

After a two-year lull, the eurozone returned to growth in 2014, albeit at a modest rate of 0.8 %. The German economy grew overall by 1.5 %. France was once again only able to report a very low growth rate of 0.4 %. Italy's economy contracted for the third year in succession, this time at a less pronounced rate than in previous years (– 0.4 %). By contrast, most of the other southern European economies recovered well and recorded positive growth again after years of recession.

As the largest European economy outside the eurozone, the United Kingdom saw a continuation of its run of good quarterly figures and recorded a growth rate of 2.6 % for the year as a whole. Although bolstered by monetary and fiscal policies implemented on a massive scale, it appears that the UK economy has now found a stronger footing to enable it to grow at a decent pace over a sustained period of time.

The cyclical upturn in the USA gained further momentum in 2014. Although the reported growth rate of 2.4 % was similarly high compared to the previous year, it was only the impact of the severe winter that prevented an even better performance for the year as a whole. The upturn was driven once again primarily by the private sector, with the strongest stimulus coming from the employment and property markets. At the same time, the downward pressure on public-sector budgets and the gradual scaling back of expansionary monetary policies held down growth in the US economy slightly.

The Japanese economy was influenced by a mixture of positive and negative factors in 2014, including a continuation of highly expansionary monetary policies on the one hand, and a hike in the value added tax rate in April on the other. The overall outcome was that growth slipped to 0.3 % in Japan in 2014.

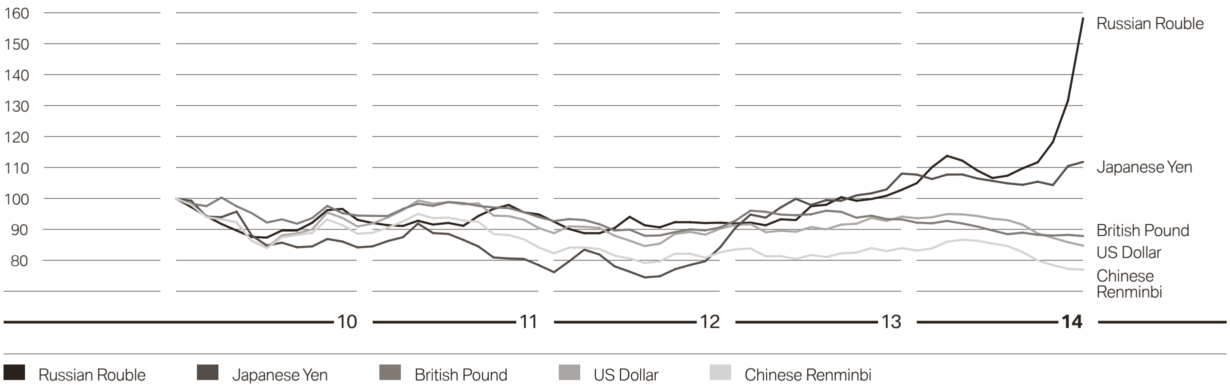
With a slightly reduced growth rate of 7.4 %, China remained by far the most dynamic of the world's major economies. By contrast, the performance of other major emerging economies was generally disappointing. India, for instance, managed a slightly improved growth rate of 5.4 % in 2014, still trailing against growth rates reported in previous years. Brazil and Russia grew by 0.2 % and 0.6 % respectively, not far short of recession.

Currency markets

The US dollar averaged an exchange rate of 1.33 to the euro in 2014, similar to the previous year's level. However, the range of fluctuation was much greater, with the US dollar initially losing value only then to surge during the second half of the year to finish at US dollar 1.21 to the euro. The British pound also appreciated in value, which is reflected in an annual average exchange rate of 0.81 to the euro. These exchange rates were affected by the expectation of reference interest rate increases in these two currency blocks in 2015, a development exacerbated by the European Central Bank's decision to reduce interest rates again in 2014 and its announcement to loosen its monetary policies further. With its value coupled to that of the US dollar, the annual average exchange rate of the Chinese renminbi (8.19 to the euro) remained at a similar level to the previous year. With fluctuations in exchange rates following the same pattern as the US dollar, the Chinese renminbi also gained noticeably in value towards the end of the year. In sharp contrast, the Japanese yen fell to an annual average rate of 140 yen to the euro in the wake of Japan's monetary policy. Despite showing some signs of stabilising

Exchange rates compared to the euro

(Index: December 2009 = 100)



Source: Reuters.

over the course of the year, many emerging market currencies – such as those of India, Brazil and South Africa – lost further ground in 2014. The depreciation of the Russian rouble was particularly pronounced at the beginning of the Ukraine crisis and then again towards the end of the year, when it fell to a value of 70.98 roubles to the euro.

Energy and commodity prices

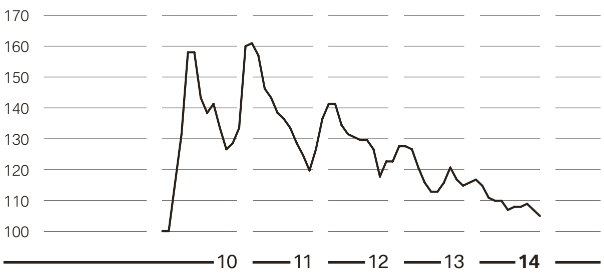
Oil prices plummeted during the second half of 2014. Although the average price of Brent Crude oil during the twelve-month period was only slightly down at US dollar 100 per barrel, its price tumbled from over US dollar 110 to around US dollar 55 per barrel within a period of six months. The story was similar for WTI Crude oil with an annual average price of approximately US dollar 93 per barrel. Generally speaking, metal prices fell slightly during the course of the year.

Automobile markets

The worldwide market for passenger cars and light commercial vehicles grew once again in 2014, surpassing the threshold of 80 million vehicles for the first time

Steel price trend

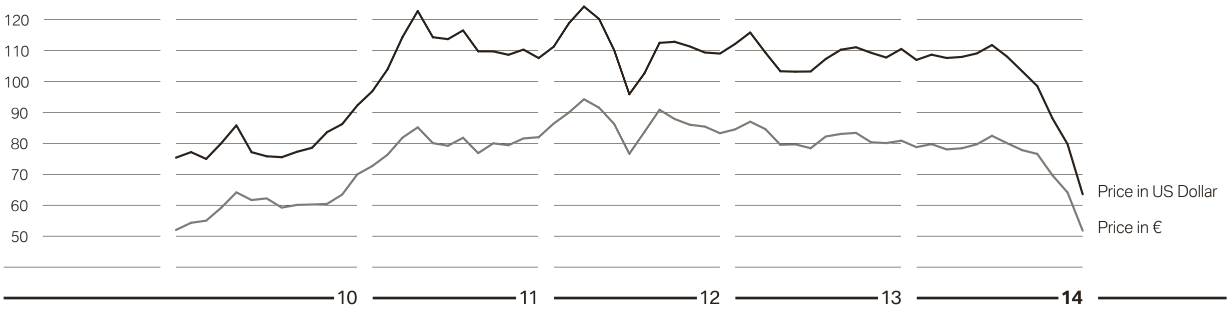
(Index: January 2010 = 100)



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

Oil price trend

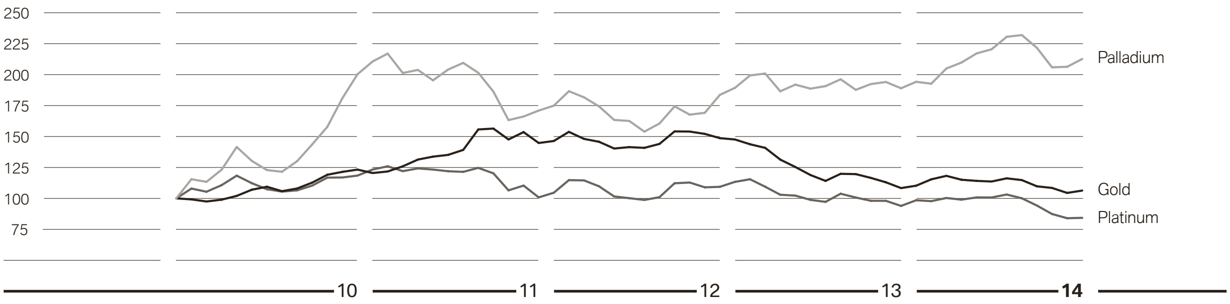
Price per barrel of Brent Crude



Source: Reuters.

Precious metals price trend

(Index: December 2009 = 100)



Source: Reuters.

(+4.1%). The two largest automobile markets, the USA and China, again contributed strongly to this growth. New registrations in China were up by 13.0% to 18.4 million units, while the US market saw an increase of 6.0% to 16.5 million units.

Registration figures in Germany showed a 2.9% increase to 3.0 million units. The European car market (excluding Germany) grew by 6.6% to a total of 10.0 million registrations in 2014, the first increase posted since the financial crisis. France (1.8 million units; +0.5%) and Italy (1.4 million units; +4.6%) both returned to robust growth after a number of years of contraction. However, among the major European markets, it was Spain that recorded the fastest growth rate (0.86 million units; +18.4%). The UK market also saw above-average growth (+9.3%) in 2014 with a total of 2.5 million new vehicles registered.

Despite the value added tax hike in April, the Japanese car market expanded by 3.2% to 5.4 million units.

Car markets in the world's major emerging economies also suffered from the effects of generally weak economic performance in these regions in 2014. The Russian market contracted by 10.2% to 2.3 million units, while the number of registrations in Brazil fell by 7.1% to 3.3 million units.

Motorcycle markets

The worldwide market for 500 cc plus class motorcycles grew in 2014 for the first time in several years (+4.9%). Despite ongoing economic uncertainties, motorcycle registrations in Europe rose by 8.0%. The motorcycles market in Germany was 9.0% up on the previous year, while France and Italy both saw increases of 2.7%. The US market also developed positively (+1.8%).

Financial Services

The global economy continued to recover in 2014, despite the existence of uncertainties which held down growth, particularly in the first half of the year. A strong economic rally in the USA in the second half of the year heralded a further tightening of monetary policies. The US Reserve Bank's bond-buying programme, which had already been reduced in scale over the course of the year, was temporarily brought to a halt in October. The Bank of Japan purchased government bonds in 2014, with the aim of keeping inflation above 2% and stimulating the domestic economy. Within the eurozone, the European Central Bank (ECB) also endeavoured to combat the risk of deflation by loosening its monetary policies further and reducing its reference interest rate yet again. At the end of the year, the ECB's reference interest rate stood at a historical low of 0.05%.

Bad debt levels either remained stable or improved slightly. The negative impact of some slight increases in risk, such as in Ukraine, have so far remained localised.

Price levels on the world's used car markets in 2014 remained more or less stable across all regions, with selling prices fluctuating within normal ranges.

Overall assessment by management

The 2014 financial year was a pleasing one for the BMW Group in overall terms and in line with our expectations. The picture was also extremely positive in terms of results of operations, financial position and net assets. This statement also takes into account events after the end of the reporting period.

Financial and non-financial performance indicators

In the following section, we report on the principal financial and non-financial performance indicators used as the basis for managing the BMW Group and its segments. As part of the review of operations and the financial condition of the BMW Group, forecasts made in the previous year are compared with actual outcomes.

BMW Group

Profit before tax

The BMW Group continued to perform extremely well in 2014 and achieved a new record Group profit before tax of €8,707 million (2013: €7,893[1] million; +10.3 %). This result reflects the steep rise in the number of vehicles sold. New models (such as the BMW X4) and new series (such as the BMW 2 and 4 Series), combined with a high-value model mix, ensured that the pre-tax profit continued to develop positively despite ongoing intense competition on international car markets and considerable levels of investment in new technologies.

As forecast for the financial year 2014, the Group's profit before tax rose significantly and was therefore in line with our expectations.

Workforce at year-end

The BMW Group's workforce increased to 116,324 employees during the year under report (2013: 110,351 employees; +5.4 %). This solid increase mainly reflects strong demand for the Group's cars and motorcycles, the greater range of mobility services now offered and the need for additional qualified staff in conjunction with the development of electromobility.

As forecast for the financial year 2014, there was a solid increase in the Group's workforce, which was therefore in line with our expectations.

Automotive segment

Sales volume

The BMW Group sold more cars in the year under report than ever before. Despite a certain degree of volatility on various markets, sales of BMW, MINI and Rolls-Royce brand cars as a whole rose by a solid 7.9 % to 2,117,965[2] units (2013: 1,963,798[2] units). This growth was achieved on the back of numerous new model launches on international markets in 2014, thus ensuring that the BMW Group remained the world's market leader in the premium segment.

All three car brands made an important contribution to this record sales volume performance. Sales of BMW and Rolls-Royce brand cars increased to 1,811,719[2] units (2013: 1,655,138[2] units; +9.5 %) and 4,063 units (2013: 3,630 units; +11.9 %) respectively, in both cases setting new records. With a sales volume of 302,183 units, the MINI brand was in line with previous year's high level (2013: 305,030 units; – 0.9 %) despite the model change in 2014.

In line with the forecast provided for the full year in the quarterly report to 30 September 2014, the total number of vehicles sold by the BMW Group rose by a solid 7.9 %. In the Annual Report 2013 a "significant rise" in deliveries to customers was predicted. The main reasons for the difference were ongoing difficult political and business conditions prevailing on some markets (such as Russia) and shifts in the timing of production starts. Moreover, market developments in China did not quite live up to expectations.

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 198,542 units, 2014: 275,891 units).

Fleet carbon emissions[1]

The BMW Group is continually reducing the carbon emissions of its fleet of vehicles by equipping them with highly efficient engines and electrified drivetrain systems. Thanks to the rigorous deployment of Efficient Dynamics technologies, our vehicles also set standards in terms of dynamism and driving pleasure.

In 2014, the volume of carbon emissions produced by our vehicle fleet sold in Europe[1] decreased slightly to 130 grams CO_2/km (2013: 133 grams CO_2/km; – 2.3 %). The scale of the decrease in fleet emissions in 2014 was therefore not as pronounced as originally forecast, mainly reflecting the impact of a higher-value model mix on the one hand and the later-than-planned availability of the new MINI on the other. In the Annual Report 2013, we had forecast a "moderate decrease" for the financial year 2014.

Revenues

Revenues from the sale of BMW, MINI and Rolls-Royce brand cars grew by 6.4 % to €75,173 million (2013: €70,630[2] million) in line with the solid sales volume rise. The increase was primarily attributable to the numerous new models launched and the positive consumer climate in major markets.

As forecast for the full year in the Quarterly Report to 30 June 2014, automobile business revenues had a solid increase despite the dampening effect of exchange rates which had been mentioned in the previous year's annual outlook as a potentially negative factor. In the Annual Report 2013 a "significant increase" in revenues was predicted.

EBIT margin and return on capital employed

The EBIT margin for the Automotive segment (profit before financial result divided by revenues) came in at 9.6 % (2013: 9.4 %) as a result of the high-value model mix. As forecast for the financial year 2014, the EBIT margin from automobile business was within the target range of between 8 and 10 % and thus in line with our expectations.

The return on capital employed (RoCE) amounted to 61.7 % (2013: 63.0[2] %). Contrary to our original expectations, the RoCE decreased only slightly due to improved management of capital employed and the increase in service contract volumes. In the Annual Report 2013 a "significant drop" in RoCE was predicted. The rate achieved was well above the minimum target of 26 % referred to in the forecast for 2014.

Motorcycles segment

Sales volume

In a friendlier-than-expected market environment, BMW Motorrad achieved a solid increase of 7.2 % with a sales volume of 123,495 units (2013: 115,215[3] units). This performance was therefore better than the "slight increase" forecast in the Annual Report 2013. The forecast was raised to "solid" in the quarterly report to 30 September 2014.

Return on capital employed

The return on capital employed (RoCE) in the Motorcycles segment stood at 21.8 % (2013: 16.4 %). The solid increase in RoCE from motorcycles business reflects higher-than-expected sales volume, the high-value model mix and the first fruits of the segment's strategic realignment. In the Annual Report 2013, it was predicted that the RoCE would be on par with the previous year.

Financial Services segment

Return on equity

The Financial Services segment generated a return on equity (RoE) of 19.4 % in 2014 (2013: 20.0[2] %), reflecting continued favourable business conditions. The RoE was therefore at a similar level to the previous year and remained above the target level of 18 %, in line with our forecast for 2014. In the Annual Report 2013, a "slight decrease" in RoE was predicted. The main reason for

[1] EU-28.
[2] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[3] Plus an additional 1,110 Husqvarna motorcycles (until 5 March 2013).

the better-than-expected RoE performance was the stable risk situation, particularly in the area of residual values.

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

Comparison of 2014 forecasts with actual outcomes 2014

	Forecast for 2014 in 2013 Annual Report	Forecast revision during the year		**Actual outcome in 2014**
BMW Group				
Profit before tax	significant increase		€ million	**8,707 (+10.3%)**
Workforce at year end	solid increase			**116,324 (+5.4%)**
Automotive segment				
Sales volume[1]	significant increase	Q3: solid increase	units	**2,117,965 (+7.9%)**
Fleet emissions[2]	moderate decrease	Q3: slight decrease	g CO_2/km	**130 (–2.3%)**
Revenues	significant increase	Q2: solid increase	€ million	**75,173 (+6.4%)**
EBIT margin	target range between 8 and 10%		%	**9.6 (+0.2%pts)**
Return on capital employed	significant decrease		%	**61.7 (–1.3%pts)**
Motorcycles segment				
Sales volume	slight increase	Q3: solid increase	units	**123,495 (+7.2%)**
Return on capital employed	in line with last year's level		%	**21.8 (+5.4%pts)**
Financial Services segment				
Return on equity	slight decrease		%	**19.4 (–0.6%pts)**

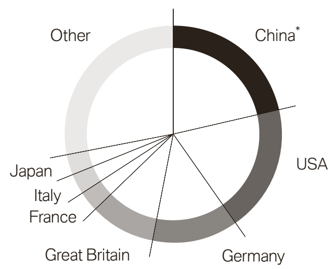
[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2014: 275,891 units).
[2] EU-28.

AUTOMOTIVE SEGMENT

More than 2 million vehicles sold for the first time

The BMW Group sold a total of 2,117,965* BMW, MINI and Rolls-Royce brand vehicles in 2014, thus surpassing the two-million mark for the first time in its history (2013: 1,963,798* units; + 7.9 %). All three brands contributed to these excellent figures and helped the BMW Group to retain its pole position in the premium segment worldwide. Sales of BMW brand cars were 9.5 % up on the previous year (2014: 1,811,719* units; 2013: 1,655,138* units). Despite the model change of its best-selling model, the MINI Hatch, the MINI brand achieved a sales volume of 302,183 units, almost matching the previous year's high level (2013: 305,030 units; – 0.9 %). Rolls-Royce Motor Cars sold 4,063 ultra-luxury sedans, surpassing the previous year's strong sales performance by 11.9 % (2013: 3,630 units).

BMW Group – key automobile markets 2014
as a percentage of sales volume

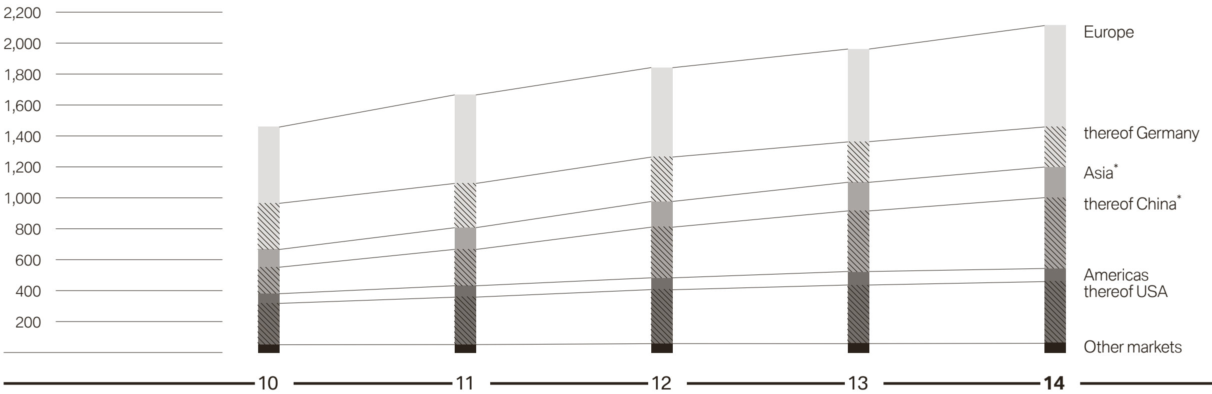


China*	21.6	France	3.2
USA	18.7	Italy	3.0
Germany	12.9	Japan	3.0
Great Britain	9.7	Other	27.9

Double-digit sales volume growth in Asia

Markets in Asia continued to develop dynamically in 2014. Sales of BMW, MINI and Rolls-Royce brand vehicles in this region rose significantly (+ 13.8 %) to 658,384* units (2013: 578,678* units). China again accounted for the lion's share with a sales volume of 456,732* units (2013: 391,713* units; + 16.6 %). The number of vehicles sold in the Americas region climbed by 4.0 % to 482,257 units (2013: 463,822 units), of which the USA accounted for 396,961 units, 5.4 % up on the previous year (2013: 376,636 units). Thanks to the more stable market environment in Europe, sales of the Group's three brands grew by 6.4 % to 914,587 units (2013: 859,546 units). The number of vehicles sold in Germany

BMW Group sales volume of vehicles by region and market
in 1,000 units



	10	11	12	13	14
Europe	791.2	858.4	865.4	859.5	**914.6**
— thereof Germany	267.2	285.3	287.4	259.2	**272.3**
Asia*	286.3	375.5	493.4	578.7	**658.4**
— thereof China*	169.6	233.6	327.3	391.7	**456.7**
Americas	329.7	380.3	425.3	463.8	**482.3**
— thereof USA	266.6	306.3	348.5	376.6	**397.0**
Other markets	54.0	54.8	61.1	61.8	**62.7**
Total	**1,461.2**	**1,669.0**	**1,845.2**	**1,963.8**	**2,118.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2010: 53,701 units, 2011: 94,400 units, 2012: 141,165 units, 2013: 198,542 units, 2014: 275,891 units).

rose by 5.1 % to 272,345 units (2013: 259,219 units). The BMW Group also performed extremely well in Great Britain, with sales rising to a total of 205,071 units (2013: 189,121 units; + 8.4 %).

BMW* retains pole position in the premium segment

The BMW brand maintained its pole position in the premium segment during the year under report. Significant contributions to this achievement were made by the highly successful BMW X5 as well as the BMW 3, 4 and 5 Series, each of which was market leader in its relevant segment.

At 190,033 units, sales of the BMW 1 Series were down on the previous year's level (2013: 213,611 units; – 11.0 %), reflecting the fact that the Coupé and Convertible body variants are now reported as part of the 2 Series. Similarly, the Convertible and Coupé models previously included in the BMW 3 Series have been reported as part of the BMW 4 Series since the end of 2013. For this reason, reported sales of the 3 Series in 2014 went down by 4.0 % to 480,214 units (2013: 500,332 units). The BMW 4 Series has been highly successful since its launch, with 119,580 units sold in the year under report (2013: 14,763 units). A total of 373,053 customers opted for the BMW 5 Series (2013: 366,992 units; + 1.7 %).

The BMW X family also continued to perform well in 2014. Following the launch of the third generation in November 2013, sales of the BMW X5 rose by more than a third to 147,381 units (2013: 107,231 units; + 37.4 %). The BMW X3 recorded a sales volume of 150,915 units, therefore not quite matching the previous year's high level (2013: 157,303 units; – 4.1 %). Similarly, the BMW X1 sales volume figure of 156,471 units was slightly lower than one year earlier (2013: 161,353 units; – 3.0 %). The new X4 became available in July 2014 and achieved a sales volume of 21,688 units by the end of the year.

Sales volume of BMW vehicles by model variant*

in units

	2014	2013	Change in %	Proportion of BMW sales volume 2014 in %
BMW 1 Series	**190,033**	213,611	– 11.0	10.5
BMW 2 Series	**41,038**	–	–	2.3
BMW 3 Series	**480,214**	500,332	– 4.0	26.5
BMW 4 Series	**119,580**	14,763	–	6.6
BMW 5 Series	**373,053**	366,992	1.7	20.6
BMW 6 Series	**23,988**	27,687	– 13.4	1.3
BMW 7 Series	**48,519**	56,001	– 13.4	2.7
BMW X1	**156,471**	161,353	– 3.0	8.6
BMW X3	**150,915**	157,303	– 4.1	8.3
BMW X4	**21,688**	–	–	1.2
BMW X5	**147,381**	107,231	37.4	8.1
BMW X6	**30,244**	36,688	– 17.6	1.7
BMW Z4	**10,802**	12,866	– 16.0	0.6
BMW i	**17,793**	311	–	1.0
BMW total	**1,811,719**	**1,655,138**	**9.5**	**100.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 198,542 units, 2014: 275,891 units).

MINI at previous year's level

The sales performance of the MINI brand in 2014 was influenced by the market launch of the third-generation Hatch. The BMW Group delivered 302,183 MINI brand cars to customers worldwide in the period under report (2013: 305,030 units; – 0.9 %), with sales of the new MINI Hatch up by 9.0 % at 140,051 units (2013: 128,498 units) and sales of the MINI Countryman up by 5.0 % at 106,995 units (2013: 101,897 units).

Sales volume of MINI vehicles by model variant

in units

	2014	2013	Change in %	Proportion of MINI sales volume 2014 in %
MINI Hatch	**140,051**	128,498	9.0	46.3
MINI Convertible	**17,327**	21,167	–18.1	5.7
MINI Clubman	**13,326**	21,030	–36.6	4.4
MINI Countryman	**106,995**	101,897	5.0	35.4
MINI Coupé	**3,816**	8,436	–54.8	1.3
MINI Roadster	**5,101**	9,315	–45.2	1.7
MINI Paceman	**15,567**	14,687	6.0	5.2
MINI total	**302,183**	**305,030**	**–0.9**	**100.0**

More than 4,000 Rolls-Royce sold for the first time

Rolls-Royce Motor Cars remained market leader in the ultra-luxury segment in 2014. With 4,063 units sold, the brand surpassed the 4,000-unit sales volume threshold for the first time (2013: 3,630 units; +11.9%). The Rolls-Royce Wraith, which became available in autumn 2013, achieved sales volume of 1,906 units (2013: 492 units). 1,555 units of the Rolls-Royce Ghost were sold worldwide (2013: 2,284 units; –31.9%).

Sales volume of Rolls-Royce vehicles by model variant

in units

	2014	2013	Change in %
Phantom	**602**	854	–29.5
Ghost	**1,555**	2,284	–31.9
Wraith	**1,906**	492	–
Rolls-Royce total	**4,063**	**3,630**	**11.9**

Production network running at full pace

The most important events in the BMW Group's production network during the year under report were the numerous model start-ups, the beginning of series production for the BMW i8 and the further expansion of our international manufacturing network, which grew to a total of 30 sites in 14 countries and set new records in terms of production volumes.

Due to the brisk demand on international car markets, in 2014 production volume rose to 2,165,566* units (2013: 2,006,366* units; +7.9%), comprising 1,838,268* BMW (2013: 1,699,835*; +8.1%), 322,803 MINI (2013: 303,177; +6.5%) and 4,495 Rolls-Royce (2013: 3,354; +34.0%) brand cars.

More than one million vehicles produced in Germany for fourth consecutive year

For the fourth year in a row, the BMW Group manufactured over one million vehicles at its German plants. Around 950 vehicles rolled off production lines per working day at the Group's main plant in Munich, including the BMW 3 Series Sedan, the BMW 3 Series Touring, the BMW 4 Series Coupé and, since February, the BMW M4 Coupé.

In Dingolfing, production reached all-time high levels, with an average of around 1,600 units manufactured per

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 214,920 units, 2014: 287,466 units).

Vehicle production of the BMW Group by plant

in units

	2014	2013	Change in %	Proportion of production in %
Munich	**228,126**	247,330	–7.8	10.5
Dingolfing	**369,027**	342,629	7.7	17.0
Regensburg	**272,015**	295,417	–7.9	12.6
Leipzig	**211,434**	186,695	13.3	9.8
Rosslyn	**68,771**	65,646	4.8	3.2
Spartanburg	**349,949**	297,326	17.7	16.2
Dadong[1]	**143,390**	126,888	13.0	6.6
Tiexi[1]	**144,076**	88,032	63.7	6.7
Oxford	**179,318**	175,986	1.9	8.3
Graz (Magna Steyr)[2]	**113,401**	125,559	–9.7	5.2
Born (VDL Nedcar)[2]	**29,196**	–	–	1.3
Goodwood	**4,495**	3,354	34.0	0.2
Assembly plants	**52,368**	51,504	1.7	2.4
BMW Group	**2,165,566**	**2,006,366**	**7.9**	**100.0**

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

day and almost 370,000 over the full year under report. Production of the BMW 4 Series Gran Coupé began in February. Assembly lines at the Dingolfing plant are therefore now making a total of 17 models, belonging to five different BMW series. In February the plant celebrated a production record following construction of the nine-millionth BMW car at that location. As part of the plant's modernisation, measures in 2014 included further work on new bodymaking facilities at the site. A new supply centre for vehicle assembly, a high-speed servo press and a production facility for axle brackets were all put into operation. Two new production lines were added in October to manufacture high-voltage power storage systems and electric motors for the BMW Group's future plug-in hybrids.

The Leipzig plant continued to recruit new personnel in order to keep pace with the increased expertise and manpower capacity needed, both for BMW i models and for conventional production. In July, the four-thousandth employee was welcomed to the plant. In May, series production of the BMW i8 commenced, followed by the BMW 2 Series Active Tourer in July. In October, the 1.5-millionth BMW was manufactured at the plant since production first began in 2005. Production of the BMW 2 Series Convertible began in November.

At the Regensburg plant, production of the BMW M3 Sedan began in February and the first BMW M4 Convertible models were manufactured there in July. The enlargement of the pressing plant was completed and the bodymaking facility expanded to include a second production line. At the same time, a new supply centre went into operation.

The BMW Group plant in Wackersdorf celebrated its 25th anniversary in 2014. In July, a new building and a new production facility for processing CFRP matting was taken into service.

Expansion work at the Eisenach plant also began in July. The existing buildings and production floor space are due to be enlarged to accommodate future vehicle projects and new technologies. Moreover, a state-of-the-art servo press is being installed.

The components plant in Landshut is making the electric motor, the complete plastic outer skin, CFRP structural body parts and lightweight metal die-cast parts for the BMW i8 hybrid sports car. The plant's lightweight die-cast metal facilities celebrated their 25th anniversary in 2014 and remain the only unit within the BMW Group producing such parts. The components plant has adopted a new, energy-saving strategy to optimise energy management. Since 2014, the waste heat from the melting plant has been fed into the site's own in-house hot water system, which means it can be used for heating in winter and cooling in summer.

Global presence strengthened

During the year under report, 48.5 % of the BMW Group's vehicles were manufactured abroad. The BMW 5 Series long-wheelbase Sedan is manufactured at the Dadong[1] plant in China. The 500,000th vehicle was produced at the plant in March 2014, while at the engine manufacturing plant in Shenyang, the 400,000th 4-cylinder petrol engine was being produced for the Chinese market. At the same time, preparations were initiated at the Tiexi[1] plant for a new engine manufacturing facility, including a foundry, to supply local production capacities. It is due to begin production in 2016. The first BMW 316Li was manufactured at the Tiexi[1] plant in October.

At the Rosslyn manufacturing plant in South Africa, the BMW Group concluded a contract with the energy company Bio2Watt (Pty) Ltd. Under its terms, from 2015 onwards some 25 to 30 % of the plant's electricity requirements will be generated by a combined heat and power plant that runs on landfill gas. The biogas used will be recovered from the treatment of waste.

Almost 350,000 vehicles were manufactured at the US plant in Spartanburg in 2014 – a new record for the location. To coincide with the production plant's 20th anniversary, in March the BMW Group announced expansion plans. Its manufacturing capacity is scheduled to be raised to 450,000 vehicles per year. To date, the BMW X3, X5, X5 M, X6 and X6 M models have been manufactured at the competence centre for X vehicles. Furthermore, production of the BMW X4 commenced at the site in April. In October, a second painting facility was also commissioned at the plant.

In July 2014 the construction of a new plant in San Luis Potosí, Mexico, was announced. The scheduled annual capacity of this plant is approximately 150,000 units. This move underpins the BMW Group's strategic commitment to maintaining a well-balanced global value-added chain.

At Moses Lake[2], Washington (USA), the carbon fibre manufacturing facility has been enlarged to include a third production building. It should be ready to begin operations by the beginning of 2015 and offers additional capacity for two production lines capable of handling a total volume of 3,000 tonnes per year.

In a parallel development, the BMW Group has built an assembly plant in Araquari, Brazil. The first vehicles were produced at the location in October 2014. The new production facility will be fully completed in the course of 2015. The manufacturing infrastructure will then comprise bodymaking, painting and assembly. Manufacturing capacity is scheduled to reach up to 30,000 vehicles per year. The production portfolio currently comprises the BMW 3 Series and the X1. The BMW 1 Series, the X3 and the MINI Countryman are scheduled to follow in the course of 2015.

At the Group's various assembly plants, which mostly serve their regional markets, 52,368 vehicles were produced overall during the period under report. The plants are located in Araquari (Brazil), Rayong (Thailand), Chennai (India), Kaliningrad (Russia), Cairo (Egypt), Jakarta (Indonesia) and Kulim (Malaysia).

Thirteen years after the relaunching of the MINI brand in 2001, the three-millionth vehicle has meanwhile rolled off the assembly lines at the Oxford plant. During this period, two million of the MINI brand cars manufactured in the UK have been exported to over 110 countries around the world. The British production triangle comprising the MINI plant in Oxford, the components plant in Swindon and the engine production facility in Hams Hall is a key part of the BMW Group's production network. More than 900 units of the MINI are produced at the Oxford plant per day during peak times.

In order to secure greater capacity for planned growth, since July the MINI Hatch is also being produced at the Dutch carmaker VDL Nedcar bv in Born, the Netherlands, under the terms of a contract with the BMW Group. These new arrangements enable even greater flexibility for the BMW Group's production network worldwide. The MINI models Countryman and Paceman are already being produced under contract by Magna Steyr Fahrzeugtechnik (MSF) in Graz, Austria. In

[1] Joint venture BMW Brilliance Automotive Ltd., Shenyang.
[2] Joint operation SGL Automotive Carbon Fibers.

May 2014, MSF manufactured its one-millionth vehicle for the BMW Group.

The pressing plant in Swindon produces bodywork components and assemblies for the Oxford plant. Since July the plant has also supplied the MINI contract production facilities at VDL Nedcar with body parts and the Leipzig plant with pressed parts for the BMW 2 Series Active Tourer.

During the third quarter, series production of the Rolls-Royce Ghost Series II commenced at the Rolls-Royce plant in Goodwood (UK). Construction of a technology and logistics centre for the plant was also announced. The Goodwood plant meanwhile provides jobs for more than 1,500 people, 100 of whom took up their posts during the period under report.

The engine plants in Munich, Hams Hall (UK) and Steyr (Austria) have continued to introduce a highly flexible, demand-oriented production system. In June, the engine production plant in Munich officially gave the green light for a production line for modular engines. In future, the Group's main plant will therefore act internationally as the leading plant for the production of the 3- and 4-cylinder petrol engines that form part of the Efficient Dynamics family. The Munich plant produces up to 3,200 engines each day, 1,000 of which are modular. The range comprises BMW 3-, 4-, 8- and 12-cylinder petrol engines, BMW 6-cylinder diesel engines, and 8-cylinder high-performance engines for the BMW M models. In October, the engine plant in Steyr also launched a production line for low-fuel-consumption 3- and 4-cylinder modular engines. In what is currently the largest engine plant operated by the BMW Group, up to 4,700 engines are completed each day. The diesel engine development centre, which is connected to the plant, is currently being enlarged. The Hams Hall engine plant makes 3- and 4-cylinder petrol engines for BMW and MINI and is also the exclusive manufacturer of 3-cylinder petrol engines for the BMW i8.

Pilot projects for "Industrie 4.0" launched

During the year under report, the BMW Group initiated new projects within its production network which will ultimately pave the way towards the first intelligent plant. The objective is to deploy new technologies as sensibly as possible with the aim of providing production and upstream preparation staff with the best possible support. One good example is the innovative cooperation between staff and robots in the Spartanburg and Dingolfing plants, by which people and robots work together effectively side by side.

MOTORCYCLES SEGMENT

Solid sales volume growth for BMW Motorrad

The Motorcycles segment profited from a positive market environment during the period under report. In total, we sold 123,495 BMW motorcycles worldwide (2013: 115,215[1]; +7.2%) and therefore outperformed the market as a whole.

Motorcycle sales up in all markets

The number of motorcycles sold in Europe rose to 73,611 units (2013: 68,961 units), a solid growth rate of 6.7%. With a sales volume of 21,714 units, business in Germany edged up slightly on the previous year (2013: 21,473 units; +1.1%). Motorcycle sales were also slightly higher (+2.5%) in Italy, with 10,487 units handed over to customers (2013: 10,230 units). Significant growth was achieved in France, however, where we recorded a sales volume of 11,600 units (2013: 10,400 units; +11.5%). Motorcycle sales in the USA, at 15,301 units, grew solidly compared to the previous year (2013: 14,100 units; +8.5%).

BMW Motorrad enters world of electromobility

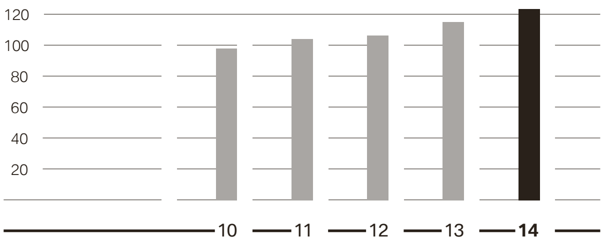
In May 2014, the arrival of the new C evolution marked the beginning of a new chapter in the urban mobility segment for BMW Motorrad. The new electrically powered scooter fuses riding fun and dynamism with the benefits of zero-emissions performance to create a whole new experience on two wheels.

The new R nineT, S 1000 R, R 1200 RT, R 1200 GS Adventure and K 1600 GTL Exclusive models presented in autumn 2013 were all launched in time for the start of the season in March 2014. Important contributions to BMW Motorrad's success were made in particular by the R 1200 GS Adventure and R 1200 RT models. The new R nineT generated a highly positive response among customers and media alike.

Three BMW motorcycles celebrated their world premieres at the INTERMOT in Cologne: the S 1000 RR, the R 1200 R and the R 1200 RS. The latest version of the S 1000 RR Supersports bike has an even better weight-to-power ratio and a whole host of integrated technical innovations.

BMW sales volume of motorcycles[2]

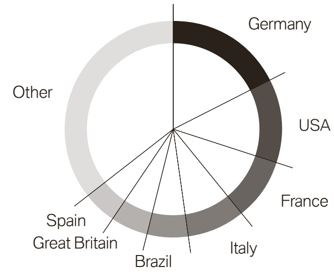
in 1,000 units



10	11	12	13	14
98.0	104.3	106.4	115.2	**123.5**

BMW Group – key motorcycle markets 2014

as a percentage of sales volume



Germany	17.6	Brazil	6.1
USA	12.4	Great Britain	5.5
France	9.4	Spain	5.0
Italy	8.5	Other	35.5

The new R 1200 RS succeeds in combining the qualities of a touring bike with the dynamic performance of a sports machine. The new R 1200 R continues in the tradition of a "purist" BMW roadster combined with a tried-and-tested boxer engine. The new models will become available in spring 2015, in good time for the start of the motorcycle season. BMW Motorrad also presented two more new models at the EICMA Motorcycles Exhibition in Milan – the S 1000 XR and the F 800 R. The S 1000 XR unites dynamic touring qualities, sporty performance and high levels of comfort with outstanding everyday usability. The new F 800 R Roadster offers sporty performance, agile handling and even greater versatility.

BMW Motorrad's new brand strategy

The BMW Group launched its new brand strategy for BMW Motorrad at the INTERMOT international motorcycle show. The brand's new motto – MAKE LIFE A RIDE – equates motorcycle riding with the joy of living. People tell their (life) stories in a documentary style and, by airing their emotions regarding all aspects of the motorcycle, raise enthusiasm worldwide for motorcycle riding.

Motorcycle production volume significantly up on previous year

In total, 133,615 BMW motorcycles were manufactured during the period under report (2013: 110,127[3] units; +21.3%), with the sharp increase primarily reflecting the production starts of a number of new models. Up to 600 motorcycles (from various series) and maxi-scooters are manufactured each day at the motorcycles plant in Berlin. BMW Motorrad also continued to expand the international reach of its production activities. Local motorcycle assembly facilities, such as those in Brazil and Thailand, are becoming increasingly important.

[1] Plus an additional 1,110 Husqvarna motorcycles (until 5 March 2013).
[2] Excluding Husqvarna, sales volume up to 2013: 59,776 units.
[3] Plus an additional 1,569 Husqvarna motorcycles (until 5 March 2013).

FINANCIAL SERVICES SEGMENT

Financial Services segment remains on growth course
The Financial Services segment achieved its best figures to date in 2014, despite a difficult market environment. 4,359,572 lease and credit financing contracts were in place with dealers and retail customers at the end of the reporting period (2013: 4,130,002 contracts; +5.6%). Business volume in balance sheet terms grew by 14.3% to stand at €96,390 million (2013: €84,347 million).

The Financial Services segment is represented in more than 50 countries, serving the dealer organisation as a strong and reliable partner. Credit financing and the lease of cars and motorcycles to retail and business customers is the segment's largest line of business. Multi-brand business, operated under the brand name "Alphera", also covers the financing of vehicles of other manufacturers. The Financial Services segment offers fleet business services under the brand name "Alphabet". It also supports the Group's dealer organisation by providing financing for dealership vehicle inventories, real estate and equipment. Supplementing its lease and credit financing business, the segment also offers its customers selected insurance and banking services.

New business up again on previous year
Credit financing and leasing business with retail customers once again made a significant contribution to the segment's success in 2014. In total, 1,509,113 new contracts were signed during the reporting period, slightly more (+2.6%) than one year earlier (2013: 1,471,385 contracts).

Leasing business grew year-on-year by 5.2%, credit financing by 1.2%. As a proportion of new business, leasing accounted for 34.7% and credit financing for 65.3%. The proportion of new BMW Group cars leased or financed by the Financial Services segment was 41.7%, 2.3 percentage points lower than in the previous year (2013: 44.0%).

In the used car financing line of business, 334,289 new contracts for BMW and MINI brand cars were signed in 2014, 5.8% more than in the previous year (2013: 315,919 contracts).

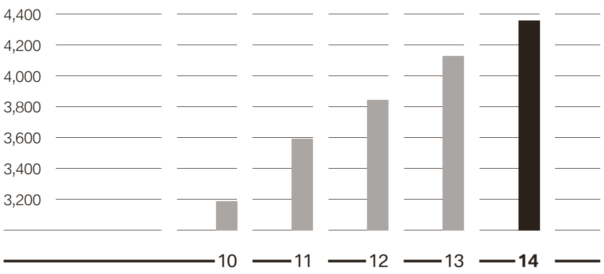
The total volume of all new credit and leasing contracts concluded with retail customers during the twelve-month period under report amounted to €41,318 million, an increase of 5.3% (2013: €39,241 million).

The increase in new retail customer business is reflected in the overall contract portfolio. In total, 4,005,428 contracts were in place with retail customers at 31 December 2014 (2013: 3,793,768 contracts; +5.6%). As in previous years, growth was recorded across all regions, with increases in the Europe/Middle East/Africa region (+6.5%), the Americas region (+4.0%) and for the EU Bank (+0.4%). The most significant rise was again recorded in the Asia/Pacific region, where the contract portfolio grew by 20.1%.

Further growth of fleet business
Alphabet, with its wide range of multi-brand products, is one of the top four fleet service providers in Europe. Alongside fleet management and financing, the broad product range also includes full service leasing. In total, a portfolio of 555,349 fleet vehicle contracts was being managed at the end of the reporting period, up slightly by 3.7% compared to one year earlier (2013: 535,528 contracts).

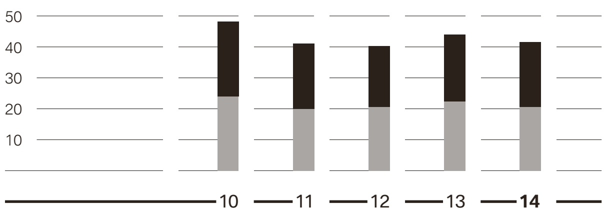
Decrease in multi-brand financing
The volume of multi-brand financing decreased moderately in 2014. Against the background of continued profitable portfolio growth and greater competition, the number of new contracts fell by 8.7% to stand at 165,776 contracts (2013: 181,605 contracts). A portfolio of 465,702 contracts (2013: 452,009 contracts; +3.0%) was in place at 31 December 2014.

Contract portfolio of Financial Services segment
in 1,000 units



3,190	3,592	3,846	4,130	**4,360**

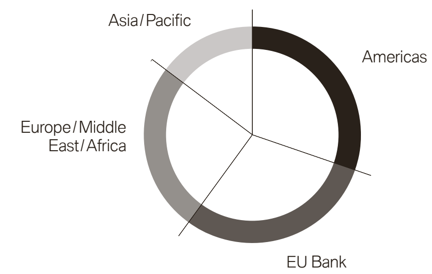
BMW Group new vehicles financed by Financial Services segment
in %



	10	11	12	13	**14**
Financing	24.1	20.0	20.7	22.5	**20.8**
Leasing	24.1	21.1	19.7	21.5	**20.9**

Contract portfolio retail customer financing of Financial Services segment 2014

as a percentage by region



Americas	30.4	Europe / Middle East / Africa	25.1
EU Bank	29.8	Asia / Pacific	14.7

Dealer financing significantly up on previous year

The total volume of dealer financing amounted to €14,710 million at the end of the reporting period, 12.2 % higher than one year earlier (2013: €13,110 million).

Deposit business volume at previous year's level

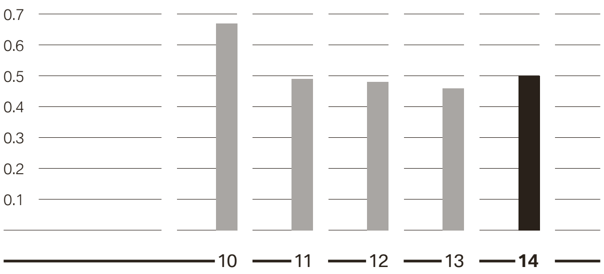
Deposit-taking represents an important element in the BMW Group's refinancing strategy. The volume of customer deposits worldwide at the end of the reporting period stood at €12,466 million and thus on par with the previous year (2013: €12,457 million; + 0.1 %).

Insurance business continues to grow

The Financial Services segment also operates an insurance line of business. In addition to its financing and leasing products, we also offer a wide range of insurance coverage, addressing all aspects of individual mobility. Demand for our insurance products remained high in 2014, with 1,085,781 new contracts signed during the period under report (2013: 1,041,530 contracts; + 4.2 %). Overall, the portfolio increased to 2,874,158 contracts (2013: 2,567,168 contracts; + 12.0 %).

Development of credit loss ratio

in %



10	11	12	13	**14**
0.67	0.49	0.48	0.46	**0.50**

Risk profile

The positive trend in the global economy and a somewhat quieter period in the euro crisis enabled the risk profile relevant for the Financial Services segment's total portfolio to improve again in 2014. Moreover, the segment's well-established procedures for managing credit risks continued to prove their worth. At 0.50 %, the overall credit loss ratio remained at a stable, low level (2013: 0.46 %). Reflecting the generally stable conditions prevailing on international used car markets, sales prices for our pre-owned cars developed robustly. Average residual value losses incurred on the resale of our vehicles remained stable at the previous year's level.

Further information with respect to risks and opportunities related to Financial Services can be found in the section "Report on risks and opportunities".

RESEARCH AND DEVELOPMENT

Research and development play a vital role for the BMW Group, given its broad range of products and the high number of new models. Our vehicles and services also set standards in terms of connecting car occupants with the outside world. During 2014, a total of 11,779 employees were engaged throughout the BMW Group's global research and innovation network at twelve locations spread over five countries, to deliver the best product quality possible and develop innovative technologies for customers.

Research and development expenditure for the year decreased by 4.7 % to €4,566 million (2013: €4,793* million). The research and development ratio was 5.7 %, 0.6 percentage points lower than in the previous year (2013: 6.3 %). The ratio of capitalised development costs to total research and development costs for the period (capitalisation ratio) was 32.8 % (2013: 36.4 %). Amortisation of capitalised development costs totalled €1,068 million (2013: €1,069 million). Further information on research and development expenditure is provided in the section "Results of Operations, Financial Position and Net Assets" and in note 11 to the Group Financial Statements.

Drive concepts: setting the course for the future
In line with our commitment to Efficient Dynamics, we are working continuously to optimise both our range of combustion engines featuring TwinPower turbo technology on the one hand and the various electric motors, energy storage and energy management systems for electric and plug-in hybrid vehicles developed for BMW eDrive on the other. In the long term, the BMW Group is also promoting the development of hydrogen-powered fuel cell technology as a source of energy.

The new Efficient Dynamics family of engines, comprising 3-, 4- and 6-cylinder power units, reflects the output of a rigorous and consistently applied development process. Higher aluminium content plus the use of magnesium (which is even lighter) has enabled the BMW Group to significantly reduce the average weight of its latest range of engines. The first of this new generation of engines is a 1.5-litre, 3-cylinder petrol engine, which has found its first home in the BMW i8. The BMW Group also presented the first 4-cylinder versions of the new engine family during the first half of 2014. Due to commonalities in the design of our petrol and diesel engines, the percentage of identical parts used can be as high as 60 %, while the structural similarities between petrol and diesel engines are around 40 %.

The BMW i8 combines the driving performance of a sports car with the fuel consumption of a compact-class model. The plug-in hybrid system developed for the BMW i8 meets the very highest specifications in terms of driving dynamics, efficiency, practical usefulness and quality, thus underlining the BMW Group's technological leadership in the field of drive system development. In the long term, the BMW Group also plans to transfer eDrive technology to other core brand models.

The BMW 3 Series plug-in hybrid prototype unveiled in 2014 provides a preview of how extreme efficiency can be combined with ultimate driving pleasure in the world's most successful premium-class sedan. The prototype features a 4-cylinder petrol engine from the new Efficient Dynamics family with TwinPower turbo technology combined with an electric drive system. The outcome is a car that delivers sporty driving dynamics similar to being behind the wheel of a conventionally powered 6-cylinder BMW 3 Series model, but with far lower fuel consumption. The possible integration of a plug-in hybrid system is already a firm part of our thinking when new BMW and MINI models are being developed, thus ensuring, among other things, that future model variants equipped with hybrid drive technology will be just as suitable for everyday use as their standard counterparts.

The BMW Group took a further step forward in the field of powertrain electrification with its presentation in 2014 of the newly developed range of hybrid drive systems intended for high-performance electric drives based on Power eDrive technology. In future-generation plug-in hybrid vehicles, around two-thirds of the drive system's output should come from the Power eDrive electric system and around one-third from the TwinPower turbo technology combustion engine. The BMW Group is pressing ahead with the development of battery-powered drive systems (as in the BMW i3) and plug-in hybrids, as well as in other areas such as fuel-cell electric technology and high-voltage electrified systems (Power eDrive). With its wide range of drive systems, the BMW Group can and will continue to be able to react flexibly

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

to the needs of customers and new regulations stipulated by legislators.

Intelligently designed lightweight construction

Lightweight construction is an essential component of the BMW Group's Efficient Dynamics strategy and firmly embedded in its basic understanding of modern manufacturing. The consistent use of lightweight materials in vehicle design is particularly important with electrically powered cars, as not only the battery capacity, but also the total weight of the vehicle restrict their range. In order to compensate for the added weight of the electrical components, the BMW Group has developed its LifeDrive concept for BMW i series vehicles, which is firmly committed to the use of lightweight design. In this context, the BMW Group has, for the first time, achieved an innovative combination comprising an aluminium chassis and a CFRP passenger compartment. Specifically deployed, the material used helps reduce total vehicle weight, optimises its point of gravity and increases the stability of the car's body. The BMW Group is currently working on further possible applications, such as hybrid wheel rims comprising a mixture of aluminium and CFRP. In the case of the BMW M3 and M4 models, the high rigidity and low weight of CFRP allows the cardan shaft to be manufactured as a single piece, without a centre bearing. In addition to achieving a 40 % weight-saving compared to the previous model, a further benefit is that the rotating mass is reduced, thus resulting in a further improvement in response behaviour. After more than ten years of intensive research work and the continual optimisation of the processes, materials, systems and tools involved, the BMW Group is currently the only automotive manufacturer with the required know-how to utilise CFRP on a large-scale production basis.

Highly automated driving at the limit

Precise, reliable control of a vehicle when driven at its dynamic limit is a key aspect of highly automated driving. Only a system that can safely master all dynamic situations, including those encountered when a vehicle is driven at its technical limit, will be able to instil trust and provide sustained and secure relief for the driver in tiring situations.

The BMW Group has built an innovative, highly automated research prototype, which in 2014 demonstrated the utmost safety at the vehicle's dynamic limit, thanks to perfected control technology. On a closed-off racetrack, the BMW test vehicle additionally underlined the efficiency of a new generation of control systems, which can actively intervene in key driving decisions and at the same time coordinate the electrically controlled steering with the brake and accelerator. The system therefore goes one decisive step further than any of its predecessors. With BMW ActiveAssist, the BMW Group is playing a pioneering role in implementing safety-related, highly automated systems. Back in October 2009, in conjunction with the predecessor research project, BMW Track Trainer, the BMW Group drove a highly automated vehicle through the racing line of the "Nordschleife" at the Nürburgring racetrack, one of the most demanding circuits in the world. The BMW emergency stop assistant research project has delivered further valuable findings. If the driver fails to react, for example due to a medical emergency such as a heart attack, this feature can switch to the highly automated mode, steer the vehicle safely to the roadside and automatically send an emergency call. Back in 2011, the first BMW test vehicle was already driven on a multi-lane motorway using the highly automated mode. Meanwhile, with some 20,000 kilometres of testing behind them, the development engineers have gathered valuable insights into the behaviour and handling strategies of their highly automated vehicles.

Research project "Virtual marketplace of the future"

Location Based Services enable users to receive information on places of interest, services and events in the surrounding area – anytime and anywhere. Even while driving, location-based services and other information can be a useful supplement, either en route or at your destination. For that reason, BMW ConnectedDrive already offers users a whole range of location-based information. In future, the vehicle will be able to present the customer with information and items of interest along the route, tailored to suit the situation and the user's individual preferences. The premiere of the latest generation of the optional navigation system "Professional" in the BMW 2 Series Convertible achieved an even higher level of convenience and reliability in terms of route guidance. The system, which was first presented in 2014, updates its navigation data on a regular basis, several times per year, assuming a new version of map data is available. The user is required to pay neither licensing fees nor transmission costs. Via the SIM card built into the car, the new map data are sent to the vehicle via the mobile network (LTE), without having to take the longer route via an external data carrier and manual installation.

Outstanding technology and design

In the most recent competition for the prestigious “International Engine of the Year Award”, the BMW Group was awarded prizes in two different categories. For the fourth time now, the 3.0-litre in-line 6-cylinder petrol engine featuring BMW TwinPower turbo technology was among the main prizewinners. The engine powers numerous current BMW models. The 1.6-litre 4-cylinder turbo engine, which is fitted in models such as the MINI Cooper S Countryman and the MINI Cooper S Paceman, was winner in its class for the eighth consecutive time.

The BMW Group won as many as eight prizes at last year’s “Red Dot Award for Product Design”. The “Red Dot” went to seven BMW models. Apart from the BMW i3, which took the “Red Dot: Best of the Best” award and thus the highest accolade for trendsetting design, the BMW i8, the 2 Series Coupé, the 3 Series Gran Turismo, the 4 Series Coupé and Convertible and the BMW R nineT all received prizes. Furthermore, the new MINI received an “Honourable Mention”. With the “iF product design award”, the BMW i8 was presented with a prize by Industrie Forum Design e.V. for its innovative design. The greatest appreciation, however, was accorded to the BMW i3, which won the “iF product design award Gold”. Further awards went to the X5, the 2 Series Coupé, the 4 Series Coupé, the 3 Series Gran Turismo and the BMW R nineT in the category “Product, transportation design/special vehicles”.

PURCHASING AND SUPPLIER NETWORK

The primary focus of the BMW Group’s purchasing and logistics activities is to achieve an optimal balance of quality, innovation, flexible supply structures and competitive cost. In this context, we therefore go to great lengths to design the supply chain with our business partners, thus ensuring that we can react rapidly and flexibly at all times to fluctuations in order volumes, even within a volatile environment.

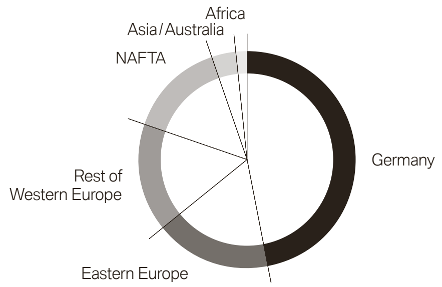
Numerous model start-ups

2014 saw the start-up of 13 new BMW and MINI brand models. Most of the BMW start-ups were concentrated on Europe and the NAFTA region. The production start of the new X4 at the Spartanburg plant resulted in a broader supplier base within the NAFTA region. Close collaboration with external business partners and the BMW Group’s own in-house component production team resulted in the introduction of numerous innovations, many of them relating to the BMW i8.

Increasing importance of NAFTA region

During the year under report, the construction of a new plant in San Luis Potosí (Mexico) with a planned annual manufacturing capacity of 150,000 units was announced. This move is in line with the strategy of ensuring globally balanced growth. For the BMW Group, it will also entail a further increase in NAFTA-based purchases in the coming years, whilst at the same time contributing to currency hedging. In view of these developments, the BMW Group’s decentralised organisational structures in the NAFTA region have been strengthened and newly aligned.

Regional mix of BMW Group purchase volumes 2014
in %, basis: production material



Germany	47.2	NAFTA	14.5
Eastern Europe	17.2	Asia / Australia	3.7
Rest of Western Europe	15.9	Africa	1.5

High level of investment safeguards productivity and technology lead

The Purchasing and Supplier Network is also responsible for component production throughout the BMW Group. The importance of the Landshut plant as a competence centre for lightweight construction was underlined by the expansion of CFRP production facilities at the site. The Landshut plant also serves as a centre for electro-mobility-related components, including, for instance, production of the electric motors and engine transmission units for the BMW i3 and i8. Important chassis and drive components for the BMW i models are produced at the Dingolfing plant.

SALES AND MARKETING

The worldwide sales network currently consists of some 3,250 BMW, 1,550 MINI and 130 Rolls-Royce dealerships. In China alone, more than 40 BMW and 30 MINI dealerships were opened in 2014. The BMW i dealership and agency network currently covers some 650 locations.

BMW extends its model range

For the BMW Group, the year 2014 was dominated by the introduction of a number of new models and model updates. The new BMW 4 Series Convertible and the model revision of the BMW X1 were both launched in March. The BMW 4 Series Convertible excels with its enhanced sports performance and quintessential elegance. Since March 2014 customers have also been able to enjoy the impressive driving dynamics of the new BMW 2 Series Coupé. The BMW M3 Sedan and the BMW M4 Coupé were first seen in the showrooms in June. Our M models are a unique blend of genuine sporting performance and perfect suitability for everyday use. The BMW 4 Series Gran Coupé, the third body variant of this series, came onto the market the same month. It combines the attractive design of a two-door coupé with the functionality of four doors and space to spare. A particularly important event for the BMW Group took place in June, namely the market launch of the BMW i8 plug-in hybrid sports car, which offers the dynamics of a high-performance sports model with low fuel consumption and emissions levels.

July saw the sales launch of the new BMW X4, a vehicle that possesses the sporty elegance of a classic coupé, superbly crossed with the typical characteristics of the BMW X series. The model update of the BMW X3 followed the same month. The new BMW 2 Series Active Tourer and the BMW M4 Convertible have been on display in dealership showrooms since September. The new BMW 2 Series Active Tourer opens up completely new customer groups, meeting their needs for versatility, functionality and ample spaciousness in the compact segment. The BMW M4 Convertible's design language conveys an unmistakeably stylish and at the same time muscular profile. The second-generation BMW X6, which boasts a luxurious interior design and new features with a wider range of standard equipment, has been in the showrooms since December 2014.

New MINI also available in five-door version

The third generation of the three-door MINI entered the showrooms in March. The new MINI has been received enthusiastically, with its new possibilities for connectivity and efficient 3- and 4-cylinder TwinPower turbo engines. For the first time in its 55-year history, a five-door version of the MINI has been available since October. The two MINI models have received the highest acclaim both in the media and from customers. The model updates of the MINI Countryman and MINI Paceman were both launched in July. In December, the BMW Group announced the new John Cooper Works MINI, which will be available on markets worldwide from spring 2015.

Start-up of Rolls-Royce Ghost Series II
The Rolls-Royce Ghost Series II has been in the showrooms since the autumn with a moderately revised design and continues to combine smooth, understated performance with contemporary luxury.

In 2014, Rolls-Royce Motor Cars added ten dealerships to its sales network, an important step in its aspiration to strengthen its position in the ultra-luxury segment.

New approach to communications with #BMWstories
BMW is breaking new ground in communications with #BMWstories. The online platform www.bmw.com/BMWstories offers a broad spectrum of communication channels. These include films and photo galleries depicting the special features of BMW models. Since #BMWstories started in May 2014, the online platform has received more than 3.5 million hits. Over 200 million interactions have already taken place in social media. The published videos have been viewed over 36 million times.

Successful launch of BMW i 360°ELECTRIC
With BMW i 360°ELECTRIC, BMW currently offers a comprehensive package of products and services for purely battery-powered and plug-in hybrid vehicles in 38 countries worldwide. The package is based on four features: comfortable, rapid, emissions-free charging at home; simple comprehensive access to public charging stations; flexible mobility for long-distance journeys and an Assistance Service for maintenance and repairs. BMW offers two types of product for charging at home: in addition to the Wallbox Pure for simple, safe charging, the Wallbox Pro has been available since 2014 for more rapid availability.

Development of connected mobility
The BMW Group further extended its connected mobility services in 2014. In total, BMW ConnectedDrive services were introduced in a further eleven markets, as a result of which they are now available in 36 countries worldwide. In the meantime, 95 % of all new vehicles in the BMW fleet are equipped with an integrated SIM card.

In addition to its intelligent emergency call feature, which already offers a broader range of functions than the E-call required by EU legislation as from 2016, the customer can benefit from a large number of innovative services. These include the Concierge Call, which is available around the clock and – if required – looks up addresses and feeds them directly into the navigation system or makes reservations directly. In addition, the real-time traffic information (RTTI) or the remote functions, for example, offer useful support for the driver.

In addition, further distribution channels have been established for mobility services. During the year under report, the ConnectedDrive Store opened not only in the pilot markets of Belgium and Luxembourg, but also in Germany. For the first time in the premium segment, services can therefore be ordered quickly and easily via a PC or even directly from the vehicle, and used straight away. The ConnectedDrive Store therefore grants access not only to new vehicles but also to used vehicles equipped with ConnectedDrive.

BMW i sales model
To coincide with the market launch of the BMW i3 in Europe and Japan, a direct sales model was successfully introduced in these markets. Over 200 selected BMW i partners offer BMW i brand vehicles. In addition, the BMW i models are available in selected direct sales markets via new distribution channels – including via the Customer Interaction Centre (CIC), which has been successfully introduced in nine markets. In four markets to start with, the Mobile Sales Advisor (MSA) has also become a fixed component of the BMW i sales model. The integrated BMW i online sales platform enables customers to order their BMW i3 via the Internet, too. The new sales channels provide customer-friendly access to the BMW i range of products and services. In the showrooms, the Product Genius in operation at all BMW i partners also contributes to comprehensive product advice.

Premium services for individual mobility
Beyond its innovative electric and hybrid cars, BMW i also stands for sustainable mobility concepts. The aim of the mobility services is to promote urban mobility, irrespective of the means of transport used.

DriveNow, the car-sharing service offered by BMW i, MINI and Sixt, enables users to rent BMW and MINI vehicles according to their needs. Via an app, the website or directly on the road, it is a simple matter for users to find, book and park the cars again in another part of the city. The DriveNow service is currently available in Munich, Berlin, Düsseldorf, Hamburg, Cologne, San Francisco, Vienna and, since December 2014, in London, too. The fleet currently consists of about 2,800 cars. At the end of 2014, over 390,000 customers had benefited from the premium car-sharing service. Under the brand name AlphaCity, we also offer a car-sharing scheme for businesses. Up to November 2014, 10,000 registered employees had used the AlphaCity service.

ParkNow is an app- and Web-based service, which helps resolve parking problems for users. On the one hand, parking spaces are available to customers in partner car parks which can be booked online. On the other hand, the service makes it easier to find roadside parking spots. ChargeNow is the BMW i mobility service that simplifies finding and using public charging stations run by various suppliers belonging to an international network. In 2014, a large proportion of BMW i customers opted for this service. ChargeNow currently has over 24,000 charging points at its disposal in 19 markets.

BMW i Ventures was founded back in 2011 to ensure optimum conditions for the use and promotion of innovative mobility services. Based in New York, BMW i Ventures facilitates access to new technologies and opens up new customer groups, thereby reinforcing the strategic approach adopted by BMW i. Life360, MyCityWay, JustPark, ChargePoint and ChargeMaster are examples of some of BMW i Ventures' strategic investments.

Customer services remain on track in 2014

In 2014, sales of BMW and MINI spare parts, accessories and services were well up on the previous year's level, with the major markets in the USA, Germany and China making a decisive contribution to this performance. Growth was also registered in many other markets, such as Russia, Korea and South Africa. The dynamic growth in business goes hand in hand with investments in the future logistics network and with many other measures aimed at boosting customer satisfaction.

New premium experience in showrooms

By 2017, the Future Retail programme will be implemented worldwide with a view to enhancing the premium experience of our brands and products.

Future Retail comprises:

– new and additional opportunities to make contact with our brands (for example, the BMW and MINI Driving Center in South Korea and BMW Brandstore Brussels),
– comprehensively improved dealerships, which offer a premium experience, and
– targeted support for dealerships, enabling customer needs to be met even more effectively.

The use of some 1,900 Product Geniuses worldwide in more than 1,000 dealerships has proved to be particularly successful.

WORKFORCE

Workforce further increased

The BMW Group's worldwide workforce had grown to a total of 116,324 employees at 31 December 2014 (2013: 110,351 employees; +5.4 %). The increase was attributable mainly to the expansion of our international production network and the increased scale of development activities to generate innovations and new technologies for the future. Engineers and skilled staff were recruited specifically for this purpose.

More apprentices worldwide

Some 1,500 young people, including 1,200 in Germany, began their vocational training with the BMW Group in 2014, representing a significant expansion in worldwide training activities (2013: 1,363 apprentices). At the end of the reporting period, 4,595 young people worldwide were in vocational training and training programmes for young talent with the BMW Group.

Steep rise in investment in employee training

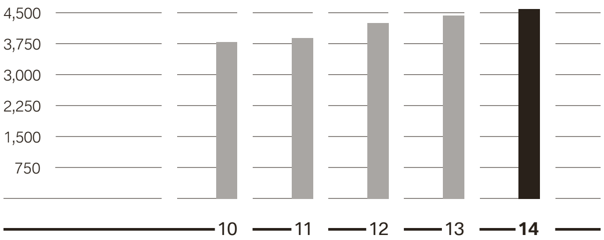
Expenditure on basic and further training rose significantly during the period under review to €335 million (2013: €288 million; +16.3 %), with the main focus of training on electromobility, modern production techniques and healthcare programmes.

Further progress made as attractive employer

In 2014, the BMW Group further strengthened its position as one of the most attractive employers in the world. In "The World's Most Attractive Employers", published by the agency "Universum", the BMW Group was once again ranked as the best German employer across all sectors and the most attractive automotive company in the world. It is now classified in the top 3 in the engineering category worldwide.

In Trendence's "European Graduate Barometer", too, the BMW Group's ranking improved. In Trendence's "Young Professional Barometer", the BMW Group occupied first place for the third year in a row and even managed to increase the gap to its competitors. Furthermore, in the

BMW Group apprentices at 31 December



	10	11	12	13	14
	3,798	3,899	4,266	4,445	**4,595**

Trendence "Graduate Barometer Germany", with first place in the Business category, second place in Engineering and third place in IT students, the BMW Group achieved its best results since 2007.

Diversity ensures competitiveness

Diversity in our workforce makes a major contribution to improving our competitiveness, by equipping us to respond even better to our customers' specific needs and requirements worldwide. We focus on three criteria in this respect: gender, cultural background and age/experience.

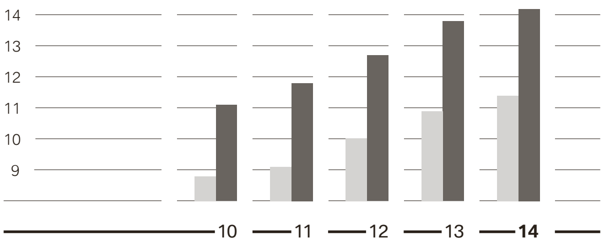
A number of steps were taken to promote diversity in the BMW Group during 2014. The proportion of women in the workforce as a whole, in management positions and in training programmes for young talent, again rose during the year under report. The proportion of women in the BMW Group's workforce, which stood at 17.8 % (BMW AG: 14.8 %) currently exceeds the target range of 15 to 17 %. The proportion of women in BMW Group management positions rose to 14.2 % (BMW AG: 11.4 %). In the young talent groups, too, the proportion of women rose in 2014. Female representation in trainee programmes is already above 50 %, and over 27 % of participants in student training programmes are women.

BMW Group employees

	31.12.2014	31.12.2013	Change in %
Automotive	**106,064**	100,682	5.3
Motorcycles	**2,894**	2,726	6.2
Financial Services	**7,245**	6,823	6.2
Other	**121**	120	0.8
BMW Group	**116,324**	**110,351**	**5.4**

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

in %



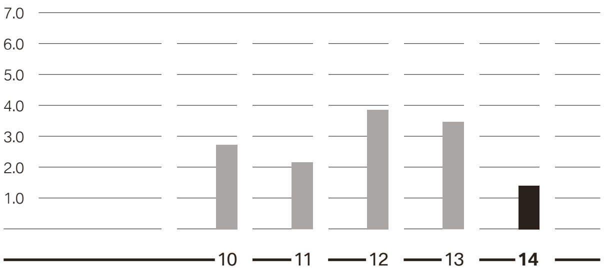
	10	11	12	13	14
BMW AG	8.8	9.1	10.0	10.9	**11.4**
BMW Group	11.1	11.8	12.7*	13.8	**14.2**

* Figure adjusted.

At the same time, the workforce in Germany is also becoming more international. In Munich alone, employees from 98 different countries work together successfully. We also attach importance to a balanced age structure in the workforce, with a view to promoting exchanges between the generations and mitigating the loss of know-how when older employees retire.

Employee attrition rate at BMW AG*

as a percentage of workforce



	10	11	12	13	14
	2.74	2.16	3.87	3.47	**1.41**

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

SUSTAINABILITY

Sustainable management

Sustainability for the BMW Group means making a lasting positive contribution to economic success, thus creating added value for the business. Manufacturing with efficient and resource-friendly production processes and offering customers state-of-the-art solutions for sustainable individual mobility gives the BMW Group a competitive advantage. Our employees play a vital role in this context with their personal commitment and ideas, a fact borne out, for example, by the €31 million saved in 2014 alone in conjunction with the ideas management system in place throughout the BMW Group. Our commitment to sustainable management and our aspiration for social responsibility along the entire value chain are firmly embedded within the BMW Group.

As well as requiring social and ecological aspects to be taken into account in internal decision-making processes, the BMW Group's sustainability management system involves the systematic analysis of external factors and a continual dialogue with our stakeholders.

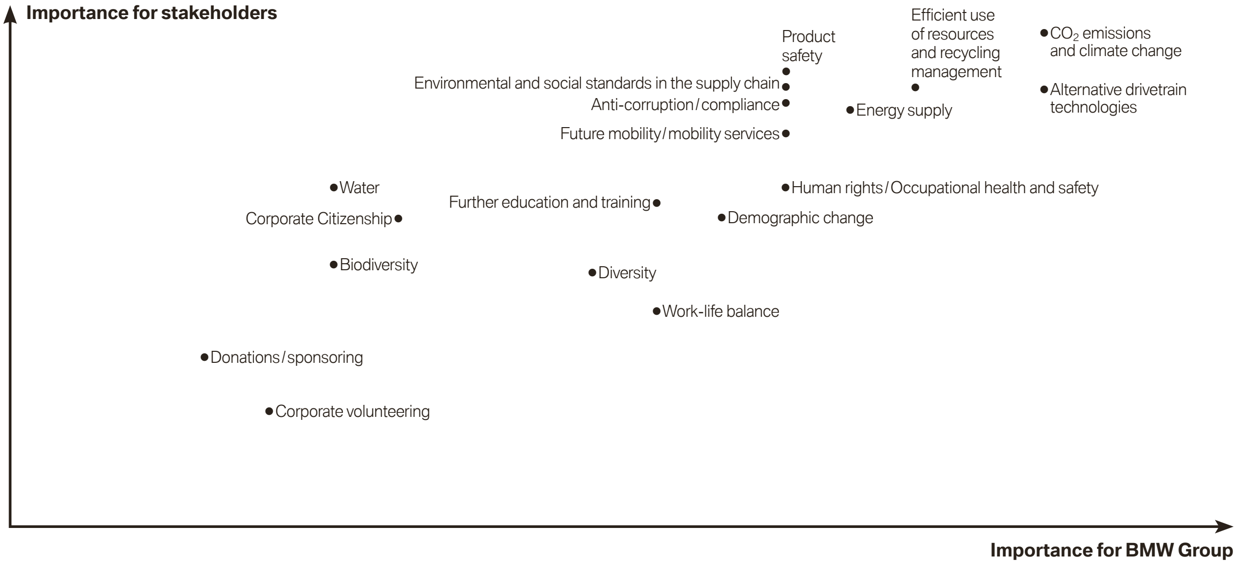
Materiality process

Global megatrends such as urbanisation or climate change have an impact on both regulatory conditions and customer requirements, causing new fields of business to arise. In order to recognise any such changes in good time, we regularly perform a review using our materiality process. In this context, we analyse the importance of challenges on society, both from the point of view of different stakeholder groups and from an internal BMW Group perspective. The results of the materiality analysis – shown in the materiality matrix – form the basis for our regular verification of the direction our sustainability strategy is taking.

Sustainability ratings

In 2014 the BMW Group was able to maintain its position as most sustainable premium manufacturer in the automotive industry and again secured excellent placings in widely regarded ratings. In the Dow Jones Sustainability Indices (DJSI), for instance, the BMW Group took first place in the Automobiles sector. The BMW Group is therefore the only enterprise in this sector to have been listed in the index without interruption since its inception. In the Global 500 rating of the Carbon Disclosure Project (CDP), we again achieved 100 out of a possible 100 points for transparent reporting and the best mark for climate protection measures, thus retaining our leading position again in 2014. Based on this result, the BMW Group is listed with the highest performance score "A" in the global Climate Performance Leadership

Materiality matrix



Index (CPLI) – as the only automotive producer for five consecutive years. The BMW Group was also included in the British FTSE4Good Index again in 2014.

Clean production

The BMW Group improves resource efficiency by integrating environmental management in all of its production processes. Since 2006 we have reduced both the volume of resources utilised and the emissions per vehicle produced by an average of 45.0%.*

The individual figures are as follows:

Energy consumption	**–34.2%**
Water consumption	**–33.1%**
Process wastewater	**–42.7%**
Non-recyclable waste	**–74.0%**
Solvent emissions	**–48.6%**
CO_2 emissions	**–37.1%**

In 2014 we reduced both the volume of resources utilised and the emissions per vehicle produced by an average of 6.7% compared with the previous year, giving rise to savings of €15.8 million.

* Including joint venture BMW Brilliance Automotive Ltd., Shenyang, excluding contract production.

The BMW Group again reduced the energy consumption per vehicle produced by 4.7% to 2.25 MWh during the period under report. One of the measures that contributed towards the efficiency improvement was the utilisation of intelligent energy data management. It is a component of the BMW Group's "Industrie 4.0" production concept and based on intelligent electricity meters that continually measure the energy consumption levels of production facilities and robots and compare them with a centralised corporate network for the purpose of detecting and avoiding, at the earliest possible stage, any deviations that lead to excessive electricity consumption.

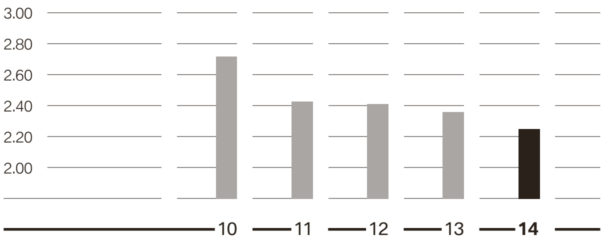
The utilisation of highly efficient, ecologically sustainable combined heat and power plants (CHPs) and the use of electricity generated from renewable sources at our production sites, as well as improved energy efficiency measures, enabled us to reduce CO_2 emissions per vehicle produced by a further 2.9% year-on-year to 0.66 tonnes during the period under report.

At 2.18 m^3 per vehicle produced, water consumption was maintained at a stable low level. At 0.47 m^3 the same applies to the volume of process wastewater generated per vehicle produced.

The volume of non-recyclable production waste was further reduced to 4.93 kg per vehicle produced in 2014, an improvement of 14.0%. A number of measures contributed towards this development, one of which was an additional improvement in the treatment of washing

Energy consumed* per vehicle produced

in MWh/vehicle

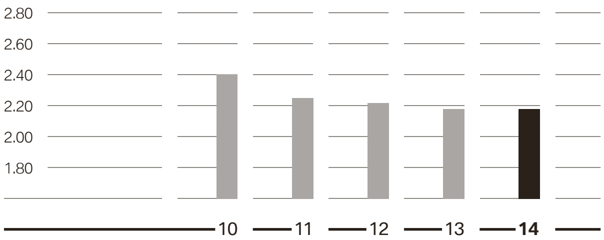


10	11	12	13	14
2.72	2.43	2.41	2.36	**2.25**

* Excluding contract production, adjusted for CHP losses.

Water consumption* per vehicle produced

in m^3/vehicle



10	11	12	13	14
2.40	2.25	2.22	2.18	**2.18**

* Excluding contract production.

water used in the production of passenger car brake discs at the Berlin plant.

Solvent emissions were sharply curtailed by 18.9 % to 1.29 kg per vehicle produced during 2014, which is mainly due to the fact that in the Chinese plant in Dadong* the retrofitting of the paint shop with an exhaust air cleaning system was reflected in full-year statistics for the first time.

* Joint venture BMW Brilliance Automotive Ltd., Shenyang.

Sustainability along the entire value chain

Sustainability criteria also play a major role in the selection and assessment of our suppliers as well as in the field of transport logistics. The active management of sustainability risks along the supplier chain reduces compliance and image risks. With this in mind, the BMW Group has integrated a comprehensive system of sustainability management in its purchasing processes.

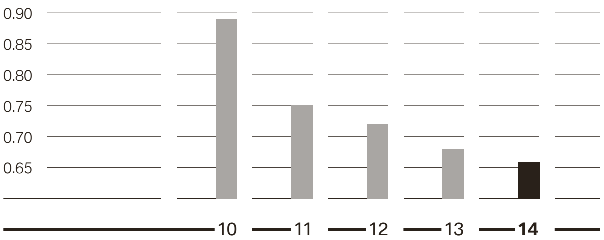
The amount of energy needed for transportation worldwide has risen considerably in recent years. In order to keep CO_2 emissions to an absolute minimum, we adhere to the principle “production follows the market”. Moreover, we are continually increasing the percentage of low-carbon modes of transport we use. In total, 63.3 % of all new vehicles left our plants by rail during the twelve-month period under report (2013: 60.7 %).

Fleet CO_2 emissions again reduced

For many years now, the use of our Efficient Dynamics technologies in series production has enabled us to continually reduce the CO_2 emissions generated by our vehicles. Again in 2014, further progress was made in the electrification of our fleet with the introduction of the BMW i8 plug-in hybrid sports car and the launching of the BMW i3 in additional key markets. These measures form the basis for complying with legally stipulated CO_2 and fuel consumption limits going into the future.

CO_2 emissions* per vehicle produced

in t/vehicle

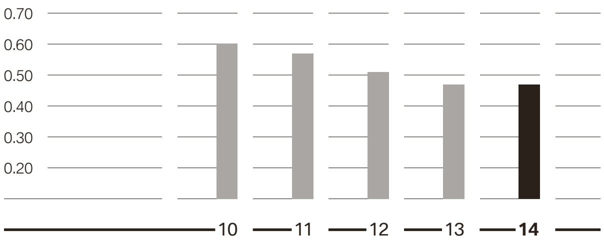


10	11	12	13	14
0.89	0.75	0.72	0.68	**0.66**

* Excluding contract production, adjusted for CHP losses.

Process wastewater* per vehicle produced

in m^3/vehicle

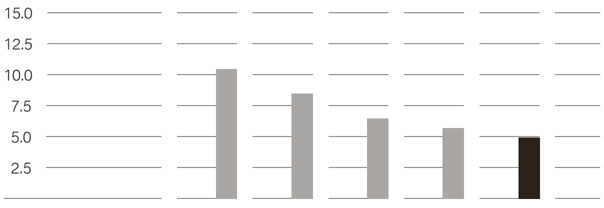


10	11	12	13	14
0.60	0.57	0.51	0.47	**0.47**

* Excluding contract production.

Waste for disposal* per vehicle produced

in kg / vehicle

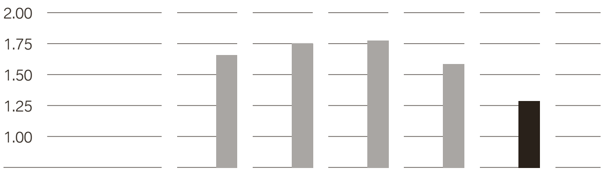


10	11	12	13	14
10.49	8.49	6.47	5.73	**4.93**

* Excluding contract production.

Volatile organic compounds (VOC)* per vehicle produced

in kg / vehicle



10	11	12	13	14
1.66	1.75	1.78	1.59	**1.29**

* Excluding contract production.

Between 1995 and 2014, the average CO_2 emissions of the vehicles we sold in Europe fell by 38 %. In 2014, the BMW Group's fleet of new vehicles sold in Europe (EU-28) consumed an average of 4.9 litres of diesel per 100 km and 6.0 litres of petrol respectively. CO_2 emissions averaged 130 grams per km. In Germany, too, we led the field among premium-segment manufacturers with average CO_2 emissions of 136 grams per km. In 2014 the BMW Group's fleet included as many as 53 models emitting less than 120 grams of CO_2 per km. Our efficient technologies have given us a competitive edge, particularly in markets where a CO_2-based vehicle tax is levied.

Further information on the subject of sustainability in the BMW Group is available in our online sustainability report at: www.bmwgroup.com/sustainability. The Sustainable Value Report 2014 was prepared in accordance with the Global Reporting Initiative (GRI G3.1) guideline and, at Level A+ (GRI-tested), fulfils the highest application level of the GRI guideline. It will be published in conjunction with the Annual Report 2014.

Report on Economic Position
Results of Operations, Financial Position and Net Assets

Earnings performance[1]

The BMW Group is again able to report on an exceedingly successful financial year. Business performance remained on track, with sales volume, revenues and earnings all coming in at record levels. The number of BMW, MINI and Rolls-Royce brand vehicles sold rose by 7.9 % to 2,117,965[2] units. The BMW brand was again able to maintain its pole position at the head of the premium segment.

The BMW Group recorded a net profit of €5,817 million (2013: €5,329 million) for the financial year ended 31 December 2014. The post-tax return on sales was 7.2 % (2013: 7.0 %). Earnings per share of common and preferred stock were €8.83 and €8.85 respectively (2013: €8.08 and €8.10 respectively).

Revenues of the BMW Group increased year-on-year by 5.7 % to a new record figure of €80,401 million (2013: €76,059 million), driven primarily by the continued upward trend in sales volume. The scale of the increase was held down partly by higher inter-segment revenue eliminations due to the growth of new lease business and partly by the change in the average exchange rates of a number of currencies, including the Japanese yen, Russian rouble and South African rand. Adjusted for exchange rate factors, revenues increased by 6.8 %.

Revenues comprise mainly the sale of vehicles and related products (2014: €60,280 million; 2013: €56,812 million), lease instalments (2014: €7,748 million; 2013: €7,296 million), the sale of vehicles previously leased to customers (2014: €6,716 million; 2013: €6,412 million) and interest income on loan financing (2014: €2,881 million; 2013: €2,868 million).

All segments contributed to the increase in revenues. External revenues from the sale of BMW, MINI and Rolls-Royce brand cars grew by 6.0 % on the back of higher sales volumes. Adjusted for exchange rate factors, revenues went up by 7.3 %. Compared to the previous year, the BMW Group recorded a significant rise (11.8 %) in external revenues from its Motorcycles business. External revenues generated with Financial Services business was 4.4 % up on the previous year. Adjusted for exchange rate factors, revenues of the Motorcycles and Financial Services segments increased by 14.1 % and 4.5 % respectively.

Group Income Statement

in € million

	2014	2013[1]
Revenues	**80,401**	76,059
Cost of sales	**–63,396**	–60,791
Gross profit	**17,005**	**15,268**
Selling and administrative expenses	**–7,892**	–7,257
Other operating income	**877**	842
Other operating expenses	**–872**	–875
Profit before financial result	**9,118**	**7,978**
Result from equity accounted investments	**655**	407
Interest and similar income	**200**	183
Interest and similar expenses	**–519**	–469
Other financial result	**–747**	–206
Financial result	**–411**	–85
Profit before tax	**8,707**	**7,893**
Income taxes	**–2,890**	–2,564
Net profit	**5,817**	**5,329**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 198,542 units, 2014: 275,891 units).

As in the previous year, Group revenues are spread across all regions, with the Europe region (including Germany) accounting for 46.8 % (2013: 45.2 %), the Americas region for 20.7 % (2013: 20.7 %) and the Africa, Asia and Oceania region for 32.5 % (2013: 34.1 %) of business.

Revenues in the Africa, Asia and Oceania region totalled €26,147 million (2013: €25,916 million), roughly at the previous year's level (+ 0.9 %). In China, the higher proportion of sales generated by the joint venture, BMW Brilliance Ltd., Shenyang, resulted in a slight decrease in revenues reported for this market. By contrast, revenues generated in South Korea were up significantly on the back of higher sales volume figures. External revenue in Germany grew by 10.1 %. In the Rest of Europe region and in the Americas region, external revenues increased by 9.2 % and 5.3 % respectively.

Group cost of sales were 4.3 % higher than in the previous year and comprise mainly manufacturing costs (2014: €38,253 million; 2013: €36,578 million), cost of sales directly attributable to financial services (2014: €14,716 million; 2013: €14,044 million) and research and development expenses (2014: €4,135 million; 2013: €4,118 million). Changes in the average exchange rates of some currencies as well as inter-segment eliminations worked in the opposite direction.

Gross profit improved by 11.4 % to €17,005 million, resulting in a gross profit margin of 21.2 % (2013: 20.1 %).

The gross profit margin recorded by the Automotive segment was 18.6 % (2013: 18.2 %), while that of the Motorcycles segment was 18.7 % (2013: 16.7 %). In the Financial Services segment, the gross profit margin improved from 13.1 % to 13.7 %.

Compared to the previous year, research and development expenses increased by €17 million to €4,135 million. As a percentage of revenues, the research and development ratio fell by 0.3 percentage points to 5.1 %. Research and development expenses include amortisation of capitalised development costs amounting to €1,068 million (2013: €1,069 million). Total research and development expenditure amounted to €4,566 million (2013: €4,793 million). This figure comprises research costs, non-capitalised development costs and capitalised development costs (excluding scheduled amortisation). The research and development expenditure ratio was therefore 5.7 % (2013: 6.3 %). The proportion of development costs recognised as assets was 32.8 % (2013: 36.4 %).

Compared to the previous year, selling and administrative expenses increased by €635 million to €7,892 million. Overall, selling and administrative expenses were equivalent to 9.8 % (2013: 9.5 %) of revenues. Administrative expenses increased due to a number of factors, including the higher workforce size and higher expenses for centralised IT activities and new IT projects. Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses amounted to €4,170 million (2013: €3,741 million).

Other operating income and expenses improved from a net expense of €33 million to a net income of €5 million. The improvement was mainly attributable to gains on the sale of assets, including those arising on the deconsolidation of Noord Lease B.V., Groningen, and the sale of marketable securities.

The profit before financial result (EBIT) came in at €9,118 million (2013: €7,978 million).

The financial result for the twelve-month period was a net negative amount of €411 million, a deterioration of €326 million compared to the previous year. The net expense for other financial result increased by €541 million to €747 million, mostly reflecting the negative impact of currency and commodity derivatives. Impairment losses recognised on other investments, most notably on the investment in SGL Carbon SE, Wiesbaden, also contributed to the deterioration in other financial result. By contrast, the result from equity accounted investments – which includes the Group's share of the results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich – improved by €248 million.

Profit before tax increased to €8,707 million (2013: €7,893 million). The pre-tax return on sales was 10.8 % (2013: 10.4 %).

Income tax expense amounted to €2,890 million (2013: €2,564 million), resulting in an effective tax rate of 33.2 % (2013: 32.5 %). The changed regional earnings

Revenues by segment

in € million

	2014	2013*
Automotive	**75,173**	70,630
Motorcycles	**1,679**	1,504
Financial Services	**20,599**	19,874
Other Entities	**7**	6
Eliminations	**–17,057**	–15,955
Group	**80,401**	**76,059**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Profit / loss before tax by segment

in € million

	2014	2013*
Automotive	**6,886**	6,561
Motorcycles	**107**	76
Financial Services	**1,723**	1,619
Other Entities	**154**	164
Eliminations	**–163**	–527
Group	**8,707**	**7,893**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

mix as well as intergroup pricing issues contributed to the increase in the income tax expense for the year.

Earnings performance by segment

Revenues of the Automotive segment grew by 6.4 % to €75,173 million on the back of higher sales volume. Adjusted for exchange rate factors, segment revenues rose by 7.5 %. The gross profit margin improved year-on-year from 18.2 % to 18.6 %.

Compared to the previous year, selling and administrative expenses increased by €531 million to €6,645 million. Administrative expenses increased due to a number of factors, including the higher workforce size and higher expenses for centralised IT activities and new IT projects. Overall, selling and administrative expenses were equivalent to 8.8 % (2013: 8.7 %) of revenues.

The net expense from other operating income and expenses improved by €26 million (2013: net expense of €89 million), mainly reflecting gains on the sale of marketable securities.

The profit before financial result (EBIT) amounted to €7,244 million (2013: €6,649 million), giving an EBIT margin of 9.6 % (2013: 9.4 %).

The financial result of the Automotive segment was a net negative amount of €358 million, a deterioration of €270 million compared to the previous year. Other financial result was adversely affected by currency and commodity derivatives and fell to a net negative amount of €724 million. This figure also includes impairment losses recognised on other investments, most notably on the investment in SGL Carbon SE, Wiesbaden. By contrast, the result from equity accounted investments – which includes the segment's share of the results of BMW Brilliance Automotive Ltd., Shenyang, and the two DriveNow entities – improved by €248 million.

Overall, profit before tax amounted to €6,886 million (2013: €6,561 million), resulting in an effective tax rate of 34.3 % (2013: 32.8 %).

Revenues of the Motorcycles segment climbed by 11.6 % compared to the previous year (by 14.0 % adjusted for exchange rate factors).

Segment profit before tax improved by €31 million to €107 million.

Financial Services segment revenues grew by 3.6 % to €20,599 million (by 3.8 % adjusted for exchange rate factors). The segment's performance reflects the growth in the contract portfolio. The gross profit margin improved year-on-year to 13.7 % (2013: 13.1 %). Selling and administrative expenses were €82 million higher at €1,035 million. The net negative amount from other operating income and expenses deteriorated by €17 million. Overall the Financial Services segment reports profit before tax of €1,723 million, 6.4 % up on the previous year (2013: €1,619 million).

Profit before tax in the Other Entities segment, at €154 million, was €10 million lower than one year earlier.

The negative impact on earnings at the level of profit before tax reported in the Eliminations column decreased from €527 million in 2013 to €163 million in 2014, partly reflecting product mix improvements within the leased products portfolio and partly due to elimination reversal effects.

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 2014 and 2013, 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 financing activities are based on actual payments and receipts.

The cash inflow from operating activities in 2014 decreased by €1,215 million to €2,912 million. This deterioration was mainly due to higher cash outflows for taxes (up by €1,465 million) and included, among other items, a tax payment in the USA.

The cash outflow for investing activities amounted to €6,116 million (2013: €7,491 million) and was therefore 18.4 % down on the previous year, primarily reflecting a €594 million reduction in investments in property, plant and equipment and intangible assets (2014: €6,099 million) and a €737 million reduction in the net outflow for investments in marketable securities and term deposits (2014: net outflow of €144 million).

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

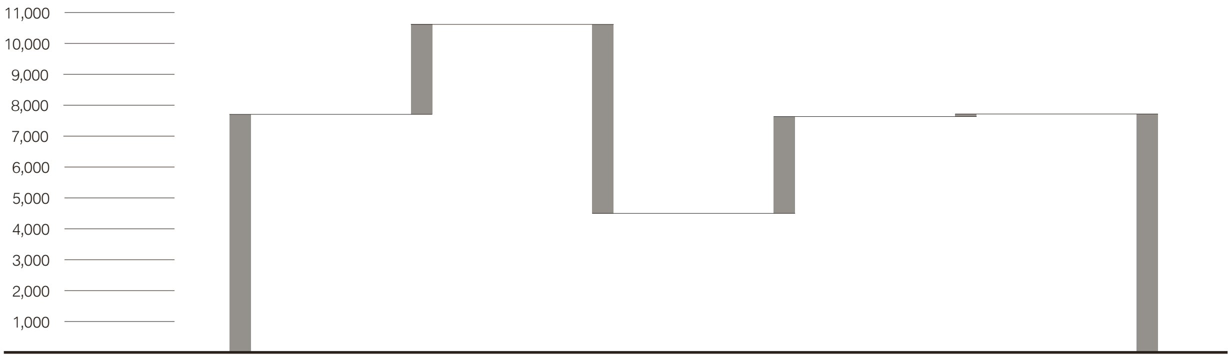
Further information on investments is provided in the section on the net assets position.

Cash inflow from financing activities totalled €3,133 million (2013: €2,703 million). Proceeds from the issue of bonds amounted to €10,892 million (2013: €8,982 million), compared with an outflow of €7,249 million (2013: €7,242 million) for the repayment of bonds. Non-current other financial liabilities resulted in a cash inflow of €5,900 million (2013: €6,626 million) and a cash outflow of €5,697 million (2013: €4,996 million). The net cash inflow for current other financial liabilities was €2,132 million (2013: net cash outflow of €721 million). The change in commercial paper gave rise to a net cash outflow of €1,012 million (2013: net cash inflow of €1,812 million). The payment of dividends resulted in a cash outflow of €1,715 million (2013: €1,653 million).

The cash outflow from investing activities exceeded the cash inflow from operating activities in 2014 by

Change in cash and cash equivalents

in € million



Cash and cash equivalents 31.12.2013*	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 31.12.2014
7,671	**+2,912**	**–6,116**	**+3,133**	**+88**	**7,688**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

€3,204 million. A similar constellation arose in the same period last year, when the cash outflow from investing activities had exceeded the cash inflow from operating activities by €3,364.

After adjusting for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group with a total positive amount of €88 million (2013: negative amount of €42 million), the various cash flows resulted in an increase of cash and cash equivalents of €17 million (2013: decrease of €703 million).

The cash flow statement for the Automotive segment shows that the cash inflow from operating activities exceeded the cash outflow from investing activities by €3,587 million (2013: €1,966 million). Adjusted for net proceeds from marketable securities and term deposits amounting to €106 million (2013: net investments of €1,037 million) – mainly in conjunction with securities held for strategic liquidity purposes – the excess amount was €3,481 million (2013: €3,003 million).

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

in € million	**2014**	2013*
Cash inflow from operating activities	**9,423**	9,964
Cash outflow from investing activities	**–5,836**	–7,998
Net investment in marketable securities and term deposits	**–106**	1,037
Free cash flow Automotive segment	**3,481**	**3,003**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Cash outflows from operating activities of the Financial Services segment are driven primarily by cash flows relating to leased products and receivables from sales financing and totalled €4,715 million (2013: €5,358 million). Investing activities resulted in a cash outflow of €297 million (2013: cash inflow of €324 million).

Net financial assets of the Automotive segment comprise the following:

in € million	**31.12.2014**	31.12.2013[1]
Cash and cash equivalents	**5,752**	6,775
Marketable securities and investment funds	**3,366**	2,758
Intragroup net financial receivables	**8,583**	4,411
Financial assets	**17,701**	**13,944**
Less: external financial liabilities[2]	**–3,478**	–1,859
Net financial assets	**14,223**	**12,085**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Excluding derivative financial instruments.

Refinancing

Operating cash flow provides a stable financial basis for the BMW Group. A broadly based range of instruments transacted on international money and capital markets is used to refinance worldwide operations. Almost all of the funds raised are used to finance the BMW Group's Financial Services business.

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

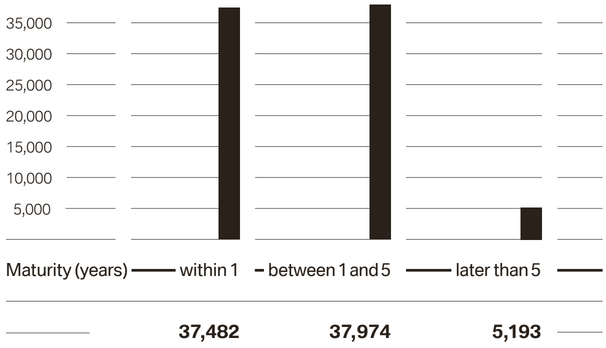
1. the ability to act at all times by assuring permanent access to strategically important capital markets,
2. autonomy through the diversification of refinancing instruments and investors, and
3. focus on value by optimising financing costs.

Financing measures undertaken centrally ensure access to liquidity for the Group's operating subsidiaries on market-based and consistent loan conditions. Funds are acquired with a view to achieving a desired structure for the composition of liabilities, comprising a finely tuned mix of various financing instruments. The use of longer-term financing instruments to finance the Group's financial services business and the maintenance of a sufficiently high liquidity reserve serves to avoid the liquidity risk intrinsic to any large portfolio of contracts. This prudent approach to financing also supports BMW AG's ratings. Further information is provided in the "Liquidity risks" section of the "Report on outlook, risks and opportunities".

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

Thanks to its good ratings and the high level of acceptance it has on capital markets, the BMW Group was again able to refinance operations during the financial year 2014 at attractive conditions. In addition to the issue of bonds and loan notes on the one hand and private placements on the other, commercial paper was also issued on good conditions. Additional funds were raised via new securitised instruments and the prolongation of existing instruments. As in previous years, all issues were highly sought after by private and institutional investors.

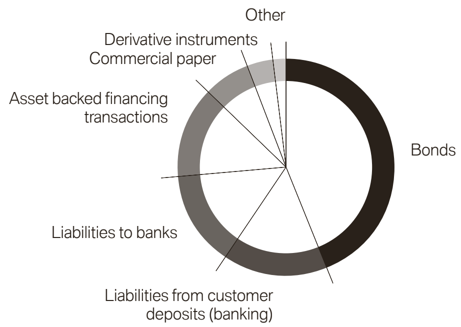
BMW Group – financial liabilities
in € million



During 2014, the BMW Group issued five euro benchmark bonds with a total issue volume of €4.25 billion on European capital markets. Bonds were also issued in Canadian dollars, British pounds, US dollars, Australian dollars and other currencies for a total amount of €6.9 billion.

Nine ABS transactions were executed in 2014, including two public transactions in the USA and one each in

BMW Group – financial liabilities
in € million



Bonds	35,489
Liabilities from customer deposits (banking)	12,466
Liabilities to banks	11,554
Asset backed financing transactions	10,884
Commercial paper	5,599
Derivative instruments	3,143
Other	1,514

Germany, China and South Africa with a total volume equivalent to €2.7 billion. Further funds were also raised via new ABS conduit transactions in Brazil, Canada, and Japan totalling €0.8 billion. Other existing transactions remained in place in Switzerland, the UK, Korea and Australia.

The regular issue of commercial paper also strengthens the BMW Group's financial basis. The following table provides an overview of amounts utilised at 31 December 2014 in connection with the BMW Group's money and capital market programmes:

Programme	Amount utilised
in € billion	
Euro Medium Term Notes	30.9
Australian Medium Term Notes	–
Commercial paper	6.1

The BMW Group's liquidity position is extremely robust, with liquid funds totalling €11.7 billion on hand at 31 December 2014. The BMW Group also has access to a syndicated credit line of €6 billion, with a term up to October 2018. This credit line, which is provided on attractive conditions by a consortium of 38 international banks, had not been utilised at the end of the reporting period.

Further information with respect to financial liabilities is provided in notes 35, 39 and 43 to the Group Financial Statements.

Net assets position*

The Group balance sheet total increased by €16,426 million (11.9%) compared to the end of the previous financial year to stand at €154,803 million at 31 December 2014. Adjusted for exchange rate factors, the balance sheet total increased by 7.5%.

On the assets side of the balance sheet, the increase in non-current assets related primarily to receivables from sales financing (14.8%), leased products (16.4%), property, plant and equipment (13.3%), investments accounted for using the equity method (70.5%), deferred tax assets (27.2%) and intangible assets (5.2%). At the same time, financial assets decreased by 21.9%.

Within current assets, increases were registered in particular for receivables from sales financing (9.7%), inventories (15.6%), other assets (18.3%) and current tax (65.6%). Trade receivables went down by 12.1%.

The growth in business reported by the Financial Services segment is reflected in increases of €2,085 million and €4,822 million in current and non-current receivables from sales financing respectively and in the higher level of leased products (up by €4,251 million).

Non-current receivables from sales financing accounted for 24.2% (2013: 23.6%) of total assets, current receivables from sales financing for 15.2% (2013: 15.5%). Total receivables from sales financing relate to retail customer and dealer financing (€45,849 million) and finance leases (€15,175 million). Adjusted for exchange rate factors, non-current receivables from sales financing grew by 9.1%, while current receivables from sales financing went up by 4.8%. The currency impact was mainly attributable to the appreciation in the value of a number of currencies against the euro, most notably the US dollar, the British pound and the Chinese renminbi.

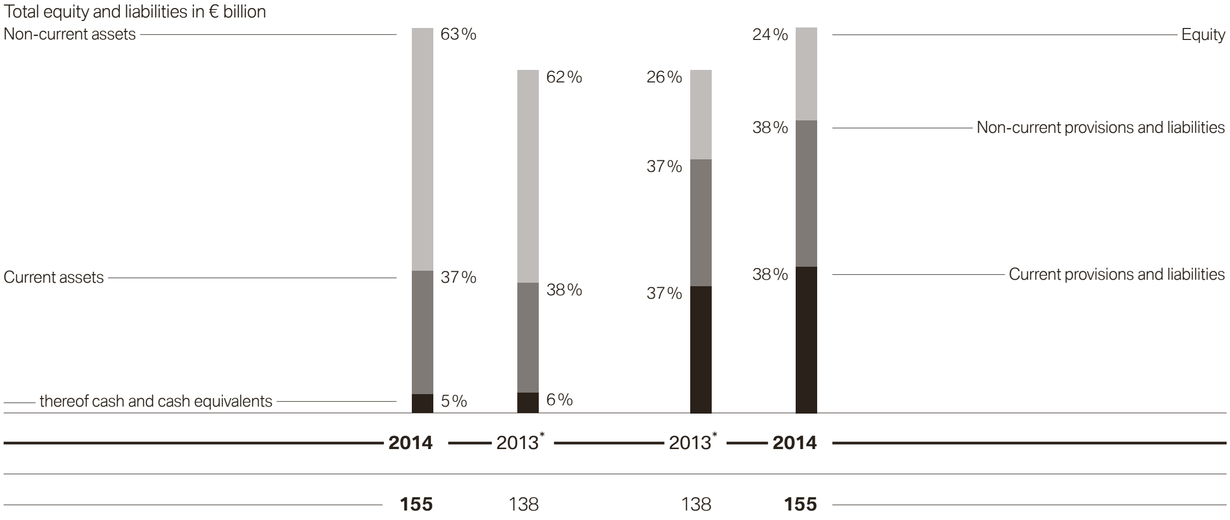
At the end of the reporting period, leased products accounted for 19.5% of total assets, above their level one year earlier (18.7%). Adjusted for exchange rate factors, leased products went up by 10.2%.

Property, plant and equipment increased by €2,014 million compared to the previous year. The main focus in 2014 was on product investments for production start-ups (including the BMW 2 Series Active Tourer, the 7 Series Sedan and the 2 Series Gran Tourer) and infrastructure improvements. In total, €4,539 million (2013: €4,494 million) was invested, most of which related to the Automotive segment. Depreciation on property, plant and equipment totalled €2,924 million (2013: €2,494 million). At 31 December 2014, property, plant and equipment accounted for 11.1% of total assets (2013: 11.0%). Adjusted for exchange rate factors, property, plant and equipment increased by 10.8%. Capital commitments for the acquisition of items of property, plant

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

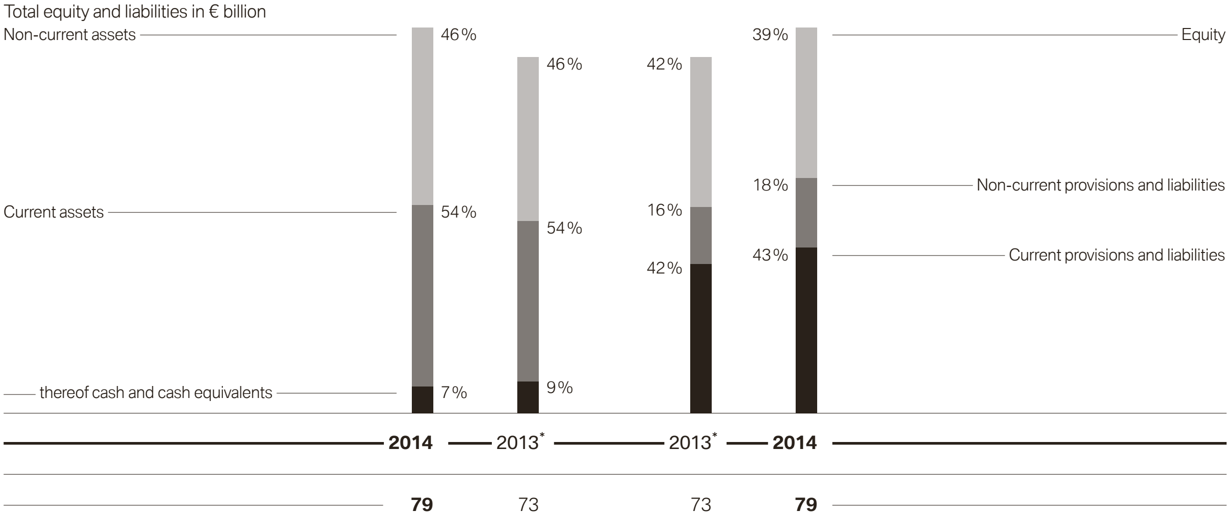
Balance sheet structure – Group

Total equity and liabilities in € billion



Balance sheet structure – Automotive segment

Total equity and liabilities in € billion



* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

and equipment totalled €2,247 million at the end of the reporting period.

Investments accounted for using the equity method, at €1,088 million, were €450 million higher than one year earlier, mainly reflecting the strong earnings performance of the joint venture BMW Brilliance Automotive Ltd., Shenyang.

Deferred tax assets increased by €441 million to €2,061 million, primarily reflecting lower fair values of derivative financial instruments recognised directly in equity, remeasurements of the net defined benefit liability for pension plans and currency factors (in particular relating to the US dollar).

At €6,499 million, the carrying amount of intangible assets was €320 million higher than at 31 December 2013. Within intangible assets, capitalised development costs rose by €431 million. Investments in capitalised development costs totalled €1,499 million in the year under report and were thus significantly lower than in the previous year (2013: €1,744 million). In the previous year, additions to intangible assets included licenses acquired for €379 million which are being amortised on a straight-line basis over a period of six years. The proportion of development costs recognised as assets was 32.8 % (2013: 36.4 %). Adjusted for exchange rate factors, intangible assets increased by 5.1 %. In total, €1,561 million was invested in intangible assets, most of which related to the Automotive segment.

Total capital expenditure on intangible assets and property, plant and equipment as a percentage of revenues decreased to 7.6 % (2013: 8.8 %). Capital commitments for intangible assets totalled €750 million at the end of the reporting period.

Non-current financial assets decreased by €569 million to €2,024 million, mainly due to lower fair values of currency derivatives.

Within current assets, receivables from sales financing grew from €21,501 million to €23,586 million, mostly reflecting the general growth of Financial Services business on the one hand and currency factors on the other.

Compared to the end of the previous year, inventories increased by €1,494 million (15.6 %) to €11,089 million and accounted for 7.2 % (2013: 6.9 %) of total assets. Most of the increase related to finished goods, including the impact of stocking up in conjunction with the introduction of new models. Adjusted for exchange rate factors, the increase was 11.6 %.

Current other assets were €780 million higher than one year earlier, mainly due to increases in prepayments, receivables from other companies in which an investment is held and other taxes as well as the reclassification described in note 31. These increases were partly offset by the decrease in collateral receivables included in this line item.

Trade receivables – which accounted for 1.4 % of total assets (2013: 1.8 %) – went down over the twelve-month period by €296 million. Adjusted for exchange rate factors, they decreased by 15.8 %.

At €7,688 million, cash and cash equivalents were almost identical to their level one year earlier (2013: €7,671 million).

The main increase on the equity and liabilities side of the balance sheet in percentage terms related to pension provisions (99.9 %). Increases were also recorded for non-current and current financial liabilities (9.4 % and 21.5 % respectively), equity (5.2 %), current and non-current other provisions (32.5 % and 11.5 % respectively) and current and non-current other liabilities (10.1 % and 18.7 % respectively). By contrast, current tax and deferred tax liabilities went down by 31.4 % and 19.7 % respectively.

Pension provisions jumped by €2,301 million to €4,604 million, mainly as a result of the lower discount factors used in Germany, the UK and the USA.

Current and non-current financial liabilities increased from €70,304 to €80,649 million over the twelve-month period. Within financial liabilities, derivative instruments went up from €1,103 million to €3,143 million, mostly reflecting the negative impact of currency and commodity derivatives. Additional increases within financial liabilities included ABS transactions (7.5 %), bonds (16.9 %) and liabilities to banks (34.5 %). By contrast, commercial paper decreased by 11.0 %. Adjusted for exchange rate factors, non-current and current financial liabilities increased by 5.0 % and 17.1 % respectively.

Group equity rose by €1,837 million to €37,437 million, increased primarily by the profit attributable to shareholders of BMW AG (€5,798 million) and currency translation differences (€764 million) and decreased mainly by remeasurements of the net defined benefit liability for pension plans (€2,298 million) mainly due to the lower discount rates used in Germany, the United Kingdom and the USA. Fair value measurement had a negative impact in the case of derivative financial instruments (€2,194 million) and a positive impact in the case of marketable securities (€40 million). Deferred taxes on items recognised directly in equity increased equity by €1,438 million.

Income and expenses relating to equity accounted investments and recognised directly in equity (before tax) reduced equity by €48 million.

The dividend payment decreased equity by €1,707 million. Minority interests increased by €29 million. A portion of the Authorised Capital 2014 created at the Annual General Meeting held on 14 May 2009 in conjunction with the Employee Share Programme was used during the financial year under report to issue shares of preferred stock to employees. An amount of €15 million was transferred to capital reserves in conjunction with this share capital increase.

The equity ratio of the BMW Group fell overall by 1.5 percentage points to 24.2 %. The equity ratio of the Automotive segment was 39.2 % (2013: 42.4 %) and that of the Financial Services segment was 8.8 % (2013: 9.1 %).

Other provisions increased from €7,240 million to €8,790 million during the year under report, mainly reflecting allocations to provisions for personnel-related expenses and ongoing operational expenses as well as the reclassification described in note 31.

The €711 million increase in current other liabilities was attributable to the expansion of service and leasing business and the related impact on amounts recognised as deferred income. In addition, value added tax payables were higher than at the end of the previous financial year as a result of the higher volume of vehicles sold.

Deferred tax liabilities fell by €485 million to €1,974 million as a result of lower fair values of derivative financial instruments recognised directly in equity, remeasurements of the net defined benefit liability for pension plans and currency factors. The €729 million decrease in current tax liabilities to €1,590 million was mainly attributable to a tax payment in the USA.

Overall, the results of operations, financial position and net assets position of the BMW Group continued to develop 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 subsection of the Combined Management Report.

Value added statement*
The value added statement shows the value of work performed less the value of work bought in by the BMW Group during the financial year. Depreciation and amortisation, cost of materials and other expenses are treated as bought-in costs in the 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 value added by the BMW Group in 2014 increased by 7.3 % to €20,620 million and was once again at a high level.

The bulk of the net value added (47.4 %) is again applied to employees. The proportion applied to providers of finance fell to 8.4 %, 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 16.0 %. The proportion of net value added applied to shareholders, at 9.2 %, 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 (18.9 %) will be retained in the Group to finance future operations.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

BMW Group value added statement

	2014 in € million	2014 in %	2013[1] in € million	2013[1] in %	Change in %
Work performed					
Revenues	**80,401**	**98.7**	76,059	98.3	
Financial income	**156**	**0.2**	464	0.6	
Other income	**877**	**1.1**	842	1.1	
Total output	**81,434**	**100.0**	**77,365**	**100.0**	**5.3**
Cost of materials[2]	**44,078**	**54.1**	42,681	55.2	
Other expenses	**9,012**	**11.1**	8,420	10.9	
Bought-in costs	**53,090**	**65.2**	**51,101**	**66.1**	**3.9**
Gross value added	**28,344**	**34.8**	**26,264**	**33.9**	**7.9**
Depreciation and amortisation	**7,724**	**9.5**	7,047	9.1	
Net value added	**20,620**	**25.3**	**19,217**	**24.8**	**7.3**
Applied to					
Employees	**9,764**	**47.4**	8,992	46.9	8.6
Providers of finance	**1,733**	**8.4**	1,813	9.4	–4.4
Government/public sector	**3,306**	**16.0**	3,083	16.0	7.2
Shareholders	**1,904**	**9.2**	1,707	8.9	11.5
Group	**3,894**	**18.9**	3,596	18.7	8.3
Minority interest	**19**	**0.1**	26	0.1	–26.9
Net value added	**20,620**	**100.0**	**19,217**	**100.0**	**7.3**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Cost of materials comprises all primary material costs incurred for vehicle production plus ancillary material costs (such as customs duties, insurance premiums and freight).

BMW Group value added 2014

in %

Net value added	25.3	Depreciation and amortisation	9.5
Cost of materials	54.1	Other expenses	11.1

Key performance figures

		2014	2013*
Group gross margin	%	**21.2**	20.1
Group EBITDA margin	%	**16.5**	15.4
Group EBIT margin	%	**11.3**	10.5
Group pre-tax return on sales	%	**10.8**	10.4
Group post-tax return on sales	%	**7.2**	7.0
Group pre-tax return on equity	%	**24.5**	25.8
Group post-tax return on equity	%	**16.3**	17.4
Group equity ratio	%	**24.2**	25.7
Automotive equity ratio	%	**39.2**	42.4
Financial Services equity ratio	%	**8.8**	9.1
Coverage of intangible assets, property, plant and equipment by equity (Group)	%	**158.1**	166.8
Return on capital employed			
Group	%	**20.8**	21.4
Automotive	%	**61.7**	63.0
Motorcycles	%	**21.8**	16.4
Return on equity			
Financial Services	%	**19.4**	20.0
Cash inflow from operating activities (Group)	€ million	**2,912**	4,127
Cash outflow from investing activities (Group)	€ million	**–6,116**	–7,491
Coverage of cash outflow from investing activities by cash inflow from operating activities (Group)	%	**47.6**	55.1
Free cash flow of Automotive segment	€ million	**3,481**	3,003
Net financial assets Automotive segment	€ million	**14,223**	12,085

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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

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

Differences between the accounting policies used in the BMW AG financial statements (prepared in accordance with HGB) and the BMW Group Financial Statements (prepared in accordance with IFRSs) arise primarily in connection with the accounting treatment of intangible assets, financial instruments, provisions and deferred taxes.

Business environment and review of operations

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

BMW AG develops, manufactures and sells cars and motorcycles as well as spare parts and accessories manufactured by itself, foreign subsidiaries and external suppliers. Sales activities are carried out through branches, subsidiaries, independent dealers and importers. In 2014, BMW AG was able to increase its sales volume by 170,869 units to 2,166,772 units. This figure includes 287,466 units relating to series sets supplied to the joint venture BMW Brilliance Automotive Ltd., Shenyang, an increase of 72,517 units over the previous year. At 31 December 2014, BMW AG had 80,675 employees, 3,565 more than one year earlier.

Results of operations, financial position and net assets

Revenues increased by 10.1 % compared to the previous year, driven principally by higher sales volume on the one hand and the positive impact of the model mix on the other. In geographical terms, most of the increase related to Europe and North America. Sales to Group entities accounted for €50.7 billion or 76.1 % of total revenues of €66.6 billion. Cost of sales developed roughly in line with revenues, as a result of which gross profit increased by €1,380 million to €14,787 million.

At €3,533 million, selling expenses were at a similar level to the previous year (2013: €3,528 million).

Administrative expenses were 5.5 % up on the previous year, mainly as a result of higher expenses for centralised IT activities and new IT projects.

Research and development expenses fell by 4.8 %, mainly reflecting the production start of various development-intensive vehicle projects in the previous year. Most of the expense incurred for research and development activities related to new vehicle models, drive systems and innovative technologies.

The decrease in net other operating income and expenses was attributable mainly to the higher net negative impact of realised exchange rate factors on the one hand and to higher allocations to provisions for commodity and currency hedging contracts on the other.

The financial result deteriorated year-on-year by €121 million, mainly due to the impairment loss (€196 million) recognised on the investment in SGL Carbon SE, Wiesbaden, which was written down to its lower market value at the end of the reporting period. Higher interest income and lower interest expenses had a positive impact.

The profit from ordinary activities increased from €3,963 million to €5,163 million.

The expense for income taxes relates primarily to current tax for the financial year 2014.

After deducting the expense for taxes, the Company reports a net profit of €3,229 million compared to €2,289 million in the previous year.

Capital expenditure on intangible assets and property, plant and equipment in the year under report amounted to €3,150 million (2013: €3,203 million). The main reason for this 1.7 % decrease was the acquisition of licences in the previous year. Product investments for production start-ups of new models increased year-on-year. Depreciation and amortisation amounted to €1,890 million (2013: €1,732 million).

The carrying amount of investments decreased from €3,377 million to €3,236 million, mainly as a result of an impairment loss recognised in 2014.

BMW AG Balance Sheet at 31 December

in € million

	2014	2013
Assets		
Intangible assets	**405**	474
Property, plant and equipment	**10,304**	8,982
Investments	**3,236**	3,377
Tangible, intangible and investment assets	**13,945**	**12,833**
Inventories	**3,859**	3,863
Trade receivables	**697**	659
Receivables from subsidiaries	**5,200**	4,871
Other receivables and other assets	**2,502**	3,194
Marketable securities	**3,572**	3,429
Cash and cash equivalents	**3,073**	3,757
Current assets	**18,903**	**19,773**
Prepayments	**265**	169
Surplus of pension and similar plan assets over liabilities	**1,123**	990
Total assets	**34,236**	**33,765**
Equity and liabilities		
Subscribed capital	**656**	656
Capital reserves	**2,084**	2,069
Revenue reserves	**7,422**	6,097
Unappropriated profit available for distribution	**1,904**	1,707
Equity	**12,066**	**10,529**
Registered profit-sharing certificates	**31**	32
Pension provisions	**12**	43
Other provisions	**7,308**	7,299
Provisions	**7,320**	**7,342**
Liabilities to banks	**1,864**	1,463
Trade payables	**4,784**	4,818
Liabilities to subsidiaries	**6,872**	8,795
Other liabilities	**216**	285
Liabilities	**13,736**	**15,361**
Deferred income	**1,083**	501
Total equity and liabilities	**34,236**	**33,765**

BMW AG Income Statement

in € million

	2014	2013
Revenues	**66,599**	60,474
Cost of sales	**–51,812**	–47,067
Gross profit	**14,787**	**13,407**
Selling expenses	**–3,533**	–3,528
Administrative expenses	**–2,259**	–2,141
Research and development expenses	**–4,152**	–4,362
Other operating income and expenses	**28**	542
Result on investments	**741**	373
Financial result	**–449**	–328
Profit from ordinary activities	**5,163**	**3,963**
Income taxes	**–1,884**	–1,629
Other taxes	**–50**	–45
Net profit	**3,229**	**2,289**
Transfer to revenue reserves	**–1,325**	–582
Unappropriated profit available for distribution	**1,904**	**1,707**

At €3,859 million, inventories were practically identical to the end of the previous year (2013: €3,863 million).

The decrease in other receivables and other assets to €2,502 million (2013: €3,194 million) was mainly attributable to the lower volume of genuine repurchase (repo) transactions in place at the end of the reporting period.

Liquidity within the BMW Group is managed centrally by BMW AG on the basis of a group-wide liquidity concept, which revolves around the strategy of concentrating a significant part of the Group's liquidity at the level of BMW AG. An important instrument used to achieve this aim is the cash pool headed by BMW AG. The liquidity position reported by BMW AG therefore reflects the global activities of BMW AG and other Group companies.

Cash and cash equivalents went down by €684 million to €3,073 million. This decrease mainly reflected the repayment of intragroup borrowings, as a result of which intragroup refinancing volumes also reduced significantly.

Equity rose by €1,537 million to €12,066 million, while the equity ratio improved from 31.2% to 35.2%.

In order to secure obligations resulting from pre-retirement part-time work arrangements and 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 €43 million to €12 million.

At €4,784 million, trade payables were at a similar level to the previous year (2013: €4,818 million).

Liabilities to banks increased in conjunction with a number of project-related loans.

Other liabilities fell from €285 million to €216 million, mainly as a result of the expiry of option contracts.

Deferred income went up by €582 million to €1,083 million, mainly reflecting the increased volume of services still to be performed for service and maintenance contracts in conjunction with multi-component business.

Risks and opportunities

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

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

Outlook

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

KPMG AG Wirtschaftsprüfungsgesellschaft, 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 2014 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.

Events after the end of the reporting period

No events have occurred since the end of the reporting period which could have a major impact on the results of operations, financial position and net assets of BMW AG or the BMW Group.

The report on outlook, risks and opportunities describes the expected development of the BMW Group, together with associated material risks and opportunities, from the perspective of Group management. The outlook covers a period of one year, in line with the Group's internal management system. By contrast, risks and opportunities are managed on the basis of a two-year assessment. The report on risks and opportunities therefore covers a period of two years.

The report on outlook, risks and opportunities contains forward-looking assertions based on the BMW Group's expectations and assessments, which are, by their nature, subject to uncertainty. As a result, actual outcomes, including those attributable to political and economic developments, could differ substantially – either positively or negatively – from the expectations described below. Further information can be found in the section "Report on risks and opportunities".

Outlook

Assumptions used in the outlook

The following outlook relates to a forward-looking period of one year and is based on the composition of the BMW Group during that period. The outlook takes account of all information known up to the date on which the financial statements are authorised for issue and which could have a material impact on the course of business of the BMW Group. The expectations contained in the outlook are based on the BMW Group's forecasts for 2015 and reflect the most recent status. The basis for the preparation of and the principal assumptions used in our forecasts, which take account of consensual opinions of leading organisations, such as economic research institutes and banks, are set out below. The BMW Group's forecast is drawn up on the basis of these assumptions.

Our continuous forecasting process ensures that the BMW Group is always ready to take advantage of opportunities as they arise and to react appropriately to unexpected risks. The principal risks and opportunities are described in detail in the section "Report on risks and opportunities". The risks and opportunities discussed in that section are relevant for all of the BMW Group's key performance indicators and could result in variances between the outlook and actual outcomes.

Economic outlook for 2015

For the purposes of the outlook, we assume that the global economy will continue its moderate upswing in 2015 and grow by 3.5%. Over-capacities and price bubbles on the Chinese property market remain significant risk factors. Various uncertainties prevail in Europe, in particular with respect to future developments in Greece as well as in Russia and neighbouring countries. In addition, an interest rate turnaround is likely to take place in the USA. The global economy could also be negatively impacted by high public debt levels in Europe, the USA and Japan, as well as political developments in the Middle East and East Asia. More detailed information on these matters can be found in the section "Political and global economic risks" in the risk report.

It seems likely that the upswing in the eurozone will continue in 2015, albeit at a low level, based on an expected growth rate of 1.1%. Europe's largest economy, Germany, is forecast to grow by approximately 1.4%. France is likely to see an increase of around 0.9%. Italy should come out of recession in 2015 with a positive growth rate of 0.4%. The upswing in Spain seems set to continue with growth edging up to 2.0%. The United Kingdom's economy is likely to remain strong and grow by a further 2.7% in 2015.

Despite the anticipated interest rate turnaround in the USA, we expect growth to remain at its current high level. A growth rate of 3.2% is forecast for 2015, reflecting the expectation that the boom on the employment and property markets will remain intact.

In view of the negative impact on Japan's economy caused by the value added tax hike in 2014, the Japanese government has decided to postpone the second step – originally envisaged for 2015 – until 2017. Under these circumstances, we forecast a growth rate of 1.0% for the year 2015.

Economic growth in China is likely to slow down again slightly in 2015 to a rate of 7.0%. The prerequisite for this forecast is that price falls on the property market do not have any lasting adverse impact on the macroeconomic trend.

The Indian economy seems to be recovering now that the presidential elections are over and should grow by 6.2% in 2015. The recovery in Brazil is only likely to be a very modest 0.5%. Russia is being negatively impacted in particular by lower oil prices and economic sanctions imposed in the wake of the unresolved Ukraine conflict. Forecasts, which are currently being adjusted further downwards, indicate a 4.1% drop in Russian GDP.

Currency markets

Currencies which have the greatest impact on the BMW Group's international business, such as the US dollar, but also the Chinese renminbi, the British pound and the Japanese yen, could well be subject to a significant degree of fluctuation again in 2015.

The expected interest rate turnaround in the USA, low inflation in Europe and the fragile state of Europe's economy, suggest that the US dollar will again tend to perform strongly against the euro in 2015.

The Chinese renminbi is likely to remain relatively closely coupled with the US dollar over the coming year. In the long term, however, it seems likely that volatility will increase, following the announcement that capital markets in China are to be liberalised.

The Japanese yen, which has lost significant ground against the euro since mid-2012, is not expected to see a rapid recovery, given that the Japanese central bank is unlikely to change its monetary and exchange rate policies in the near future.

The current healthy state of the UK economy and the expected turnaround in interest rates that the Bank of England is likely to set in motion could well strengthen the British pound somewhat in the short and medium term.

The currencies of many emerging economies are expected to remain under pressure against the US dollar in the foreseeable future, due to the normalisation of US monetary policies, which is likely to get under way in 2015. Countries with current account and fiscal deficits are most likely to be affected. Due to the expansionary monetary policies of the ECB, emerging market currencies will tend to gain in value against the euro. The rouble will remain on the weak side until political tensions have eased.

Car markets
We expect global car markets to grow in the current year by approximately 3.0 % to 83.1 million units. The US market is forecast to grow by around 2.9 % to 17.0 million units. Our prediction for passenger car registrations in China is a rise of around 10.0 % to 20.3 million units.

The majority of Europe's car markets should continue to recover in 2015. The region's core markets, however, are only likely to see growth on a modest scale. The number of new registrations in Germany, for instance, is forecast to rise by 2.1 % to 3.1 million. The French market is expected to grow by 6.7 % to 1.9 million units, the Italian market by 2.1 % to 1.4 million units. The economic upturn in Spain should maintain momentum and result in a further steep rise in car sales in the current year (0.95 million units; +11.3 %). The UK car market is likely to remain flat in 2015, with registrations down marginally by 0.5 % to approximately 2.5 million units.

Car registrations in Japan are forecast to be in the region of 4.8 million units and hence about 10.0 % lower than in the previous year.

In the case of car markets in major emerging economies, we predict some highly divergent developments. Due to the prevailing economic and political situation, Russia is expected to see a further 21.8 % drop to 1.8 million units. The Brazilian car market is also likely to contract slightly again in 2015 by approximately 2.0 % to 3.3 million units.

Motorcycle markets in 2015
The markets for 500 cc plus motorcycles are again likely to continue their upward trend in 2015, albeit on a modest scale. Registrations are expected to rise slightly across Europe, including increases on a similar scale for the major motorcycle markets in Germany, Italy and France. The USA is also likely to see a continuation of the positive trend.

Financial Services sector in 2015
The normalisation of monetary policies in the USA is expected to continue throughout the coming year. The first steps in the direction of a slight rise in interest rates might be taken in summer 2015. The current debt situation, however, precludes any rapid interest rate increases in the USA. In Europe, by contrast, the ECB will proceed with the plans it has already announced for a large scale bond-buying programme as inflation remains low in the first half of 2015. A weakly performing economy and a low inflation rate will maintain the pressure on the Bank of Japan to intervene. We therefore expect it to retain its expansionary monetary policies and continue to buy government bonds. Reference interest rates in the eurozone and Japan are therefore set to remain at historically low levels at least until the end of 2015.

We expect the pattern of credit risks worldwide to remain more or less stable during the current year.

Stable conditions are also predicted for used car markets in Asia and Europe in 2015, while price levels in North America are, at the most, only likely to fall slightly.

Expected impact on the BMW Group in 2015

Future developments on international automobile markets also have a direct impact on the BMW Group. While competition is likely to intensify in contracting markets, new opportunities are opening in growth regions. In some countries, sales volumes will be influenced to a great extent by the way we tackle new competitive challenges. After the uncertainties that have dominated recent years, we expect Europe to generate some positive momentum again, albeit on a slight scale. North America and China are likely to see a continuation of the positive trend in 2015. In contrast, the situation on the Russian car market can be expected to remain tense over the forecast period.

As an enterprise with global operations, the BMW Group is ideally placed to exploit opportunities that arise and thus compensate for unfavourable developments in other regions. Thanks to its strong brands, we forecast continued profitable growth for the BMW Group in the current year. We will push ahead with investments in innovation, future technologies and the further internationalisation of our production network in 2015. As a manufacturer of premium vehicles, we will continue to profit from strong worldwide demand in this segment. Given all these factors, we forecast that the BMW Group will remain the world's leading premium manufacturer in 2015.

Our highly flexible international production network enables us to compensate for even substantial fluctuations in demand. Investing in major growth markets provides the basis for the continued success of the BMW Group. We attach great importance to ensuring that the global distribution of our sales remains balanced, while simultaneously expanding the global presence of the BMW Group.

Outlook for the BMW Group in 2015

The BMW Group in 2015

Profit before tax: solid increase expected

The BMW Group will remain on course in 2015 and forecasts a solid increase in Group profit before tax compared to the preceding year (2014: €8,707 million). However, the scale of the increase during the forecast period is likely to be held down by intense competition on car markets, rising personnel costs, continued high levels of upfront expenditure to safeguard business viability going forward and future challenges arising in the wake of the normalisation of the Chinese market. A number of risks will also have to be faced, including the precarious state of the Russian market and macroeconomic uncertainties in Europe (see the section "Political and global economic risks" in the risk report). We expect our attractive model range to generate positive momentum, which will help us achieve our target of balanced growth on all major markets.

Workforce at year-end: solid increase expected

The BMW Group will continue to recruit staff in 2015 and, based on our latest forecasts, we expect a solid increase in the size of the workforce (2014: 116,324 employees), driven by car and motorcycle sales growth and the rapid pace of innovation.

Automotive segment in 2015

Deliveries to customers: solid increase expected

We expect the pace of growth in the Automotive segment to remain high in 2015. Assuming economic conditions continue to be stable, we predict a solid rise in deliveries to customers (2014: 2,117,965 units) to achieve a new high level, which will, in all probability, enable the BMW Group to maintain its position as the world's foremost premium car manufacturer in 2015.

Attractive new models and dynamic market conditions, particularly in North America, should have a positive impact on car sales. After some negative developments in recent years, the European car markets are expected to recover slightly overall. Nevertheless, the market environment is likely to remain challenging.

The new 2 Series Convertible was added to the BMW 2 Series with effect from the end of February. Its predecessor, the 1 Series Convertible, achieved worldwide sales of more than 130,000 units and was therefore the undisputed leader in its class.

In April, the four-wheel drive BMW X5 M and X6 M will come onto the market. These high-performance models combine the characteristic features of the successful BMW X family – exclusivity, robustness, agility and everyday usability – with the commitment to high performance that defines an M car.

The new facelift of the BMW 1 Series, unveiled at the Geneva Motor Show, will provide additional sales momentum. With a fully revamped engine range and additional features that reduce fuel consumption and emissions, the new BMW 1 Series will again be playing a pioneering role in the introduction of newly developed BMW EfficientDynamics technologies. The seven-seater BMW 2 Series Gran Tourer also made its world debut in Geneva, heralding the BMW Group's entry into a new vehicle segment. With its generous interior spaciousness, versatility and flexibility, the BMW 2 Series Gran Tourer is the first BMW to be launched in the multi-purpose vehicle segment.

The BMW 6 Series Coupé, Gran Coupé and Convertible model upgrades were presented in January and will come onto the market in spring 2015. The new 6 Series satisfies the most exacting requirements for luxury-segment sporting vehicles in terms of dynamic driving performance, comfort, technology and elegance.

The highly efficient BMW X5 xDrive40e comes onto the market in 2015. It is the first BMW brand Sports Activity Vehicle to combine the intelligent BMW xDrive all-wheel drive system with a more advanced plug-in hybrid system, and represents a further important step in the transfer of innovative drivetrain systems from BMW i models to the BMW Group's core brand.

Preparations for the new BMW 7 Series are already under way at the Dingolfing plant. Intelligent composite construction in the new BMW 7 Series and the implementation of carbon fibre (CFRP) technology will set new standards in the market.

We also expect the MINI brand to generate new sales momentum in 2015, driven, among other factors, by the low average age of its model range (2.5 years). The new MINI Clubman will be presented in 2015 and will excel with a wide range of high-value details, plenty of room for functionality and outstanding materials.

The Araquari plant in Brazil commenced production of BMW brand vehicles in autumn 2014. The completion of the new production site is scheduled for 2015. The plant will have a planned annual capacity of up to 30,000 units. The BMW Group is also increasing production capacities in the USA. After the expansion of the Spartanburg plant has been completed, up to 450,000 vehicles per year will roll off the production lines as from the end of 2016.

Carbon fleet emissions*: slight decrease expected

Regulations for vehicle carbon emissions are becoming continually stricter worldwide. The BMW Group committed itself at an early stage to meeting future legal requirements with the aid of its innovative Efficient Dynamics technology package. The increasing scope of electrification in our vehicle fleet is enabling us to play a pioneering role in reducing both carbon emissions and fuel consumption. At the same time, our vehicles also set standards in terms of sporting flair and dynamic driving pleasure.

We will continue to work hard in the current year to reduce carbon emissions across the entire fleet. Overall, we expect fleet emissions to decrease slightly in 2015 (2014: 130 grams CO_2/km).

Revenues: solid increase expected

The generally positive business trend predicted for the BMW Group is also expected to have a positive impact on Automotive segment revenues. Accordingly, we forecast solid revenue growth for the forecast period (2014: € 75,173 million).

EBIT margin in target range between 8 and 10 % expected

An EBIT margin within a range of between 8 and 10 % (2014: 9.6 %) remains the target for the Automotive segment.

We expect to see a moderate drop in segment RoCE (2014: 61.7 %). However, the long-term target RoCE of at least 26 % for the Automotive segment will be clearly surpassed.

Motorcycles segment in 2015

Deliveries to customers: solid increase expected

We expect the Motorcycles segment's upward trend to continue, helped by a positive contribution from the new models – R 1200 R, R 1200 RS, S 1000 RR, S 1000 XR and F 800 R – presented at the autumn trade fairs. Within a positive market environment, we forecast a solid increase in BMW motorcycle sales in the forecast period (2014: 123,495 units).

* EU-28.

Return on capital employed in line with last year's level expected

We expect the impetus provided by the new models will help keep segment RoCE in line with last year's level (2014: 21.8 %).

Financial Services segment in 2015

Return on equity in line with last year's level expected

Based on our assessment, the Financial Services segment will continue to perform well in 2015. Despite rising equity capital requirements worldwide, we forecast RoE in line with last year's level (2014: 19.4 %), thus remaining ahead of the target of at least 18 %.

Overall assessment by Group management for 2015

We forecast a continuation of the upward trend in 2015 and expect to achieve profitable growth on the back of a range of factors, including the introduction of new models. Despite the aforementioned challenges, Group profit before tax is forecast to achieve a solid increase, thus reflecting the solid growth in sales volume and revenues anticipated by the Automotive segment. At the same time, we expect a slight decrease in carbon emissions from our fleet of vehicles. We aim to achieve profitable growth through a solid increase in the size of the workforce across the Group. The Automotive segment's EBIT margin will remain within the target range of between 8 and 10 %. Based on the planned level of capital expenditure, we expect a moderate decrease in the Automobile segment's RoCE. The Financial Services segment's RoE should remain in line with last year's level. Both performance indicators will be nevertheless higher than their long-term targets of 26 % and 18 % respectively. For the Motorcycles segment, we forecast a solid increase in sales volume and RoCE in line with last year's level. Depending on the political and economic situation and the outcome of the risks and opportunities described below, actual business performance could, however, differ from our current expectations.

Principal performance indicators

		2014	2015 Outlook
BMW Group			
Workforce at end of year		**116,324**	solid increase
Profit before tax	€ million	**8,707**	solid increase
Automotive segment			
Sales volume[1]	units	**2,117,965**	solid increase
Fleet emissions[2]	g CO_2/km	**130**	slight decrease
Revenues	€ million	**75,173**	solid increase
EBIT margin	%	**9.6**	unchanged between 8 and 10
Return on capital employed	%	**61.7**	moderate decrease
Motorcycles segment			
Sales volume	units	**123,495**	solid increase
Return on capital employed	%	**21.8**	in line with last year's level
Financial Services segment			
Return on equity	%	**19.4**	in line with last year's level

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2014: 275,891 units).
[2] EU-28.

As a world-leading manufacturer of premium cars and motorcycles and provider of premium financing and mobility services, the BMW Group is exposed to numerous uncertainties and changes. Making full use of the opportunities that present themselves is the basis for its corporate success. In order to achieve growth, profitability, efficiency and sustainable levels of business in the future, the BMW Group consciously takes certain risks.

The prudent management of opportunities and risks is a fundamental prerequisite for the ability to react appropriately to changes in political, legal, technical or economic conditions. Identified opportunities and risks are addressed in the Outlook Report if they are likely to materialise. The following sections focus on potential future developments or events, which could result in a positive variance (opportunities) or a negative variance (risks) in the BMW Group's outlook. The potential impact of risks and opportunities is always presented separately and without offset.

Risks and opportunities are assessed as a general rule over a medium-term period of two years. All potential risks of losses (individual and accumulated risks) are monitored and managed from a risk management perspective. As a matter of principle, risks that pose a going-concern threat are avoided. If there is no specific reference to a segment, opportunities and risks relate to the Automotive segment.

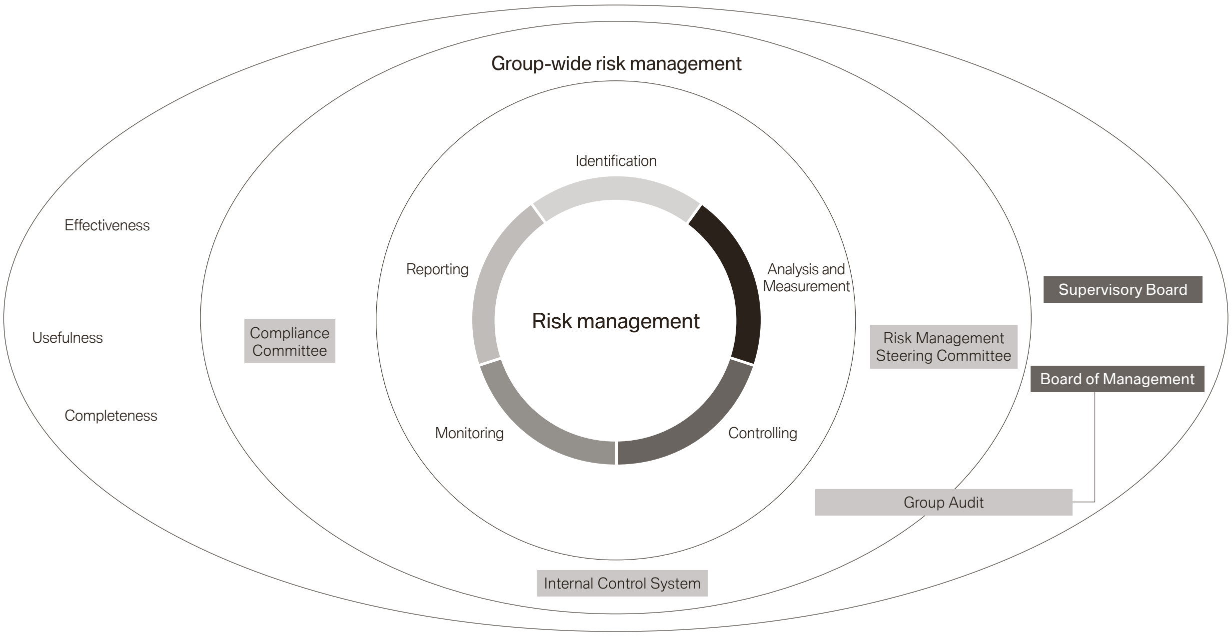
The scope of entities covered by the report on risks and opportunities corresponds to the scope of consolidated entities included in the BMW Group Financial Statements.

Risk management system

The objective of the risk management system and one of the key functions of risk reporting is to identify, record and actively manage internal and external risks which pose a threat to the attainment of corporate targets. The risk management system covers all significant risks to the Group, or those which could pose a threat to its going-concern status. With regard to the structure of the risk management system, the responsibility for risk reporting lies with each individual member of staff and manager – in their various roles – and not with that of any centralised unit in particular. Each and every employee and manager is required to report risks via the available reporting channels. This requirement is set out in guidelines that apply throughout the Group.

The Group risk management system comprises a decentralised network covering all parts of the business, which is steered by a centralised risk management function. Each of the BMW Group's areas of responsibility is represented within the risk management network by so-called network representatives. The network's formal organisational structure helps to strengthen its visibility and underline the importance attached to risk

Risk management in the BMW Group



management within the BMW Group. The duties, responsibilities, and tasks of the centralised risk management unit and network representatives are clearly described, documented and acted on. Group risk management is geared towards meeting the following three criteria: effectiveness, usefulness and completeness. In view of the dynamic growth of business in recent years, in-house thresholds and rules in place for risk reporting purposes were reviewed in 2014 for effectiveness and usefulness and modified as seen appropriate. In addition, the design of the BMW Group's risk management network was reviewed on the basis of the framework of the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission (COSO). This review was carried out in conjunction with the Compliance Committee, Group Internal Audit, Internal Control System and overall Group risk management functions. Appropriate measures are in place to ensure that these functions are coordinated seamlessly.

Risk management process

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

Risks reported to the centralised risk management team from within the network are firstly presented for review to the Risk Management Steering Committee, for which Group Controlling is responsible. After review, the risks are reported to the Board of Management and to the Supervisory Board. Significant and going-concern-related risks are classified on the basis of the potential scale of impact on the Group's results of operations, financial position and net assets. The level of risk is quantified, taking into account the probability of occurrence and risk mitigation measures.

The risk management system is tested regularly by Internal Audit. By sharing experiences with other companies on an ongoing basis, the BMW Group ensures that new insights are incorporated in the risk management system, thus ensuring continual improvement. Regular basic and further training as well as information events held throughout the BMW Group, and in particular within the risk management network, are invaluable ways of preparing people for new or additional challenges with regard to the processes in which they are involved.

As a supplement to comprehensive risk management, managing the business on a sustainable basis also represents one of the Group's core corporate principles. Any risks or opportunities related to sustainability issues are discussed by the 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. Risk aspects discussed at this level are integrated in the work of the group-wide risk network. The composition of the Risk Management Steering Committee on the one hand and the Sustainability Committee on the other ensures that risk and sustainability management are closely coordinated.

Risk measurement

In order to determine which risks can be considered significant in relation to results of operations, financial position and net assets and to identify changes in key performance indicators used by the BMW Group, risks are classified as high, medium or low.

The overall impact on results of operations based on the assumption that the risk will materialise is measured for the two-year assessment period and allocated to the following categories:

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

The significance of risks for the BMW Group is determined on the basis of risk amounts. The measurement of the amount of a risk takes account of both its impact (net of appropriate countermeasures) and the likelihood of occurrence in each case. The amount of a risk is approximated in the case of risks measured on the basis of value-at-risk/cash-flow-at-risk models. In this situation, the following assessment criteria are applied:

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

Opportunities management system and identification of opportunities

New opportunities regularly present themselves in the dynamic business environment in which the BMW Group operates. General economic trends and sector-specific factors – including external regulations, suppliers, customers and competitors – are monitored continuously. Identifying opportunities is an integral part of the process of developing strategies and drawing up forecasts for the BMW Group.

Market, competition and scenario analyses are conducted and evaluated and forecasts are drawn up as part of the process of identifying opportunities. The Group's product and service portfolio is permanently reviewed in the light of these analyses and, as appropriate, new product projects are presented to the Board of Management for consideration.

The continuous optimisation of important business processes and strict cost control are essential to ensure good profitability and a high return on capital employed. The forecast is drawn up on the assumption that profitability improvement measures will be implemented. One example is the implementation of modular-based production and common architectures, which enable a greater commonality of features between different models and product lines. This, in turn, contributes to improved profitability by reducing development costs and investment on the series development of new vehicles. The new approach has a positive impact on production costs and helps increase production flexibility. A more competitive cost basis opens up opportunities to engage in new market segments.

The implementation of identified opportunities is undertaken on a decentralised basis. The significance of opportunities for the BMW Group is classified in the categories "material" or "not material".

Risks and opportunities

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

Neither at the balance sheet date nor at the date on which the Group Financial Statements were authorised for issue were any risks identified which could pose a threat to the going-concern status of the BMW Group.

Risks and opportunities	Risk amount	Change compared to prior year
Political and global economic risks and opportunities	High	Stable
Strategic and sector risks and opportunities	Medium	Increased
Risks and opportunities relating to operations		
Production and technology	Medium	Stable
Purchasing	High	Stable
Sales and marketing	High	Stable
Pension obligations	High	Stable
Information, data protection and IT	Medium	Stable
Financial risks and opportunities		
Foreign currencies	High	Stable
Raw materials	High	Stable
Liquidity	Low	Stable
Risks and opportunities relating to the provision of financial services		
Credit risk	High	Stable
Residual value	High	Stable
Interest rate changes	Medium	Stable
Liquidity/operational risks	Medium	Stable
Legal risks	Low	Stable

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

Political and global economic risks and opportunities

As one of the world's leading providers of premium products and services, the BMW Group faces a variety of major challenges. The world is changing at great speed. Resulting situations can give rise to risks on the one hand and opportunities on the other.

Political and global economic risks

Individual mobility remains a key issue in a great many countries, in terms of political regulation and national industrial policymaking. Changing values in society are constantly calling for new solutions in the field of mobility. Unpredictable disturbances in economic interdependencies, together with ever-greater competition, may give rise to knock-on reactions that are practically impossible to measure.

The current high level of volatility prevailing in many economies continues to have an unsettling impact on markets and consumers. Many emerging economies are currently performing below their full potential. The eurozone is still having to cope with a range of structural problems, such as those evident in Greece.

The slowing of economic growth in China, one of the BMW Group's principal markets, also continues to pose a major risk. Upheavals in the property or banking sector in this region could result in reduced demand for our products and services.

Any escalation of political conflicts (such as in Russia), terrorist activities, natural disasters or possible pandemics could have a negative impact on the world economy and international capital markets. The BMW Group counters these risks primarily by internationalising its sales and production structures, in order to reduce the potential impact of risk exposures in individual countries. Political and global economic risks are determined by analysing historical data and applying a cash-flow-at-risk approach.

If risks from this category were to materialise, they could – due to sales volume fluctuations – have a high impact on results of operations over the two-year assessment period. Overall, the risk amounts attached to political and global economic risks are classified as high.

Political and global economic opportunities

Despite the high level of risk involved, the BMW Group sees an opportunity for above-average growth in the Chinese market. In addition to the impact from economic developments, the BMW Group's earnings can also be positively affected in the short to medium term by changes in the legal environment. A possible reduction in tariff barriers, import restrictions or direct excise duties could lower the cost of materials for the BMW Group, also enabling products and services to be offered to customers at lower prices. Another factor to consider is that regulatory support for forward-looking technologies, such as electromobility, help to make the total cost of ownership more attractive for customers in the form of incentives. Developments of this kind open up opportunities to achieve faster market penetration for these technologies, which could, in turn, lead to higher sales volumes and, all other things being equal, result in an improved quality of earnings. Changes in the legal environment are monitored continuously at a centralised level. At present, however, the BMW Group does not see any significant political and/or global economic opportunities, which could have a positive sustainable impact on its earnings performance.

Strategic and sector risks and opportunities

New regulations and the development of fuel and energy prices also influence various aspects of our business, including customer behaviour. Medium- and long-term targets have already been put in place in Europe, North America, Japan, China and other countries to minimise fuel consumption and CO_2 emissions.

Strategic and sector risks

One of the main risks for the automobile industry is the possible threat of short-term tightening of laws and regulations, including local registration restrictions. 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 entail actually owning a vehicle, the BMW Group is offering corresponding mobility services, such as the DriveNow car-sharing model.

With its Efficient Dynamics concept, the BMW Group is playing a pioneering role in the premium segment in reducing both fuel consumption and emissions. With effect from 2013, our range of products was expanded to include electric powertrains in BMW i series vehicles. These innovations also make an important contribution in our endeavours to fulfil statutory rules and requirements in terms of CO_2 emissions. 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, both now and in the future.

Employees make a vital contribution to sustainable growth and improved profitability through their innovative skills. One prerequisite for this is a consistent strategic approach to the management of human resources, even in the event of changes in the legal framework. The BMW Group has appropriate measures in place for such eventualities. Risk amounts and earnings impact are measured on the basis of extensive scenario analyses.

If risks from the strategic and sector category were to materialise, they could have a medium impact on results of operations over the two-year assessment period. The amounts of risk attached to strategic and sector-specific risks are classified as medium.

Strategic and sector opportunities

Additions to the product and mobility portfolio and expansion in growth regions are seen as the most important opportunities for growth in the medium to long term for the BMW Group.

Remaining on growth course depends above all else on the ability to develop innovative products and bring them to market. The launching of the BMW i brand opens up new customer target groups for the BMW Group and consolidates the position of BMW as a sustainable and forward-looking brand. BMW i products can be seen as "empowerment projects" for new technologies and processes, which will also benefit other vehicle concepts. The existing product portfolio has been expanded by the addition of mobility services such as DriveNow, ChargeNow and ParkNow. The general acceptance of, and sales volumes generated with, planned future product innovations could be better than predicted in the outlook. In the short term, however, any potential positive impact is classified as not material.

The long-term trend towards greater sustainability provides opportunities to boost sales of sustainable products and, under the right circumstances, achieve better selling prices. Innovations – such as the BMW i3 and i8 in the field of electromobility or Efficient Dynamics across the entire BMW Group product portfolio – provide excellent platforms for future growth. Potential is also seen by engaging in new product and market categories and by developing new customer target groups. New business models and cooperation arrangements with the BMW Group's growing network of business partners often provide the best means to take advantage of these opportunities. Good examples of this are the implementation of the 360°ELECTRIC portfolio in the field of electromobility, the partnership with SIXT in the field of mobility services and collaboration with Toyota on a hydrogen fuel cell system.

The BMW Group is constantly refining the tools it uses to recruit employees, encourage career development and bind employees to the enterprise. Within this environment, employees find the optimal situation in which to develop their skills. If these measures generate greater benefits than currently expected, the BMW Group's revenues, results of operations and cash flows could be positively impacted and forecasted figures surpassed. Creating a successful performance culture and the development of the expertise and skill sets of both staff and managers alike throughout the organisation could also have a positive impact on revenue and profitability.

Given the long lead times involved, the BMW Group's earnings performance is unlikely to benefit over the assessment period from efficiency improvements or from the implementation of product and process developments to a significantly greater extent than that already incorporated in the outlook.

Risks and opportunities relating to operations

Production and technology-related risks

Production stoppages and downtimes – in particular due to fire, but also those attributable to manufacturing equipment breakdowns, logistical disruptions or new vehicle production line start-ups – represent risks which the BMW Group counters with a broad range of appropriate measures. Production structures and processes are designed from the outset with a view to reducing potential damage and the probability of occurrence. In addition to technical fire protection measures, the BMW Group has implemented an array of strategies, including preventative maintenance, land development measures including contingencies against flooding, spare parts management on a multi-site basis and backup plans for alternative transportation. The level of risk is also reduced by the deployment of flexible work-schedule models and employee time accounts, but also by the ability to build specific models at additional sites if necessary. Moreover, risks arising from business interruption and loss of production as a consequence of fire are also insured up to economically reasonable levels with insurance companies of good credit standing.

If risks from the production and technology-related risks category were to materialise, they could have a high impact on the results of operations over the two-year assessment period. The level of risk attached to prouction and technology-related issues is classified as medium.

Production and technology-related opportunities

In addition to the risks involved, we firmly believe that the choice of sites for new production facilities also creates a wealth of opportunities. Selecting a new location goes hand in glove with the opportunity to shape the local environment in a positive way (e.g. job creation, training, corporate social responsibility (CSR) projects). Our aim is to continue our commitment to sustainability whenever a new site is selected. We therefore endeavour to incorporate flagship projects at our production sites that have a clear focus on sustainability (e.g. wind turbines in Leipzig). The option of offsetting capacities between BMW Group sites is always kept in mind if production technologies can be employed to achieve greater efficiency in the use of resources.

Compared to the outlook, efficiency improvements are unlikely to have a significantly greater impact over the two-year assessment period than that already incorporated in the outlook.

Purchasing risks

Close cooperation between carmakers and automotive suppliers creates economic benefits on the one hand, but also raises levels of dependency on the other. The increasing trend towards modular-based production with a set of common architectures covering various models and product lines exacerbates the consequences of the loss of a supplier or failure to supply on time.
As part of the supplier preselection process, the BMW Group is careful to ensure that its future business partners meet the same high ecological, social and corporate governance standards by which the BMW Group is generally measured. Suppliers are assessed on the basis of the BMW Group Sustainability Standard, which is applied throughout our supplier network worldwide. This set of fundamental principles and standards covers both production and non-production aspects relevant for the goods and services provided by suppliers, which also includes compliance with internationally recognised human rights and applicable labour and social standards. The principal tool for ensuring compliance with the BMW Group Sustainability Standard is a three-stage sustainability and risk management approach comprising a BMW Group-specific sustainability risk filter, a sustainability questionnaire and a sustainability audit. In addition, the technical and financial capabilities of suppliers – especially those supplying for modular-based production – are continuously monitored during both the development and production phases of the Group's vehicles. Particular attention is paid to the quality of the parts. In order to attain the level of quality required, it may become necessary to invest in new technological concepts or discontinue planned innovations, with the consequence that the cost of materials could exceed levels incorporated in the outlook. Supplier sites are assessed for exposure to natural hazards, such as floods or earthquakes, in order to identify supply risks at an early stage and implement appropriate countermeasures. Production problems incurred by suppliers could have adverse consequences for the BMW Group, ranging from increased expenditure through to production interruptions and a corresponding reduction in sales volume.

Raw materials management procedures are in place to mitigate the risk of a production interruption due to shortages of supplies of critical raw materials. In order to reduce supply risks, the BMW Group works hard to reduce the input of raw materials or to use alternative raw materials as a substitute.

If purchasing risks were to materialise, they could have a high impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to supply risks is classified as high, mainly due to the insufficient availability of raw materials in Asia.

Risks relating to sales and marketing

Changes in global economic conditions and increasingly protectionist trends are among the factors that could result in lower demand as well as fluctuations in the regional spread and composition of sales in terms of vehicles and mobility services. Risks relating to these developments can be reduced with the aid of flexible selling and production processes. At the same time, increased pressure on selling prices and margins caused by intense competition on the world's markets, particularly in Western Europe, the USA and China, requires constant analysis, including keeping an eye on developments in grey market volumes from the USA to China. Selling price and margin risks are determined on the basis of past experience and changing global economic conditions, with risk exposures measured using a cash-flow-at-risk model.

If sales and marketing risks were to materialise, they could have a high impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to sales and marketing risks is classified as high.

Opportunities relating to sales and marketing

Opportunities may arise due to other technical innovations relating to products and processes and as a result of organisational changes. In the field of lightweight construction, for example, carbon was being put to use in high volumes for the first time in the automobile industry in the construction of the BMW i3.

Since carbon could also be used in other vehicle projects, we see further competitive advantages in terms of fuel consumption and driving dynamics, which could, in turn, have a positive impact on sales volume growth. The opportunities will not have a material impact over the assessment period on the results of operations of the BMW Group.

The BMW Group focuses its selling capacities primarily on markets with the greatest sales volume and revenue potential and fastest growth rates. Investment in existing and new marketing concepts is firmly aimed at intensifying relationships with customers. A good example is the new marketing concept for BMW i products and services, which will be offered in selected markets in the future via an innovative multi-channel model. There will be no relaxing of efforts in the active search for new opportunities to create even greater added value for customers than currently expected, whilst at the same time looking for ways to boost sales volumes and achieve better selling prices. Developments in the field of digital communication and networking are also opening up opportunities for marketing the BMW Group's various brands. Consumers can meanwhile be reached on a more targeted and individual basis, thus helping to strengthen long-term relationships and brand loyalty. The BMW Group keeps track of the latest developments and trends in communication technology, including the use of social media and networks, in order to extend customer reach for its brands. Automotive-related business activities of technology companies are also closely followed (autonomous driving). The BMW Group's brands are present on numerous platforms, such as Facebook, YouTube and Twitter. Thanks to its intensive efforts in this area, the BMW Group is registering faster growth rates on the various platforms than its competitors, measured in terms of the number of fans and visits. The decisive advantage of digital communication is that the brands are able to engage in a direct dialogue with customers and thus create a more intense product and brand experience.

The BMW Group considers that these opportunities will not have a material impact on the results of operations over the two-year assessment period compared to the assumptions made in the outlook.

Risks relating to pension obligations

The BMW Group's pension obligations to its employees resulting from defined benefit 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 therefore influence the level of pension obligations. Changes in other parameters, such as rises in inflation and longer life expectancy, also impact pension obligations and payments. Opportunities and risks arise depending on the nature and scale of changes in these parameters.

Most of the BMW Group's pension obligations are administered in external pension funds or trust arrangements and the related assets are kept separate from Company assets. The amount of funds required to finance pension payments out of operations in the future is therefore substantially reduced, since most of the Group's pension obligations are settled out of pension fund assets. The pension assets of the BMW Group comprise interest-bearing securities, equities, real estate and other investment classes. Pension fund assets are monitored continuously and managed on a risk-and-yield basis. A broad spread of investments also helps to reduce risk. In order to reduce fluctuations in pension funding shortfalls, investments are structured to coincide with the timing of pension payments and the expected pattern of pension obligations. Remeasurements on the obligations and fund asset sides are recognised, net of deferred taxes, in "Other comprehensive income" and hence directly in equity (within revenue reserves).

If risks relating to pension obligations were to materialise, they could have a high impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to risks relating to pension obligations is classified as high.

Opportunities relating to pension obligations

Within a favourable capital market environment, the return generated by pension assets may exceed expectations and reduce the deficit of the relevant pension plans. This, in turn, could have a materially favourable impact on the net assets position and earnings performance of the BMW Group.

Further information on risks in conjunction with pension provisions is provided in note 36 to the Group Financial Statements.

Information, data protection and IT risks

The importance of electronically processed data continues to rise, with information technology (IT) playing an increasingly crucial role in every aspect of the business. These developments create opportunities on the one hand, whilst also posing a source of risk on the other.

The BMW Group could incur damage if the confidentiality, integrity and/or availability of sensitive information and data are not maintained. Great importance is attached to the protection of business information and of employee and customer data against unauthorised access and/or misuse. Data security, based on International Security Standard ISO/IEC 27001, is an integral component of all business processes. Personal data is protected in accordance with the stringent requirements of the EU Data Protection Directive and the Federal Data Protection Act (Bundesdatenschutzgesetz – BDSG).

All employees are required to treat confidential information (such as customer and employee data) in an appropriate manner, ensure that information systems are properly used and that risks are handled with the utmost transparency. Uniform requirements, documented in a coordinated and comprehensive set of principles, guidelines and work instructions, are applicable groupwide. Regular communication and sensitisation-raising activities create a high degree of security and risk awareness among the employees involved. Employees receive training to ensure compliance with applicable requirements and in-house rules.

Risk management procedures include systematic documentation of all information/data protection and IT risks, regular monitoring and the implementation of appropriate measures by the departments responsible. Technical data protection procedures include virus scanners, firewall systems, access controls at both operating system and application level, regular data backups and data encryption. Regular analyses and controls (including the testing of data protection requirements) and rigorous security management ensure a high level of security.

Responsibility for data protection in each Group entity lies with the Board of Management (of BMW AG) or the relevant company management team. Local Data Privacy Protection Officers are embedded in each of the Group's entities. In the case of cooperation arrangements and business partner relationships, the BMW Group protects its 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 pertaining to key areas of expertise as well as sensitive personal data are subject to particularly stringent security measures. In a clear signal to employees, customers and Europe's data protection authorities that data protection is taken very seriously, the Board of Management of BMW AG resolved a set of Binding Corporate Rules (BCR) that ensure the secure transfer of personal data throughout the BMW Group's global organisation. The BMW Group has become the first car manufacturer worldwide to successfully complete the relevant BCR recognition procedures.

The requirements placed on IT facilities – both externally and internally – are changing at a breathtaking pace in the face of technological developments. Potential risks are therefore investigated continuously and appropriate measures put in place to prevent or minimise their impact. Despite regular testing and the whole gamut of preventative security measures employed, it is nevertheless impossible to rule out risks completely in this area.

If information, data protection and IT risks were to materialise, they are only likely to result in a minor impact on the results of operations over the two-year assessment period. The levels of risk attached to information, data protection and IT risks are classified as medium.

Information, data protection and IT opportunities

Conversely, the deployment of information technology also opens up many opportunities. New approaches to production and energy supply systems that are currently being investigated in the context of "Industrie 4.0" are generating significant efficiency improvements and resulting in greater sustainability. The range of services and apps on offer to customers through BMW ConnectedDrive is constantly being expanded and updated.

The opportunities arising from the deployment of information technology are not expected to have a material positive impact during the two-year assessment period compared to the assumptions made in the outlook.

Financial risks and opportunities

Currency risks and opportunities

As an internationally operating enterprise, the BMW Group conducts business in a variety of currencies, thus giving rise to currency risks and opportunities. Since a substantial portion of Group revenues is generated outside the eurozone (particularly in China and the USA) and the procurement of production material and funding is also organised on a worldwide basis, fluctuations in exchange rates can play a significant role for Group earnings. Cash-flow-at-risk models and scenario analyses are used to measure currency risks and opportunities. Operational currency management is based on the results provided by these tools. In 2014 the Chinese renminbi, the US dollar, the British pound, the Russian rouble and the Japanese yen constituted approximately 75 % of the total foreign currency exposure of the BMW Group, with the Chinese renminbi and the US dollar accounting for the lion's share of foreign currency transactions. The BMW Group manages currency risks at both strategic (medium and long term) and operating level (short and medium term). Medium- and long-term measures include increasing production volumes in non-euro-region countries (natural hedging) and increasing purchase volumes denominated in foreign currencies. Constructing new plants in countries such as the USA, China or Brazil have also helped reduce foreign currency exposures. Currency risks are managed in the short to medium term and for operational purposes by means of hedging. Hedging transactions are entered into only with financial partners of good credit standing. Opportunities are also secured through the deployment of options. A description of the methods applied for risk measurement and hedging is provided in note 43 to the Group Financial Statements. Counterparty risk management procedures are carried out continuously in order to monitor the creditworthiness of business partners.

If currency risks were to materialise, they could have a high impact on the BMW Group's results of operations over the two-year assessment period. A high level of risk is attached to currency risks. Significant opportunities can arise if currency developments are favourable for the BMW Group.

If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group are accounted for as hedging relationships. Further information on risks in conjunction with financial instruments is provided in note 43 to the Group Financial Statements.

Risks and opportunities relating to raw materials

Changes in prices of raw materials are monitored on the basis of a set of well-defined management procedures. The principal objective of these management processes is to increase planning reliability for the BMW Group.

Price risks and opportunities relating to precious metals (platinum, palladium, rhodium) and non-ferrous metals (aluminium, copper, lead), and, to some extent, to steel and steel ingredients (iron ore, coking coal) and energy (gas, electricity) are hedged using financial derivatives and/or supply contracts with fixed pricing arrangements. A description of the methods applied for risk measurement and hedging is provided in note 43 to the Group Financial Statements.

If risks relating to raw materials were to materialise, they could have a medium impact on the BMW Group's results of operations over the two-year assessment period. A high level of risk is attached to risks relating to raw materials.

Conversely, significant opportunities can arise if prices of raw materials develop favourably for the BMW Group.

If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group are accounted for as hedging relationships. Further information on risks in conjunction with financial instruments is provided in note 43 to the Group Financial Statements.

Liquidity risks

Based on experience gained during the financial crisis, a minimum liquidity concept has been developed and is rigorously adhered to. Solvency is assured at all times throughout the BMW Group by maintaining a liquidity reserve and by the broad diversification of refinancing sources. The liquidity position is monitored continuously at a separate entity level and managed by means of cash flow requirements and sourcing forecast system in place throughout the Group. Liquidity risks may be reflected in rising refinancing costs. They may also manifest themselves in restricted access to funds as a consequence of the general market situation or the default of individual banks. The major part of the Financial Services segment's credit financing and lease business is refinanced on capital markets. Thanks to its excellent creditworthiness, the BMW Group has good access to financial markets and, as in previous years, was able to raise funds at good conditions in 2014, reflecting a diversified refinancing strategy and the solid liquidity and earnings base of the BMW Group. Internationally recognised rating agencies have additionally confirmed the BMW Group's solid creditworthiness.

If liquidity risks were to materialise, they are only likely to result in a low impact on the BMW Group's results of operations over the two-year assessment period. The risk of incurring liquidity risk is classified as low – including the risk of the BMW Group's rating being downgraded and any ensuing deterioration in financing conditions.

If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group are accounted for as hedging relationships. Further information on risks in conjunction with financial instruments is provided in note 43 to the Group Financial Statements.

Risks and opportunities relating to Financial Services
The 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 III) and which comply with both 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 between front- and back-office activities and a comprehensive internal control system. The key risk management tool employed within the Financial Services segment is aimed at ensuring that the Group's risk-bearing capacity is not exceeded. In this context, all risks (defined as "unexpected losses") must be covered at all times by an appropriate asset cushion in the form of equity capital. Unexpected losses are measured using a variety of value-at-risk techniques, adapted to each relevant risk category. Risks are aggregated after taking account of correlation effects. The total amount of risks calculated in this way is then compared with the resources available to cover risks (asset cushion). 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.

Credit and counterparty risks and opportunities
Credit and counterparty default risk arises within the Financial Services segment if a contractual partner (i.e. a customer or dealer) either becomes unable or is only partially able to fulfil its contractual obligations, such that lower income is generated or losses incurred. The Financial Services segment uses a variety of rating systems in order to assess the creditworthiness of its contractual partners. Credit risks are managed at the time of the initial credit decision on the basis of a calculation of the present value of standard risk costs and subsequently, during the term of the credit, by using a range of risk provisioning techniques to cover risks emanating from changes in customer creditworthiness. In this context, individual customers are classified by category each month on the basis of their current contractual status, and appropriate levels of allowance recognised in accordance with that classification. If economies develop more favourably than assumed in the outlook, there is a chance that credit losses may be reduced and earnings improved accordingly.

If credit and counterparty risks were to materialise, they could have a medium impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to credit and counterparty risks is classified as high. The BMW Group classifies potential opportunities in this area as material.

Residual value risks and opportunities
Risks and opportunities arise at the end of the contractual term of a lease if the market value of the leased vehicle differs from the residual value calculated at the inception of the lease and factored into the lease payments.

A residual value risk exists if the expected market value of the vehicle at the end of the contractual term is lower than its residual value at the date the contract is entered into. Each vehicle's market value is forecast on the basis of historical external and internal data and used to predict the expected market value of the vehicle at the end of the contractual period. As part of the process of managing residual value risks, a calculation is performed at the inception of each contract to determine the present value of risk costs. Market developments are observed throughout the contractual period and the risk assessment updated appropriately.

If residual value risks were to materialise, they could have a high impact on Group earnings over the two-year assessment period. The impact on the segments affected would be on a medium scale. The level of risk is classified as high for the Group as a whole. The BMW Group classifies potential residual value opportunities as material.

Interest rate risks and opportunities

Interest rate risks in the Financial Services segment 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.

If interest rate risks were to materialise, they are only likely to result in a low impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to interest rate risks is classified as medium.

The BMW Group classifies potential interest rate opportunities as material.

Liquidity and operational risks

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 offset each other. The relevant procedures are incorporated in the BMW Group's target liquidity concept. Operational risks are defined in the Financial Services segment as the risk of losses arising as a consequence of the inappropriateness or failure of internal procedures (process risks), people (personnel-related risks), systems (infrastructure and IT risks) and external events (external risks). These four categories of risk also include related legal and reputation risks. The comprehensive recording and measurement of risk scenarios, loss events and countermeasures in the Operational Risk Management Suite (OpRisk-Suite) provides the basis for a systematic analysis and management of potential and/or actual operational risks. Annual self-assessments are also carried out.

If operational risks were to materialise, they are only likely to result in a low impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to operational risks is classified as medium.

Legal risks

Compliance with the law is a basic prerequisite for the success of the BMW Group. Current law provides the binding framework for the BMW Group's various business 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 not being adhered to, 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 internationally operating enterprises, the BMW Group is confronted with legal disputes relating, in particular, to warranty claims, product liability, infringements of protected rights, and proceedings initiated by government agencies. Any of these matters could, among other outcomes, have an adverse impact on the Group's reputation. Such proceedings are typical for the sector and can arise as a consequence of realigning product or purchasing strategies to suit changed market conditions. Particularly in the US market, class action lawsuits and product liability risks can have substantial financial consequences and cause damage to the Group's public image. The BMW Group recognises appropriate levels of provision for lawsuits. A part of these risks, particularly regarding the US market, is insured where this makes business sense. Some risks, however, cannot be assessed in full or completely defy assessment. It cannot be ruled out that losses from damages could arise which are either not covered or not fully covered by insurance policies or provisions.

The high quality of the Group's 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.

If legal risks were to materialise, they are only likely to have a low impact on the BMW Group's results of operations over the two-year assessment period. The level of risk attached to legal risks is classified as low. This assessment also includes consideration of risks arising from ongoing court and arbitration proceedings. However, it cannot be ruled out that new legal risks, as yet unidentified, could materialise which could have a high impact on the BMW Group's results of operations and financial condition.

Overall assessment of the risk and opportunities situation

The overall risk assessment is based on a consolidated view of all significant individual risks and opportunities. In view of the growing level of strategic and sector-specific risks, the overall risk situation for the BMW Group has increased marginally compared to the previous year.

In addition to the risk categories described above, it is possible that unforeseeable events could have an adverse impact on the BMW Group's results of operations, financial position and net assets as well as its reputation. We have created a comprehensive risk management system that ensures we can master risks. In addition, the opportunities described above could potentially help the BMW Group to achieve its targets and forecasts.

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

Internal Control System* and Risk Management System Relevant for the Consolidated Financial Reporting Process

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, in accounting manuals and through training. 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 are ensured by regular review as well as by continuous communication between the relevant departments.

Organisational measures

All financial reporting processes (including Group financial reporting processes) are structured in organisational terms in accordance with the principle of segregation of duties. 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). Continuous revision and further development of the internal control system ensure 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.

Disclosures Relevant for Takeovers[1] and Explanatory Comments

Composition of subscribed capital
The subscribed capital (share capital) of BMW AG amounted to €656,494,740 at 31 December 2014 (2013: €656,254,983) and, in accordance with Article 4 no. 1 of the Articles of Incorporation, is sub-divided into 601,995,196 shares of common stock (91.70 %) (2013: 601,995,196; 91.73 %) and 54,499,544 shares of non-voting preferred stock (8.30 %) (2013: 54,259,787; 8.27 %), each with a par value of €1. The Company's shares are issued to bearer. The rights and duties of shareholders derive from the German Stock Corporation Act (AktG) in conjunction with the Company's Articles of Incorporation, the full text of which is available at www.bmwgroup.com. The right of shareholders to have their shares evidenced is excluded in accordance with the Articles of Incorporation. The voting power attached to each share corresponds to its par value. Each €1 of par value of share capital represented in a vote entitles the holder to one vote (Article 18 no. 1 of the Articles of Incorporation). The Company's shares of preferred stock are shares within the meaning of § 139 et seq. AktG, which carry a cumulative preferential right in terms of the allocation of profit and for which voting rights are normally excluded. These shares only confer voting rights in exceptional cases stipulated by law, in particular when the preference amount has not been paid or has not been fully paid in one year and the arrears are not paid in the subsequent year alongside the full preference amount due for that year. With the exception of voting rights, holders of shares of preferred stock are entitled to the same rights as holders of shares of common stock. Article 24 of the Articles of Incorporation confers preferential treatment to the non-voting shares of preferred stock with regard to the appropriation of the Company's unappropriated profit. Accordingly, the unappropriated profit is required to be appropriated in the following order:

(a) subsequent payment of any arrears on dividends on non-voting preferred shares in the order of accruement,
(b) payment of an additional dividend of €0.02 per €1 par value on non-voting preferred shares and
(c) uniform payment of any other dividends on shares on common and preferred stock, provided the shareholders do not resolve otherwise at the Annual General Meeting.

Restrictions on voting rights or the transfer of shares
As well as shares of common stock, the Company has also issued non-voting shares of preferred stock. Further information relating to this can be found above in the section "Composition of subscribed capital".

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

Contractual holding period arrangements also apply to shares of common stock required to be acquired by Board of Management members and certain senior department heads in conjunction with the share-based remuneration programmes (Compensation Report of the Corporate Governance section; note 20 to the Group Financial Statements).

Direct or indirect investments in capital exceeding 10 % of voting rights
Based on the information available to the Company, the following direct or indirect holdings exceeding 10 % of the voting rights at the end of the reporting period were held at the date stated[2]:

[1] Disclosures pursuant to § 289 (4) HGB and § 315 (4) HGB.

	Direct share of voting rights (%)	Indirect share of voting rights (%)
AQTON SE, Bad Homburg v. d. Höhe, Germany	17.4	
Stefan Quandt, Germany		17.4
Johanna Quandt, Germany	0.4	16.4
Johanna Quandt GmbH, Bad Homburg v. d. Höhe, Germany		16.4
Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	16.4	
Susanne Klatten, Germany		12.6
Susanne Klatten Beteiligungs GmbH, Bad Homburg v. d. Höhe, Germany	12.6	

[2] Based on voluntary balance notifications provided by the listed shareholders at 31 December 2014.

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

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

System of control over voting rights when employees participate in capital and do not exercise their control rights directly
Like all other shareholders, employees exercise their control rights pertaining to shares they have acquired in conjunction with the Employee Share Programme and/or the share-based remuneration programme directly on the basis of relevant legal provisions and the Company's Articles of Incorporation.

Statutory regulations and Articles of Incorporation provisions with regard to the appointment and removal of members of the Board of Management and changes to the Articles of Incorporation
The appointment or removal of members of the Board of Management is based on the rules contained in § 84 et seq. AktG in conjunction with § 31 of the German Co-Determination Act (MitbestG).

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

Authorisations given to the Board of Management in particular with respect to the issuing or buying back of shares
The Board of Management is authorised to buy back shares and sell repurchased shares in situations specified in § 71 AktG, e.g. to avert serious and imminent damage to the Company and/or to offer shares to persons employed or previously employed by BMW AG or one of its affiliated companies.

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

In accordance with Article 4 no. 5 of the Articles of Incorporation, the Board of Management is authorised – with the approval of the Supervisory Board – to increase BMW AG's share capital during the period until 14 May 2019 by up to €4,760,243 for the purposes of an Employee Share Programme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock, in return for cash contributions (Authorised Capital 2014). 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 termination of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.
- Framework agreements are in place with financial institutions and banks (ISDA Master Agreements) 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 significant adverse impact, or, in all but one case, 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 abovementioned 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, and, in all but one case, 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 operations SGL Automotive Carbon Fibers LLC, Delaware, USA and SGL Automotive Carbon Fibers GmbH & Co. KG, Munich. The agreement includes call and put rights in case – either directly or indirectly – 50 % or more of the voting rights relating to the relevant other shareholder of the joint operations are acquired by a third party, or if 25 % of such voting rights have been acquired by a third party if that third party is a competitor of the party that has not been affected by the acquisition of the voting rights. In the event of such acquisitions of voting rights by a third party, the non-

affected shareholder has the right to purchase the shares of the joint operations from the affected shareholder or to require the affected party to acquire the other shareholder's shares.

– An engine supply agreement between BMW AG and Toyota Motor Europe SA relating to the sale of diesel engine 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.

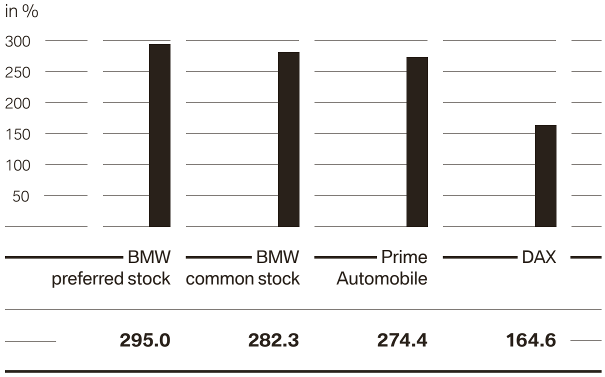
BMW stocks rose to a new all-time high of €95.51 per share of common stock in 2014. The BMW Group continues to have the best ratings in the European automobile sector, enabling it to continue benefiting from excellent access to international capital markets.

Turbulent year for stock markets

International stock markets experienced broad fluctuations in 2014, attributable primarily to the expansionary monetary policies of the ECB and to political instability in a number of countries.

At the beginning of the year, stock markets were burdened by uncertainties surrounding the Ukraine crisis and its likely negative economic impact. At the same time, favourable economic data from Europe, the USA's improved employment market and the US Reserve Bank's continued policy of monetary expansion provided some positive momentum. Over the course of the second and third quarters, the ECB's expansionary monetary policies provided an additional boost. The interest rate for the Eurosystem's main refinancing operations was reduced by 10 basis points in June to 0.15 % and by a further 10 basis points to 0.05 % in September and has remained at its new historical low since that time. A state of nervousness prevailed on the world's financial centres during the third quarter 2014. The sharp loss in value of the rouble and the threat of state bankruptcy in Ukraine caused the mood of investors to deteriorate. In October the DAX fell to its low for the year of 8,572 points. By the end of the year, however, the more stable situation in the Ukraine crisis brought about by agreement in the gas dispute with Russia, combined with the fall in oil prices, helped markets to steady and gather momentum. The DAX recorded a

Development of BMW stock compared to stock exchange indices since 30 December 2009



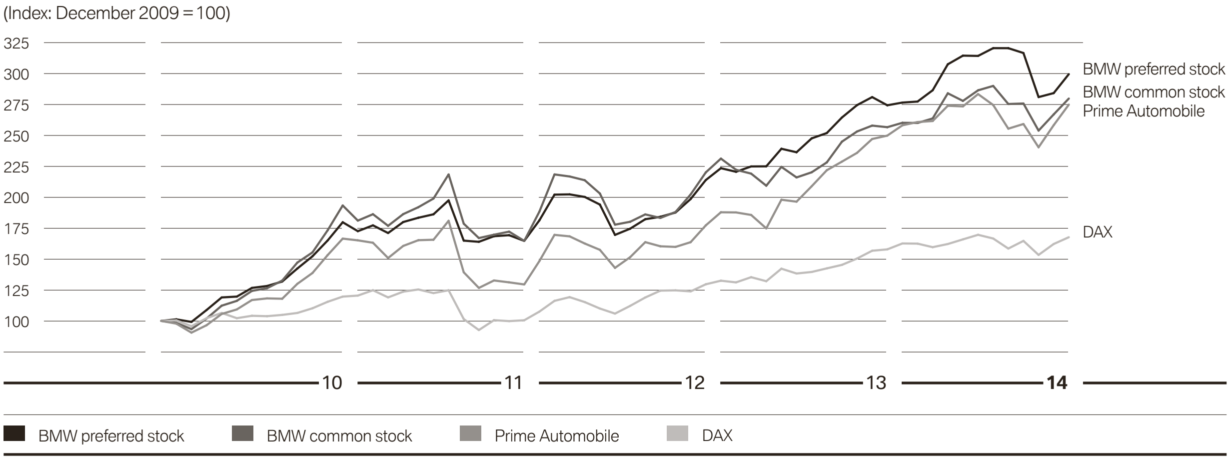
new all-time high of 10,087 points on 5 December, before closing on the last day of trading below its high level for the year at 9,806 points, thus achieving a gain of 254 points (+ 2.7 %) over the volatile twelve-month period.

The EURO STOXX 50 recorded a gain of 1.2 % in 2014 and closed on 31 December at 3,146 points.

The Prime Automobile Index performed even better, gaining 7.0 % over the year under report to reach 1,490 points.

After a weak start to the year, BMW common stock subsequently climbed to a new high of €95.51 in June. After falling back to a low for the year of €77.41 in October, it returned to an upward trend in the fourth quarter and finished the year at €89.77, 5.3 % higher than one year earlier. BMW preferred stock gained 9.3 % in value com-

Development of BMW stock compared to stock exchange indices



pared to its closing price at the end of the previous year. Its price at the end of the stock market year was €67.84. A new all-time high of €74.60 was recorded in July. At the end of 2014, the BMW Group had a market capitalisation of approximately €58 billion, making it one of the Top 10 of the most valuable stock corporations listed in Germany.

Employee Share Programme

BMW AG has enabled its employees to participate in its success for more than 40 years. Since 1989, this participation has taken the form of an Employee Share Programme. In total, 239,777 shares of preferred stock were issued to employees in 2014 as part of this Programme.

In this context, and with the approval of the Supervisory Board, BMW AG's share capital was increased by the Board of Management by €239,757 from €656,254,983 to €656,494,740 by the issue of 239,757 new non-voting shares of preferred stock. This increase was executed on the basis of Authorised Capital 2014 in Article 4 (5) of the Articles of Incorporation. The new shares of preferred stock carry the same rights as existing shares of preferred stock and were issued to enable employees to obtain an equity participation in the company. In addition, 20 shares of preferred stock were bought back via the stock market in order to service the Employee Share Programme.

Dividend increase

In view of the 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 €1,904 million to pay a dividend of €2.90 for each share of common stock (2013: €2.60) and a dividend of €2.92 for each share of preferred stock (2013: €2.62), giving a distribution rate of 32.7 % for 2014 (2013: 32.0 %).

BMW stock

	2014	2013	2012	2011	2010
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	**89.77**	85.22	72.93	51.76	58.85
High	**95.51**	85.42	73.76	73.52	64.80
Low	**77.41**	63.93	53.16	45.04	28.65
Preferred stock					
Number of shares in 1,000	**54,500**	54,260	53,994	53,571	53,163
Stock exchange price in €[1]					
Year-end closing price	**67.84**	62.09	48.76	36.55	38.50
High	**74.60**	64.65	49.23	45.98	41.90
Low	**59.08**	48.69	35.70	32.01	21.45
Key data per share in €					
Dividend					
Common stock	**2.90**[2]	2.60	2.50	2.30	1.30
Preferred stock	**2.92**[2]	2.62	2.52	2.32	1.32
Earnings per share of common stock[3]	**8.83**	8.08[6]	7.77	7.45	4.91
Earnings per share of preferred stock[4]	**8.85**	8.10[6]	7.79	7.47	4.93
Cash flow[5]	**14.36**	15.19[6]	13.98	12.38	12.45
Equity	**57.03**	54.25[6]	46.35	41.34	36.53

[1] Xetra closing prices.
[2] Proposed by management.
[3] Annual average weighted amount.
[4] Stock weighted according to dividend entitlements.
[5] Cash inflow from operating activities of the Automotive segment.
[6] Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Ratings remain at top level

The BMW Group continues to have the best ratings in the European automobile sector. Since December 2013, BMW AG has a long-term rating of A+ (stable outlook) and a short-term rating of A-1 from the rating agency Standard & Poor's. The equivalent ratings from the rating agency Moody's were A2 (stable outlook) and P-1. These rating assessments underline the BMW Group's robust financial profile and solid creditworthiness. Thanks to these attributes, the company not only has good access to international capital markets, it also benefits from attractive refinancing conditions, which are particularly helpful for the BMW Group's financial services business.

Intensive communication with capital markets

The BMW Group continued to keep analysts, private and institutional investors, and rating agencies up to date throughout 2014 by means of its regular quarterly and year-end financial reports. In addition, numerous one-to-one discussions, group discussions and roadshows addressed a broad range of capital market participants. These activities also included roadshows for investors interested in socially responsible investment (SRI) and wishing to incorporate sustainability criteria in their investment decisions as well as a series of events for debt capital investors and credit analysts. Communication focused primarily on the launch of numerous new models, BMW i and alternative drive systems, and developments on the Chinese market. In addition to presenting new models (including the BMW i8 and the 2 Series Active Tourer) and arranging various events and test drives in the USA and Europe, we also organised a Capital Markets Day in China for analysts and investors.

GROUP FINANCIAL STATEMENTS

BMW Group
Income Statements for Group and Segments
Statement of Comprehensive Income for Group

Income Statements for Group and Segments

in € million

	Note	Group		Automotive (unaudited supplementary information)	
		2014	2013*	**2014**	2013*
Revenues	10	**80,401**	76,059	**75,173**	70,630
Cost of sales	11	**–63,396**	–60,791	**–61,221**	–57,778
Gross profit		**17,005**	**15,268**	**13,952**	**12,852**
Selling and administrative expenses	12	**–7,892**	–7,257	**–6,645**	–6,114
Other operating income	13	**877**	842	**749**	742
Other operating expenses	13	**–872**	–875	**–812**	–831
Profit/loss before financial result		**9,118**	**7,978**	**7,244**	**6,649**
Result from equity accounted investments	14	**655**	407	**655**	407
Interest and similar income	15	**200**	183	**331**	303
Interest and similar expenses	15	**–519**	–469	**–620**	–535
Other financial result	16	**–747**	–206	**–724**	–263
Financial result		**–411**	**–85**	**–358**	**–88**
Profit/loss before tax		**8,707**	**7,893**	**6,886**	**6,561**
Income taxes	17	**–2,890**	–2,564	**–2,365**	–2,153
Net profit/loss		**5,817**	**5,329**	**4,521**	**4,408**
Attributable to minority interest	35	**19**	26	**7**	17
Attributable to shareholders of BMW AG	35	**5,798**	**5,303**	**4,514**	**4,391**
Basic earnings per share of common stock in €	18	**8.83**	8.08		
Basic earnings per share of preferred stock in €	18	**8.85**	8.10		
Dilutive effects		**–**	–		
Diluted earnings per share of common stock in €	18	**8.83**	8.08		
Diluted earnings per share of preferred stock in €	18	**8.85**	8.10		

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Statement of Comprehensive Income for Group

in € million

	Note	**2014**	2013*
Net profit		**5,817**	**5,329**
Remeasurement of the net defined benefit liability for pension plans	36	**–2,298**	1,308
Deferred taxes		**706**	–372
Items not expected to be reclassified to the income statement in the future		**–1,592**	**936**
Available-for-sale securities		**40**	8
Financial instruments used for hedging purposes		**–2,194**	1,357
Other comprehensive income from equity accounted investments		**–48**	–7
Deferred taxes		**732**	–407
Currency translation foreign operations		**764**	–633
Items expected to be reclassified to the income statement in the future		**–706**	**318**
Other comprehensive income for the period after tax	21	**–2,298**	**1,254**
Total comprehensive income		**3,519**	**6,583**
Total comprehensive income attributable to minority interests		**19**	26
Total comprehensive income attributable to shareholders of BMW AG	35	**3,500**	**6,557**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Motorcycles (unaudited supplementary information) 2014	2013	Financial Services (unaudited supplementary information) 2014	2013*	Other Entities (unaudited supplementary information) 2014	2013	Eliminations (unaudited supplementary information) 2014	2013*	
1,679	1,504	20,599	19,874	7	6	–17,057	–15,955	Revenues
–1,365	–1,253	–17,783	–17,270	–	–	16,973	15,510	Cost of sales
314	**251**	**2,816**	**2,604**	**7**	**6**	**–84**	**–445**	**Gross profit**
–201	–177	–1,035	–953	–28	–23	17	10	Selling and administrative expenses
–	7	73	57	136	115	–81	–79	Other operating income
–1	–2	–98	–65	–44	–54	83	77	Other operating expenses
112	**79**	**1,756**	**1,643**	**71**	**44**	**–65**	**–437**	**Profit / loss before financial result**
–	–	–	–	–	–	–	–	Result from equity accounted investments
–	–	4	5	1,295	1,340	–1,430	–1,465	Interest and similar income
–5	–3	–29	–27	–1,197	–1,279	1,332	1,375	Interest and similar expenses
–	–	–8	–2	–15	59	–	–	Other financial result
–5	**–3**	**–33**	**–24**	**83**	**120**	**–98**	**–90**	Financial result
107	**76**	**1,723**	**1,619**	**154**	**164**	**–163**	**–527**	**Profit / loss before tax**
–34	–25	–525	–518	–49	–68	83	200	Income taxes
73	**51**	**1,198**	**1,101**	**105**	**96**	**–80**	**–327**	**Net profit / loss**
–	–	11	8	1	1	–	–	Attributable to minority interest
73	**51**	**1,187**	**1,093**	**104**	**95**	**–80**	**–327**	**Attributable to shareholders of BMW AG**
								Basic earnings per share of common stock in €
								Basic earnings per share of preferred stock in €
								Dilutive effects
								Diluted earnings per share of common stock in €
								Diluted earnings per share of preferred stock in €

BMW Group
Balance Sheets for Group and Segments at 31 December

Assets

in € million	Note	Group 2014	Group 31.12.2013*	Group 1.1.2013*	Automotive (unaudited supplementary information) 2014	Automotive (unaudited supplementary information) 2013*
Intangible assets	23	**6,499**	6,179	5,207	**5,999**	5,646
Property, plant and equipment	24	**17,182**	15,168	13,376	**16,863**	14,863
Leased products	25	**30,165**	25,914	24,468	**3**	19
Investments accounted for using the equity method	26	**1,088**	638	505	**1,088**	638
Other investments	27	**408**	553	548	**5,110**	5,253
Receivables from sales financing	28	**37,438**	32,616	32,309	**–**	–
Financial assets	29	**2,024**	2,593	2,148	**447**	1,183
Deferred tax	17	**2,061**	1,620	1,967	**3,253**	2,226
Other assets	31	**1,094**	912	770	**3,662**	3,847
Non-current assets		**97,959**	**86,193**	**81,298**	**36,425**	**33,675**
Inventories	32	**11,089**	9,595	9,732	**10,698**	9,269
Trade receivables	33	**2,153**	2,449	2,543	**1,887**	2,184
Receivables from sales financing	28	**23,586**	21,501	20,605	**–**	–
Financial assets	29	**5,384**	5,559	4,612	**3,952**	4,479
Current tax	30	**1,906**	1,151	966	**1,186**	1,002
Other assets	31	**5,038**	4,258	3,664	**19,231**	15,480
Cash and cash equivalents	34	**7,688**	7,671	8,374	**5,752**	6,775
Assets held for sale		**–**	–	45	**–**	–
Current assets		**56,844**	**52,184**	**50,541**	**42,706**	**39,189**
Total assets		**154,803**	**138,377**	**131,839**	**79,131**	**72,864**

Equity and liabilities

in € million	Note	Group 2014	Group 31.12.2013*	Group 1.1.2013*	Automotive (unaudited supplementary information) 2014	Automotive (unaudited supplementary information) 2013*
Subscribed capital	35	**656**	656	656		
Capital reserves	35	**2,005**	1,990	1,973		
Revenue reserves	35	**35,621**	33,122	28,510		
Accumulated other equity	35	**–1,062**	–356	–674		
Equity attributable to shareholders of BMW AG	35	**37,220**	**35,412**	**30,465**		
Minority interest	35	**217**	188	107		
Equity		**37,437**	**35,600**	**30,572**	**31,045**	**30,909**
Pension provisions	36	**4,604**	2,303	3,813	**2,741**	938
Other provisions	37	**4,268**	3,828	3,481	**3,777**	3,075
Deferred tax	17	**1,974**	2,459	2,094	**421**	1,072
Financial liabilities	39	**43,167**	39,450	39,095	**1,933**	1,604
Other liabilities	40	**4,275**	3,603	3,404	**5,445**	4,677
Non-current provisions and liabilities		**58,288**	**51,643**	**51,887**	**14,317**	**11,366**
Other provisions	37	**4,522**	3,412	3,246	**3,746**	3,040
Current tax	38	**1,590**	2,319	2,463	**1,050**	1,021
Financial liabilities	39	**37,482**	30,854	30,412	**3,250**	725
Trade payables	41	**7,709**	7,485	6,437	**6,929**	6,774
Other liabilities	40	**7,775**	7,064	6,792	**18,794**	19,029
Liabilities in conjunction with assets held for sale		**–**	–	30	**–**	–
Current provisions and liabilities		**59,078**	**51,134**	**49,380**	**33,769**	**30,589**
Total equity and liabilities		**154,803**	**138,377**	**131,839**	**79,131**	**72,864**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Assets	Motorcycles (unaudited supplementary information) 2014	Motorcycles 2013	Financial Services (unaudited supplementary information) 2014	Financial Services 2013	Other Entities (unaudited supplementary information) 2014	Other Entities 2013*	Eliminations (unaudited supplementary information) 2014	Eliminations 2013*
Intangible assets	**54**	63	**445**	469	**1**	1	**–**	–
Property, plant and equipment	**285**	271	**34**	34	**–**	–	**–**	–
Leased products	**–**	–	**35,366**	30,230	**–**	–	**–5,204**	–4,335
Investments accounted for using the equity method	**–**	–	**–**	–	**–**	–	**–**	–
Other investments	**–**	–	**6**	6	**5,808**	5,754	**–10,516**	–10,460
Receivables from sales financing	**–**	–	**37,438**	32,616	**–**	–	**–**	–
Financial assets	**–**	–	**210**	276	**1,751**	1,779	**–384**	–645
Deferred tax	**–**	–	**287**	285	**367**	290	**–1,846**	–1,181
Other assets	**20**	–	**1,913**	1,436	**21,895**	19,677	**–26,396**	–24,048
Non-current assets	**359**	**334**	**75,699**	**65,352**	**29,822**	**27,501**	**–44,346**	**–40,669**
Inventories	**383**	318	**8**	8	**–**	–	**–**	–
Trade receivables	**128**	120	**137**	145	**1**	–	**–**	–
Receivables from sales financing	**–**	–	**23,586**	21,501	**–**	–	**–**	–
Financial assets	**–**	–	**1,048**	826	**898**	936	**–514**	–682
Current tax	**–**	–	**102**	89	**618**	60	**–**	–
Other assets	**–**	–	**3,953**	3,530	**36,682**	32,775	**–54,828**	–47,527
Cash and cash equivalents	**–**	–	**1,783**	879	**153**	17	**–**	–
Assets held for sale	**–**	–	**–**	–	**–**	–	**–**	–
Current assets	**511**	**438**	**30,617**	**26,978**	**38,352**	**33,788**	**–55,342**	**–48,209**
Total assets	**870**	**772**	**106,316**	**92,330**	**68,174**	**61,289**	**–99,688**	**–88,878**

Equity and liabilities	Motorcycles (unaudited supplementary information) 2014	Motorcycles 2013	Financial Services (unaudited supplementary information) 2014	Financial Services 2013*	Other Entities (unaudited supplementary information) 2014	Other Entities 2013*	Eliminations (unaudited supplementary information) 2014	Eliminations 2013*
Subscribed capital								
Capital reserves								
Revenue reserves								
Accumulated other equity								
Equity attributable to shareholders of BMW AG								
Minority interest								
Equity	**–**	**–**	**9,357**	**8,388**	**12,031**	**10,781**	**–14,996**	**–14,478**
Pension provisions	**78**	29	**75**	40	**1,710**	1,296	**–**	–
Other provisions	**160**	141	**273**	289	**58**	323	**–**	–
Deferred tax	**–**	–	**5,078**	4,171	**13**	6	**–3,538**	–2,790
Financial liabilities	**–**	–	**14,695**	14,376	**26,923**	24,115	**–384**	–645
Other liabilities	**357**	318	**23,680**	21,134	**51**	68	**–25,258**	–22,594
Non-current provisions and liabilities	**595**	**488**	**43,801**	**40,010**	**28,755**	**25,808**	**–29,180**	**–26,029**
Other provisions	**62**	57	**432**	309	**282**	3	**–**	3
Current tax	**–**	–	**162**	155	**378**	1,143	**–**	–
Financial liabilities	**–**	–	**19,122**	16,006	**15,624**	14,805	**–514**	–682
Trade payables	**192**	204	**571**	502	**17**	5	**–**	–
Other liabilities	**21**	23	**32,871**	26,960	**11,087**	8,744	**–54,998**	–47,692
Liabilities in conjunction with assets held for sale	**–**	–	**–**	–	**–**	–	**–**	–
Current provisions and liabilities	**275**	**284**	**53,158**	**43,932**	**27,388**	**24,700**	**–55,512**	**–48,371**
Total equity and liabilities	**870**	**772**	**106,316**	**92,330**	**68,174**	**61,289**	**–99,688**	**–88,878**

BMW Group
Cash Flow Statements for Group and Segments

in € million	Note	Group 2014	Group 2013[1]
Net profit		**5,817**	5,329
Reconciliation between net profit and cash inflow/outflow from operating activities			
Current tax		**2,774**	2,581
Other interest and similar income/expenses		**127**	147
Depreciation and amortisation of other tangible, intangible and investment assets		**4,323**	3,832
Change in provisions		**1,103**	480
Change in leased products		**–2,720**	–2,048
Change in receivables from sales financing		**–3,898**	–4,501
Change in deferred taxes		**116**	–17
Other non-cash income and expense items		**331**	–552
Gain/loss on disposal of tangible and intangible assets and marketable securities		**–63**	–21
Result from equity accounted investments		**–655**	–407
Changes in working capital		**–551**	986
Change in inventories		–971	–195
Change in trade receivables		379	22
Change in trade payables		41	1,159
Change in other operating assets and liabilities		**323**	969
Income taxes paid		**–4,252**	–2,787
Interest received		**137**	136
Cash inflow/outflow from operating activities	44	**2,912**	**4,127**
Investment in intangible assets and property, plant and equipment		**–6,099**	–6,693
Proceeds from the disposal of intangible assets and property, plant and equipment		**36**	22
Expenditure for investments		**–99**	–76
Proceeds from the disposal of investments		**190**	137
Investments in marketable securities and term deposits		**–4,216**	–4,131
Proceeds from the sale of marketable securities and from matured term deposits		**4,072**	3,250
Cash inflow/outflow from investing activities	44	**–6,116**	**–7,491**
Issue/buy-back of treasury shares		**–**	–
Payments into equity		**15**	17
Payment of dividend for the previous year		**–1,715**	–1,653
Intragroup financing and equity transactions		**–**	–
Interest paid		**–133**	–122
Proceeds from the issue of bonds		**10,892**	8,982
Repayment of bonds		**–7,249**	–7,242
Proceeds from new non-current other financial liabilities		**5,900**	6,626
Repayment of non-current other financial liabilities		**–5,697**	–4,996
Change in current other financial liabilities		**2,132**	–721
Change in commercial paper		**–1,012**	1,812
Cash inflow/outflow from financing activities	44	**3,133**	**2,703**
Effect of exchange rate on cash and cash equivalents		**86**	**–89**
Effect of changes in composition of Group on cash and cash equivalents		**2**	**47**
Change in cash and cash equivalents	44	**17**	**–703**
Cash and cash equivalents as at 1 January		**7,671**	8,374
Cash and cash equivalents as at 31 December		**7,688**	**7,671**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Interest relating to financial services business is classified as revenues/cost of sales.

Automotive (unaudited supplementary information) 2014	Automotive 2013[1]	Financial Services (unaudited supplementary information) 2014	Financial Services 2013[1]	
4,521	4,408	**1,198**	1,101	Net profit
				Reconciliation between net profit and cash inflow/outflow from operating activities
2,786	2,516	**–40**	9	Current tax
159	154	**24**[2]	17[2]	Other interest and similar income / expenses
4,230	3,747	**29**	20	Depreciation and amortisation of other tangible, intangible and investment assets
1,034	374	**109**	153	Change in provisions
15	109	**–3,309**	–2,895	Change in leased products
–	–	**–3,898**	–4,501	Change in receivables from sales financing
–124	–239	**383**	523	Change in deferred taxes
–5	–56	**14**	54	Other non-cash income and expense items
–54	–21	**8**	–	Gain/loss on disposal of tangible and intangible assets and marketable securities
–655	–407	**–**	–	Result from equity accounted investments
–552	1,018	**70**	24	Changes in working capital
–907	–229	–	4	Change in inventories
371	53	14	–25	Change in trade receivables
–16	1,194	56	45	Change in trade payables
419	657	**858**	269	Change in other operating assets and liabilities
–2,531	–2,487	**–161**	–132	Income taxes paid
180	191	**–**[2]	–[2]	Interest received
9,423	**9,964**	**–4,715**	**–5,358**	**Cash inflow/outflow from operating activities**
–6,021	–6,599	**–9**	–9	Investment in intangible assets and property, plant and equipment
36	15	**–**	7	Proceeds from the disposal of intangible assets and property, plant and equipment
–134	–514	**–**	–	Expenditure for investments
177	137	**–**	163	Proceeds from the disposal of investments
–3,775	–3,945	**–458**	–179	Investments in marketable securities and term deposits
3,881	2,908	**170**	342	Proceeds from the sale of marketable securities and from matured term deposits
–5,836	**–7,998**	**–297**	**324**	**Cash inflow/outflow from investing activities**
–	–	**–**	–	Issue / buy-back of treasury shares
15	17	**–**	–	Payments into equity
–1,715	–1,653	**–**	–	Payment of dividend for the previous year
–4,299	–582	**4,094**	3,844	Intragroup financing and equity transactions
–136	–150	**–**[2]	–[2]	Interest paid
–	–	**1,009**	1,099	Proceeds from the issue of bonds
–	–	**–733**	–1,383	Repayment of bonds
452	85	**5,298**	6,015	Proceeds from new non-current other financial liabilities
–41	–26	**–4,814**	–4,940	Repayment of non-current other financial liabilities
1,042	125	**1,073**	517	Change in current other financial liabilities
–	–489	**–**	–	Change in commercial paper
–4,682	**–2,673**	**5,927**	**5,152**	**Cash inflow/outflow from financing activities**
70	**–53**	**–11**	**–36**	**Effect of exchange rate on cash and cash equivalents**
2	**47**	**–**	**–**	**Effect of changes in composition of Group on cash and cash equivalents**
–1,023	**–713**	**904**	**82**	**Change in cash and cash equivalents**
6,775	7,488	**879**	797	Cash and cash equivalents as at 1 January
5,752	**6,775**	**1,783**	**879**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves*
1 January 2013, as originally reported	35	**656**	**1,973**	**28,544**
Adjustment IAS 8*		–	–	–34
1 January 2013 (adjusted)	35	**656**	**1,973**	**28,510**
Dividends paid		–	–	–1,640
Net profit		–	–	5,303
Other comprehensive income for the period after tax		–	–	936
Comprehensive income 31 December 2013		**–**	**–**	**6,239**
Subscribed share capital increase out of Authorised Capital		–	–	–
Premium arising on capital increase relating to preferred stock		–	17	–
Other changes		–	–	13
31 December 2013	35	**656**	**1,990**	**33,122**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2014	35	**656**	**1,990**	**33,122**
Dividends paid		–	–	–1,707
Net profit		–	–	5,798
Other comprehensive income for the period after tax		–	–	–1,592
Comprehensive income 31 December 2014		**–**	**–**	**4,206**
Subscribed share capital increase out of Authorised Capital		–	–	–
Premium arising on capital increase relating to preferred stock		–	15	–
Other changes		–	–	–
31 December 2014	35	**656**	**2,005**	**35,621**

Accumulated other equity			Equity attributable to shareholders of BMW AG	Minority interest	**Total**	
Translation differences*	Securities	Derivative financial instruments				
–984	**108**	**202**	**30,499**	**107**	**30,606**	**1 January 2013**, as originally reported
–	–	–	–34	–	**–34**	Adjustment IAS 8*
–984	**108**	**202**	**30,465**	**107**	**30,572**	**1 January 2013** (adjusted)
–	–	–	–1,640	–	**–1,640**	Dividends paid
–	–	–	5,303	26	**5,329**	Net profit
–643	27	934	1,254	–	**1,254**	Other comprehensive income for the period after tax
–643	**27**	**934**	**6,557**	**26**	**6,583**	**Comprehensive income 31 December 2013**
–	–	–	–	–	**–**	Subscribed share capital increase out of Authorised Capital
–	–	–	17	–	**17**	Premium arising on capital increase relating to preferred stock
–	–	–	13	55	**68**	Other changes
–1,627	**135**	**1,136**	**35,412**	**188**	**35,600**	**31 December 2013**

Accumulated other equity			Equity attributable to shareholders of BMW AG	Minority interest	**Total**	
Translation differences	Securities	Derivative financial instruments				
–1,627	**135**	**1,136**	**35,412**	**188**	**35,600**	**1 January 2014**
–	–	–	–1,707	–	**–1,707**	Dividends paid
–	–	–	5,798	19	**5,817**	Net profit
904	6	–1,616	–2,298	–	**–2,298**	Other comprehensive income for the period after tax
904	**6**	**–1,616**	**3,500**	**19**	**3,519**	**Comprehensive income 31 December 2014**
–	–	–	–	–	**–**	Subscribed share capital increase out of Authorised Capital
–	–	–	15	–	**15**	Premium arising on capital increase relating to preferred stock
–	–	–	–	10	**10**	Other changes
–723	**141**	**–480**	**37,220**	**217**	**37,437**	**31 December 2014**

1 – Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW Group Financial Statements or Group Financial Statements) at 31 December 2014 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 2014 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 statements and balance sheets presented. 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 50.

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 IFRS 10 (Consolidated Financial Statements) such assets remain in the Group Financial Statements although they have been legally sold, since all the conditions relevant for control are met. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet. The balance sheet value of the assets sold at 31 December 2014 totalled €10.9 billion (31 December 2013: €10.1 billion).

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., Gurgaon, and BMW India Financial Services Private Ltd., Gurgaon, both of whose year-ends are 31 March in accordance with local legal requirements.

The Group Financial Statements, drawn up in accordance with § 315a HGB, and the Combined Management Report for the financial year ended 31 December 2014 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 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 2015.

2 — Consolidated companies

The scope of the consolidated financial statements is based on the application of IFRS 10 (Consolidated Financial Statements) and IFRS 11 (Joint Arrangements).

The BMW Group Financial Statements include, besides BMW AG, all material subsidiaries, including one special purpose securities fund and 30 special purpose trusts, almost all of which are used for asset-backed financing transactions.

The number of subsidiaries, including the special purpose securities fund and the special purpose trusts, consolidated in the Group Financial Statements changed in 2014 as follows:

	Germany	Foreign	**Total**
Included at 31 December 2013	20	167	**187**
Included for the first time in 2014	2	13	**15**
No longer included in 2014	–	13	**13**
Included at 31 December 2014	**22**	**167**	**189**

43 subsidiaries (2013: 48), either dormant or generating a negligible volume of business, and four joint operations (2013: 1) 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 and joint operations reduces total Group revenues by 0.3 % (2013: 1.0 %).

The joint operations – SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE – are consolidated proportionately for the first time in the financial year 2014 on the basis of the BMW Group's 49 % shareholding. These entities supply carbon fibre and carbon fibre fabrics for vehicle production. Further information is provided in note 9.

The joint ventures – BMW Brilliance Automotive Ltd., Shenyang, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich – are accounted for using the equity method. As in the previous year, five participations are not consolidated using the equity method on the grounds of immateriality. They are included in the Group 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.

BMW Madrid S. L., Madrid, BMW Amsterdam B.V., Amsterdam, BMW Den Haag B.V., The Hague, BMW Retail Nederland B.V., The Hague, BMW Milano S. r. l., Milan, BMW Distribution S. A. S., Montigny-le-Bretonneux, BMW Vermögensverwaltungs GmbH, Munich, BMW Beteiligungs GmbH & Co. KG, Munich, and BMW International Holding B.V., The Hague, were consolidated for the first time in the financial year 2014.

BMW Österreich Finanzierungs GmbH, Steyr, was merged with BMW Motoren GmbH, Steyr, and therefore ceased to be a consolidated company. Noord Lease

B.V., Groningen, was sold and therefore ceased to be a consolidated company. In addition, Alphabet Belgium N.V., Bornem, and Bavaria NTTBL Company Ltd., Dublin, were liquidated and ceased to be consolidated companies. The British Motor Corporation Ltd., Bracknell, 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 the deconsolidation of eight special purpose entities.

The changes to the composition of the Group do not have a material impact on the results of operations, financial position or net assets of the Group.

3 — Sale of business

With the purchase of the ING Car Lease Group in 2011, the BMW Group also acquired Noord Lease B.V., Groningen. This entity was managed alongside Alphabet Nederland B.V., Breda, as a second fleet leasing company in the Netherlands, with a strong regional focus and a high proportion of private leasing. As part of an evaluation of the strategic direction of fleet business in the Netherlands, it was decided to focus on only one company in this region. Accordingly, BMW AG's Board of Management put up Noord Lease B.V., Groningen for sale during the financial year 2014. At the end of a bidding process, Noord Lease B.V., Groningen, was sold to Noordlease Midco B.V., Groningen. The purchase agreement was signed in June 2014 and the shares transferred in August 2014. The deconsolidation of Noord Lease B.V., Groningen, gave rise in the third quarter to a gain of €7.4 million, which is included in other operating income and expenses of the Financial Services segment.

4 — 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 (intra-group profits) are eliminated on consolidation.

Joint operations and joint ventures are forms of joint arrangements. Such an arrangement exists when the BMW Group jointly carries out activities on the basis of a contractual agreement with a third party that requires the unanimous consent of both parties with respect to all significant activities of the joint arrangement.

In the case of a joint operation, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenues and expenses of a joint operation are recognised proportionately in the Group Financial Statements on the basis of the BMW Group's rights and obligations.

Investments accounted for using the equity method (joint ventures and associated companies) 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 and Joint Ventures). 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 or joint venture's voting power.

5 — 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 recognised directly in accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also recognised directly in 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 settlement 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	
	31.12.2014	31.12.2013	**2014**	2013
US Dollar	**1.21**	1.38	**1.33**	1.33
British Pound	**0.78**	0.83	**0.81**	0.85
Chinese Renminbi	**7.53**	8.34	**8.19**	8.16
Japanese Yen	**144.95**	144.55	**140.38**	129.70
Russian Rouble	**70.98**	45.29	**51.03**	42.34

6 — Accounting policies

The financial statements of BMW AG and of its subsidiaries in Germany and elsewhere have been prepared for consolidation purposes using uniform accounting policies in accordance with IFRS 10 (Consolidated 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 finance leases and from customer and dealer financing are recognised using the effective interest method and reported as revenues within the line item "Interest income on loan financing". If the sale of products includes a determinable amount for subsequent services (multiple-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 difference between the sales and buy-back price is accounted for as deferred income and recognised in instalments as revenue over the contract term.

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), write-downs on inventories, freight and insurance costs relating to deliveries to dealers and agency fees on direct sales. Expenses which are directly attributable to financial services business (including depreciation on leased products), the interest expense from refinancing the entire financial services business as well as the expense of risk provisions and write-downs relating to such business are also reported in cost of sales.

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

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

Share-based remuneration programmes which are expected to be settled in shares are, in accordance with IFRS 2 (Share-based Payments), measured at their fair value at grant date. The related expense is recognised in the income statement (as personnel expense) over the vesting period, with a contra (credit) entry recorded against capital reserves.

Share-based remuneration programmes expected to be settled in cash are revalued to their fair value at each balance sheet date between the grant date and the settlement date and on the settlement date itself. The expense for such programmes is recognised in the income statement (as personnel expense) over the vesting period of the programmes and recognised in the balance sheet as a provision.

The share-based remuneration programme for Board of Management members and senior heads of department entitles BMW AG to elect whether to settle its commitments in cash or with shares of BMW AG common stock. Following the decision to settle in cash, this programme is accounted for as a cash-settled share-based transaction. Further information on share-based remuneration programmes is provided in note 20.

Purchased and internally-generated **intangible assets** are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition and/or manufacturing cost and, to the extent that they have a finite useful life, amortised over their estimated useful lives. With the exception of capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and ten years.

Development costs for vehicle and engine projects are capitalised at manufacturing cost, to the extent that attributable costs can be measured reliably and both technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process, including development-related overheads. Capitalised development costs are amortised systematically over the estimated product life (usually four to eleven years) following start of production.

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

All items of **property, plant and equipment** are considered to have finite useful lives. They are recognised at acquisition or manufacturing cost less scheduled depreciation based on the estimated useful lives of the assets. Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method. Components of items of property, plant and equipment with 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, residential buildings, fixed installations in buildings and outside facilities	8 to 50
Plant and machinery	3 to 21
Other equipment, factory and office equipment	2 to 25

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

The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process as well as an appropriate proportion of production-related overheads. This includes production-related depreciation and 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 **leases**. 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 leased under finance leases are measured at their fair value at the inception of the lease or at the present value of the lease payments, if lower. The assets are depreciated using the straight-line method over their estimated useful lives or over the lease period, if shorter. The obligations for future lease instalments are recognised as other financial liabilities.

Where Group products are recognised by BMW Group entities as **leased products** under operating leases, they are measured at manufacturing cost. All other leased products are measured at acquisition cost. All leased products are depreciated over the period of the lease using the straight-line method down to their expected residual value. Changes in residual value expectations are recognised – in situations where the recoverable amount of the lease exceeds the 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 recognised in prior years no longer exists or has decreased. In these cases, the carrying amount of the asset is increased to the recoverable amount. The higher carrying amount resulting from the reversal may not, however, exceed the rolled-forward amortised cost of the asset.

If there is any evidence of **impairment of non-financial assets** (except inventories and deferred taxes), or if an annual impairment test is required to be carried out – i.e. for intangible assets not yet available for use, intangible assets with an 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 is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The value in use corresponds to the present value of future cash flows expected to be derived from an asset or group of assets.

The first step of the impairment test is to determine the value in use of an asset. If the calculated value in use is lower than the carrying amount of the asset, then 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. The long-term forecasts themselves are based on detailed forecasts drawn up at an operational level and, based on a planning period of six years, correspond roughly to a typical product's life-cycle. For the purposes of calculating cash flows beyond the planning period, the asset's assumed residual value does not take growth into account. Forecasting assumptions are continually brought up to date and regularly compared with external sources of information. The assumptions used take account in particular of expectations of the profitability of the product portfolio, future market share developments, macro-economic developments (such as currency, interest rate and raw materials prices) as well as the legal environment and past experience. Cash flows of the Automotive and Motorcycles CGUs are discounted using a risk-adjusted pre-tax weighted average cost of capital (WACC) of 12.0 % (2013: 12.0 %). In the case of the Financial Services CGU, a sector-compatible pre-tax cost of equity capital of 13.4 % (2013: 13.4 %) is applied. In conjunction with the impairment tests for CGUs, sensitivity analyses are performed for the main assumptions. Analyses performed in the year under report confirmed, as in the previous year, that no impairment loss was required to be recognised.

If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of the recoverable amount, capped at the level of rolled-forward amortised cost. This does not apply to goodwill: previously recognised impairment losses on goodwill are not reversed.

Investments accounted for using the equity method are (except when the investment is impaired) measured at the Group's share of equity taking account of fair value adjustments on acquisition. Investments accounted for using the equity method comprise joint ventures and significant associated companies.

Investments in non-consolidated Group companies and interests in associated companies not accounted for using the equity method are reported as **Other investments** and measured at cost or, if lower, at their fair value.

Participations are measured at their fair value. If this value is not available or cannot be determined reliably, participations are measured at cost.

Non-current marketable securities are measured according to the category of financial asset to which they are classified. No held-for-trading financial assets are included under this heading.

A **financial instrument** is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Once a BMW Group entity becomes party to such to a contract, the financial instrument is recognised either as a financial asset or as a financial liability.

Financial assets are accounted for on the basis of the settlement 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 to initial recognition, available-for-sale and held-for-trading financial assets are measured at their fair value. When market prices are not available, the fair value of available-for-sale financial assets is measured using appropriate valuation techniques e.g. discounted cash flow analysis based on market information available at the balance sheet date.

Available-for-sale assets include non-current investments, securities and investment fund shares. This category includes all non-derivative financial assets which 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 group of assets may be impaired. Impairment losses identified after carrying out an impairment test are recognised as an expense. Gains and losses on available-for-sale financial assets are recognised directly in accumulated other equity until the financial asset is disposed of or is determined to be impaired, at which time the cumulative loss previously recognised in other comprehensive income is reclassified to profit or loss for the period.

With the exception of derivative financial instruments, all **receivables** and **other current assets** relate to loans and receivables which are not held for trading. All such items are measured at amortised cost. Receivables with maturities of over one year which bear no or a lower-than-market interest rate are discounted. Appropriate impairment losses are recognised to take account of all identifiable risks.

Receivables from sales financing comprise receivables 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 **financial assets** to the extent that they relate to financing transactions.

Derivative financial instruments are only used within the BMW Group for hedging purposes in order to reduce currency, interest rate, fair value and market price risks from operating activities and related financing requirements.

All derivative financial instruments (such as interest, currency and combined interest/currency swaps, forward currency and forward commodity contracts) are measured in accordance with IAS 39 at their fair value, irrespective of their purpose or the intention for which they are held.

If there are no quoted prices on active markets for derivative financial instruments, credit risk is taken into account as an adjustment to the fair value of the financial instrument. The BMW Group applies the option of measuring the credit risk for a group of financial assets and financial liabilities on the basis of its net exposure. Portfolio-based value adjustments to the individual financial assets and financial liabilities are allocated using the relative fair value approach (net method).

Derivative 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 profit or loss or in other comprehensive income as a component of 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 case within the BMW Group, hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the income statement.

In accordance with IAS 12 (Income Taxes), **deferred taxes** are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward to the extent that future usage is probable. 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.

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

Work in progress and finished goods are stated at the lower of average manufacturing cost and net realisable value. Manufacturing cost 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.

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

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

Assets held for sale and **disposal groups held for sale** are presented separately in the balance sheet in accordance with IFRS 5, if the carrying amount of the relevant assets will be recovered principally through a sale transaction rather than through continuing use. This situation only arises if the assets can be sold immediately in their present condition, the sale is expected to be completed within one year from the date of classification and the sale is highly probable. At the date of classification, property, plant and equipment, intangible assets and disposal groups which are being held for sale are measured at the lower of their carrying amount and their fair value less costs to sell and scheduled depreciation/amortisation ceases. This does not apply, however, to items within the disposal group which are not covered by the measurement rules contained in IFRS 5. Simultaneously, liabilities directly related to the sale are presented separately on the equity and liabilities side of the balance sheet as "**Liabilities in conjunction with assets held for sale**".

Provisions for pensions are recognised 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.

Remeasurements of the net defined benefit liability for pension plans are recognised, net of deferred tax, directly in equity (revenue reserves).

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

Other provisions are recognised when the BMW Group has a present obligation (legal or constructive) arising from past events, the settlement of which is probable and when a reliable estimate can be made of the amount of the obligation. Measurement of provisions is based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the end of the reporting period.

Financial liabilities are measured on first-time recognition at cost which corresponds to the fair value of the consideration given. Transaction costs are also taken into account except for financial liabilities allocated to the category "financial liabilities measured at fair value through profit or loss". Subsequent to initial recognition, liabilities are – with the exception of derivative financial instruments – measured at amortised cost using the effective interest method. The BMW Group has no liabilities which are held for trading. Liabilities from finance leases are stated at the present value of the future lease payments and disclosed under other financial liabilities.

7 — Assumptions, judgements and estimations

The preparation of the Group Financial Statements in accordance with IFRSs requires management to make certain **assumptions and judgements** and to use **estimations** that can affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. Major items requiring assumptions and estimations are described below. The assumptions used are continuously checked for their validity. Actual amounts could differ from the assumptions and estimations used if business conditions develop differently to the Group's expectations.

Estimations are required to assess the **recoverability of a cash-generating unit (CGU).** If the recoverability 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 an assessment of the forecasting period to be used and of developments after that period. For the purposes of determining future cash inflows and outflows, management applies forecasting assumptions which are continually brought up to date and regularly compared with external sources of information. The assumptions used take account in particular of expectations of the profitability of the product portfolio, future market share developments, macroeconomic developments (such as currency, interest rate and raw materials) as well as the legal environment and past experience.

The BMW Group regularly checks the **recoverability of its leased products.** One of the main assumptions 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 the estimations made. Further information is provided in note 25.

The bad debt risk relating to **receivables from sales financing** is assessed regularly by the BMW Group. For these purposes, the main factors taken into consideration are past experience, current market data (such as the level of financing business arrears), rating classes and scoring information. Further information is provided in note 28.

The calculation of **deferred tax** assets requires assumptions to be made with regard to the level of future taxable income and the timing of recovery of deferred tax assets. These assumptions take account of forecast operating results and the impact on earnings of the reversal of taxable temporary differences. Since future business developments cannot be predicted with certainty and to some extent cannot be influenced by the BMW Group, the measurement of deferred tax assets is subject to uncertainty. Further information is provided in note 17.

Current income taxes are computed throughout the BMW Group in accordance with tax legislation applicable in each relevant country. In situations where a permissible element of discretion has been applied in determining the amount of a tax exposure to be recognised in the financial statements, there is always a possibility that local tax authorities may reach a different conclusion.

The calculation of **pension provisions** requires assumptions to be made with regard to discount factors, salary trends, employee fluctuation and the life expectancy of employees. As in previous years, discount factors are determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group. Further information is provided in note 36.

Estimations are required for the purposes of recognising and measuring **provisions for warranty obligations (statutory, contractual and voluntary).** In addition to statutorily prescribed manufacturer warranties, the BMW Group also offers various categories of warranty depending on the product and sales market concerned. Warranty provisions are recognised when the risks and rewards of ownership of the goods are transferred to the dealer or retail customer or when a new category of warranty is introduced. In order to determine the level of the provision, various factors are taken into consideration, including estimations based on past experience with the nature and amount of claims. These estimations also involve assessing the future level of potential repair costs and price increases per product and market. Provisions for warranties are adjusted regularly to take account of new circumstances and the impact of any changes recognised in the income statement. Further information is provided in note 37. Similar estimates are also made in conjunction with the measurement of expected reimbursement claims.

In the event of involvement in legal proceedings or when claims are brought against a Group entity, **provisions for litigation and liability risks** are recognised when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Management is required to make assumptions with respect to the probability of occurrence, the amount involved and the duration of the legal dispute. For these reasons, the recognition and measurement of provisions for litigation and liability risks are subject to uncertainty. Further information is provided in note 37.

In addition, judgement is required in particular when assessing whether the risks and rewards incidental to ownership of a leased asset have been transferred for the purposes of determining the classification of leasing arrangements.

Determining the scope of consolidated companies to be included in the Group Financial Statements may involve the use of judgement. In particular when the BMW Group holds 50 % or less of the voting rights, a detailed assessment must be made as to whether sole control, joint control or significant influence applies. For instance, other contractual rights and/or other matters and circumstances could result in the conclusion that the BMW entity concerned controls or jointly controls an entity in which it has a participation. In the latter case, it must then be decided whether the joint arrangement is a joint operation or a joint venture. In making its judgement, the BMW Group must take all contractual arrangements and other circumstances into account, and not just the structure and legal form of the entity. A new assessment is made in the event of any indication of changes in the previous assessment of (joint) control. Further information is provided in note 2.

8 — New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2014

The following Standards, Revised Standards, Amendments and Interpretations were applied for the first time in the financial year 2014:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Impact on BMW Group
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 Interest 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	1.1.2014	Significant in principle
	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	31.10.2012	1.1.2014	1.1.2014	Insignificant
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
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	27.6.2013	1.1.2014	1.1.2014	Insignificant

Information regarding the introduction and impact of the consolidation-related Standards IFRS 10, IFRS 11 and IFRS 12 is provided note 9.

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

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IFRS 9	Financial Instruments	12.11.2009 / 28.10.2010 / 16.12.2011 / 19.11.2013 / 24.7.2014	1.1.2018	No	Significant in principle
IFRS 10 / IAS 28	Sale or Contribution of Assets between an Investor and an Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	11.9.2014	1.1.2016	No	Insignificant
IFRS 10 / IFRS 12 / IAS 28	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	18.12.2014	1.1.2016	No	Insignificant
IFRS 11	Acquisition of an Interest in a Joint Operation (Amendments to IFRS 11)	6.5.2014	1.1.2016	No	Insignificant
IFRS 14	Regulatory Deferral Accounts	30.1.2014	1.1.2016	No	Insignificant
IFRS 15	Revenue from Contracts with Customers	28.5.2014	1.1.2017	No	Significant in principle

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IAS 1	Presentation of Financial Statements (Initiative to Improve Disclosure Requirements – Amendments to IAS 1)	18.12.2014	1.1.2016	No	Significant in principle
IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	12.5.2014	1.1.2016	No	Insignificant
IAS 16 / IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	30.6.2014	1.1.2016	No	None
IAS 19	Employment Benefits: Employee Contributions (Amendments to IAS 19)	21.11.2013	1.7.2014	1.2.2015[1]	Insignificant
IAS 27	Equity Method in Separate Financial Statements (Amendments to IAS 27)	12.8.2014	1.1.2016	No	None
IFRIC 21	Levies	20.5.2013	1.1.2014	17.6.2014[2]	Insignificant
	Annual Improvements to IFRS 2010–2012	12.12.2013	1.7.2014	1.2.2015[1]	Insignificant
	Annual Improvements to IFRS 2011–2013	12.12.2013	1.7.2014	1.1.2015	Insignificant
	Annual Improvements to IFRS 2012–2014	25.9.2014	1.1.2016	No	Insignificant

[1] Mandatory application in annual periods beginning on or after 1 February 2015.
[2] Mandatory application in annual periods beginning on or after 17 June 2014.

In November 2009 the IASB issued IFRS 9 (Financial Instruments) as part of a project to revise the accounting 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 initially only with financial assets. IFRS 9 amends the recognition and measurement requirements for financial assets, including various hybrid contracts.

Financial assets are measured at either amortised cost or fair value. IFRS 9 harmonises the various rules contained in IAS 39 and reduces the number of valuation categories for financial instruments 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.

In October 2010, additional rules for financial liabilities were added to IFRS 9. The requirements for financial liabilities contained in IAS 39 remain unchanged with the exception of new requirements relating to the measurement of an entity's own credit risk at fair value. A package of amendments to IFRS 9 was announced on 19 November 2013. On the one hand, the amendments overhaul the requirements for hedge accounting by introducing a new hedge accounting model. They also enable entities to change the accounting for liabilities they have elected to measure at fair value, before applying any other requirement in IFRS 9, such that fair value changes due to changes in "own credit risk" would not require to be recognised in profit or loss. The mandatory effective date of 1 January 2015 was removed and a new application date of 1 January 2018 set. The impact of adoption of the Standard on the Group Financial Statements is currently being assessed.

In May 2014 the IASB issued IFRS 15 (Revenue from Contracts with Customers) together with the Financial Accounting Standards Board. The objective of the new Standard is to assimilate all the various existing requirements and Interpretations relating to revenue recognition (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC-31 Revenue – Barter Transactions involving Advertising Services) in a single Standard. The new Standard also stipulates uniform revenue recognition principles for all sectors and all categories.

The new Standard is based on a five-step model, which sets out the rules for revenue from contracts with customers, with the exception – among other things – of lease arrangements, insurance contracts, financial instruments and specified contractual rights and obligations relating to non-monetary transactions between entities within the same sector. Revenue can be recognised either over time or at a specific point in time. The five-step model describes the five steps necessary to recognise revenue on the basis of the transfer of control:
1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to separate performance obligations
5. Recognise revenue when a performance obligation is satisfied.

In the case of multi-component transactions or transactions with variable consideration, it is possible that revenue may have to be recognised earlier or later under IFRS 15 compared with the previous Standard.

A major difference to the previous Standard is the increased scope of discretion for estimates and the introduction of thresholds that could influence the amount and timing of revenue recognition.

The Standard is mandatory for the first time for annual periods beginning on or after 1 January 2017. Early adoption is permitted under IFRS. The impact of adoption of the new requirements on the Group Financial Statements is currently being assessed.

In December 2014, the IASB issued Amendments to IAS 1 as part of its disclosure initiative. The amendments relate primarily to clarifications relating to the presentation of financial reports.

Firstly, disclosures are only required to be made in the notes if their inclusion is material for users of the financial statements. This also applies when an IFRS Standard explicitly specifies a minimum list of disclosures. Secondly, items to be presented in the balance sheet, income statement and comprehensive income can be aggregated or disaggregated by using subtotals. Thirdly, it clarifies that an entity's share of other comprehensive income of equity-accounted entities is required to be analysed – within the Statement of Comprehensive Income – to show "components, which will be subsequently reclassified to profit and loss" and "components, which will be not subsequently reclassified to profit and loss". Fourthly, it is stressed that there is no standard template for the notes and that the emphasis should be on structuring the notes based on the relevance for the specific reporting entity.

The Standard is mandatory for the first time for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The potential impact of adoption of the new requirements on the Group Financial Statements is currently being assessed.

9 — Adjustments in accordance with IAS 8

Adjustments as a result of consolidation-related Standards

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 (Separate Financial Statements) and to IAS 28 (Investments in Associates and Joint Ventures), all relating to accounting for business combinations. The three new Standards, which were endorsed by the EU in December 2012, are mandatory for the first time for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

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 consolidation 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 Venturers). 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 resulting from 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 of interests in other entities, including joint arrangements, associated companies, structured entities and unconsolidated entities.

Application of IFRS 10 has no impact on the scope of entities included in the Group Financial Statements. The removal of the option for accounting for joint ventures (as stipulated by IFRS 11) does not have any impact since the BMW Group already accounted for joint ventures using the equity method. By contrast, the classification of joint arrangements in accordance with IFRS 11 has changed. The investments in SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE – previously accounted for at equity – have been classified with effect from the first quarter of the financial year 2014 as joint operations and consolidated proportionately on the basis of the BMW Group's 49 % shareholding. This change in classification reflects the fact that the arrangement is primarily designed to provide the joint operators with an output (i.e. production) as well as the fact that settlement of the liabilities relating to the activities conducted through the arrangement depends on both parties on a continuous basis. Application of IFRS 12 impacts the scope of disclosures required to be made in the notes to the BMW Group Financial Statements, in particular the requirement to disclose more detailed financial information with respect to significant joint ventures. Further details can be found in note 26.

The new requirements pertaining to IFRS 10, IFRS 11 and IFRS 12 are required to be applied retrospectively. In accordance with IAS 8.14, the resulting adjustments relating to the financial year 2013 are presented in the tables at the end of this section. The transition requirements contained in these new Standards were complied with and, accordingly, the impact on the Group's Balance Sheet, Income Statement and Cash Flow Statement is not presented separately for the financial year 2014.

Restatement of income taxes in conjunction with leased products in the USA

In previous years, there had been a misallocation between current and deferred income taxes for leased products in the USA. The figures have been restated in accordance with IAS 8.41 et seq., involving a reclassification from deferred tax liabilities to current tax payables. The related interest and penalty charges up to 31 December 2012 were recorded directly in equity (in revenue reserves). Interest relating to the financial year 2013 is reported as an expense for that period (in financial result).

Prior year figures in the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement and Notes to the Group Financial Statements have been restated retrospectively. The restatements also impacted the figures reported for the Financial Services and Other Entities segments. The Financial Service's segment result for 2013 was reduced by €20 million and amounted to €1,619 million after restatement, while segment assets were reduced by €19 million to €8,388 million. Segment assets reported for the Other Entities segment amounted to €55,300 million at the end of the financial year 2013, correcting the previously reported amount by €1,050 million. The tables at the end of this section show the impact for the Group.

Change in presentation of term deposits within the Cash Flow Statement

The BMW Group uses a broad range of instruments on international capital markets to manage its liquidity. Due to the situation on the financial markets, the BMW Group is increasingly investing in term deposits with longer terms (i.e. money deposits that mature after more than three months). Term deposits were previously reported in the Cash Flow Statement on the line "Change in other operating assets and liabilities" within operating cash flows. Since the payments related to these money deposits qualify as instruments pursuant to IAS 7.16c–d, they are required to be presented as cash flows from investing activities. In accordance with IAS 8.41 et seq., these amounts have been reclassified to the line items "Investments in marketable securities and term deposits" and "Proceeds from the sale of marketable securities and from matured term deposits". As a result of the reclassification, the net cash inflow from operating activities in the previous year increased by €500 million, whereas the net cash outflow for investing activities was increased by the same amount.

Changes in Group Balance Sheet presentation

1 January 2013 in € million	As originally reported	Adjustments in accordance with IAS 8.14	Restatements in accordance with IAS 8.41 et seq.	As reported
Total assets	131,835	4	–	131,839
Total non-current assets	81,305	–7	–	81,298
thereof property, plant and equipment	13,341	35	–	13,376
thereof investments accounted for using the equity method	514	–9	–	505
thereof non-current other assets	803	–33	–	770
Total current assets	50,530	11	–	50,541
thereof inventories	9,725	7	–	9,732
thereof cash and cash equivalents	8,370	4	–	8,374
Total equity	30,606	–	–34	30,572
thereof equity attributable to shareholders of BMW AG	30,499	–	–34	30,465
thereof revenue reserves	28,544	–	–34	28,510
Total non-current provisions and liabilities	52,834	–	–947	51,887
thereof other provisions	3,441	–	40	3,481
thereof deferred tax	3,081	–	–987	2,094
Total current provisions and liabilities	48,395	4	981	49,380
thereof current tax	1,482	–	981	2,463
thereof trade payables	6,433	4	–	6,437

31 December 2013 in € million	As originally reported	Adjustments in accordance with IAS 8.14	Restatements in accordance with IAS 8.41 et seq.	As reported
Total assets	138,368	9	–	138,377
Total non-current assets	86,194	–1	–	86,193
thereof property, plant and equipment	15,113	55	–	15,168
thereof investments accounted for using the equity method	652	–14	–	638
thereof non-current other assets	954	–42	–	912
Total current assets	52,174	10	–	52,184
thereof inventories	9,585	10	–	9,595
thereof current other assets	4,265	–7	–	4,258
thereof cash and cash equivalents	7,664	7	–	7,671
Total equity	35,643	–	–43	35,600
thereof equity attributable to shareholders of BMW AG	35,455	–	–43	35,412
thereof revenue reserves	33,167	–	–45	33,122
thereof accumulated other equity	–358	–	2	–356
Total non-current provisions and liabilities	52,682	–	–1,039	51,643
thereof other provisions	3,772	–	56	3,828
thereof deferred tax	3,554	–	–1,095	2,459
Total current provisions and liabilities	50,043	9	1,082	51,134
thereof other provisions	3,411	1	–	3,412
thereof current tax	1,237	–	1,082	2,319
thereof trade payables	7,475	10	–	7,485
thereof other liabilities	7,066	–2	–	7,064

Changes in Group Income Statement presentation

2013 in € million	As originally reported	Adjustments in accordance with IAS 8.14	Restatements in accordance with IAS 8.41 et seq.	As reported
Revenues	76,058	1	–	76,059
Cost of sales	–60,784	–7	–	–60,791
Gross profit	15,274	–6	–	15,268
Selling and administrative expenses	–7,255	–2	–	–7,257
Other operating income	841	1	–	842
Other operating expenses	–874	–1	–	–875
Profit/loss before financial result	7,986	–8	–	7,978
Result from equity accounted investments	398	9	–	407
Interest and similar income	184	–1	–	183
Interest and similar expenses	–449	–	–20	–469
Financial result	–73	8	–20	–85
Profit/loss before tax	7,913	–	–20	7,893
Income taxes	–2,573	–	9	–2,564
Net profit	5,340	–	–11	5,329
Attributable to shareholders of BMW AG	5,314	–	–11	5,303
Basic earnings per share of common stock in €	8.10	–	–0.02	8.08
Basic earnings per share of preferred stock in €	8.12	–	–0.02	8.10
Diluted earnings per share of common stock in €	8.10	–	–0.02	8.08
Diluted earnings per share of preferred stock in €	8.12	–	–0.02	8.10

Changes in presentation of the Statement of Comprehensive Income

2013 in € million	As originally reported	Restatements in accordance with IAS 8.41 et seq.	As reported
Net profit	5,340	–11	5,329
Currency translation foreign operations	–635	2	–633
Items expected to be reclassified to the income statement in the future	316	2	318
Other comprehensive income for the period after tax	1,252	2	1,254
Total comprehensive income	6,592	–9	6,583
Total comprehensive income attributable to shareholders of BMW AG	6,566	–9	6,557

Changes in Group Cash Flow Statement presentation

2013 in € million	As originally reported	Adjustments in accordance with IAS 8.14	Restatements in accordance with IAS 8.41 et seq.		As reported
			USA	Term deposits	
Cash inflow from operating activities	3,614	13	–	500	4,127
Net profit	5,340	–	–11	–	5,329
Current tax	2,435	–	146	–	2,581
Other interest and similar income / expenses	126	1	20	–	147
Depreciation and amortisation of other tangible, intangible and investment assets	3,830	2	–	–	3,832
Change in provisions	479	1	–	–	480
Change in deferred taxes	138	–	–155	–	–17
Other non-cash income and expense items	–551	–1	–	–	–552
Gain/loss on disposal of tangible and intangible assets and marketable securities	–22	1	–	–	–21
Result from equity accounted investments	–398	–9	–	–	–407
Changes in working capital	983	3	–	–	986
Change in inventories	–192	–3	–	–	–195
Change in trade payables	1,153	6	–	–	1,159
Change in other operating assets and liabilities	453	16	–	500	969
Interest received	137	–1	–	–	136
Cash outflow from investing activities	–6,981	–10	–	–500	–7,491
Investment in intangible assets and property, plant and equipment	–6,669	–24	–	–	–6,693
Expenditure for investments	–90	14	–	–	–76
Investments in marketable securities and time deposits	–3,631	–	–	–500	–4,131
Change in cash and cash equivalents	–706	3	–	–	–703
Cash and cash equivalents as at 1 January	8,370	4	–	–	8,374
Cash and cash equivalents as at 31 December	7,664	7	–	–	7,671

10 – Revenues

Revenues by activity comprise the following:

in € million	2014	2013*
Sales of products and related goods	**60,280**	56,812
Income from lease instalments	**7,748**	7,296
Sale of products previously leased to customers	**6,716**	6,412
Interest income on loan financing	**2,881**	2,868
Other income	**2,776**	2,671
Revenues	**80,401**	**76,059**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

An analysis of revenues by business segment and geographical region is shown in the segment information in note 50.

11 – Cost of sales

Cost of sales comprises:

in € million	2014	2013*
Manufacturing costs	**38,253**	36,578
Research and development expenses	**4,135**	4,118
Warranty expenditure	**1,451**	1,243
Cost of sales directly attributable to financial services	**14,716**	14,044
Interest expense relating to financial services business	**1,407**	1,483
Expense for risk provisions and write-downs for financial services business	**362**	435
Other cost of sales	**3,072**	2,890
Cost of sales	**63,396**	**60,791**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Group cost of sales include €16,485 million (2013: €15,962 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 €54 million (2013: €45 million).

Total research and development expenditure comprises research costs, non-capitalised development costs and capitalised development costs (excluding scheduled amortisation). Total research and development expenditure was as follows:

in € million	2014	2013*
Research and development expenses	**4,135**	4,118
Amortisation	**–1,068**	–1,069
New expenditure for capitalised development costs	**1,499**	1,744
Total research and development expenditure	**4,566**	**4,793**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

12 – Selling and administrative expenses

Selling expenses amounted to €5,344 million (2013*: €4,886 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative expenses amounted to €2,548 million (2013*: €2,371 million) and comprise expenses for administration not attributable to development, production or sales functions.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

13 — Other operating income and expenses

in € million	2014	2013*
Exchange gains	**311**	346
Income from the reversal of provisions	**184**	183
Income from the reversal of impairment losses and write-downs	**30**	13
Gains on the disposal of assets	**101**	53
Sundry operating income	**251**	247
Other operating income	**877**	**842**
Exchange losses	**–334**	–324
Expense for additions to provisions	**–225**	–265
Expense for impairment losses and write-downs	**–86**	–37
Losses on the disposal of assets	**–25**	–27
Sundry operating expenses	**–202**	–222
Other operating expenses	**–872**	**–875**
Other operating income and expenses	**5**	**–33**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

14 — Result from equity accounted investments

The profit from equity accounted investments amounted to €655 million (2013*: €407 million) and includes primarily the Group's share of the result of the joint venture, BMW Brilliance Automotive Ltd., Shenyang.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

15 — Net interest result

in € million	2014	2013*
Other interest and similar income	**200**	183
— thereof from subsidiaries: €18 million (2013*: €17 million)		
Interest and similar income	**200**	**183**
Net interest expense on the net defined benefit liability for pension plans	**–88**	–127
Expense relating to interest impact on other long-term provisions	**–105**	–5
Write-downs on current marketable securities	**–**	–7
Other interest and similar expenses	**–326**	–330
— thereof to subsidiaries: €–6 million (2013: €–6 million)		
Interest and similar expenses	**–519**	**–469**
Net interest result	**–319**	**–286**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

16 — Other financial result

in € million	2014	2013
Income from investments in subsidiaries and participations	**3**	12
— thereof from subsidiaries: €2 million (2013: €8 million)		
Impairment losses on investments in subsidiaries and participations	**–153**	–91
Expenses from investments in subsidiaries	**–**	–2
Result on investments	**–150**	**–81**
Losses and gains relating to financial instruments	**–597**	–125
Sundry other financial result	**–597**	**–125**
Other financial result	**–747**	**–206**

The result from investments in 2014 was negatively impacted by an impairment loss on other investments amounting to €152 million (2013: €73 million).

The deterioration in other financial result was primarily due to the negative impact of currency and commodity derivatives.

17 — Income taxes

Taxes on income comprise the following:

in € million	2014	2013*
Current tax expense	**2,774**	2,581
Deferred tax expense / income	**116**	–17
Income taxes	**2,890**	**2,564**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Current tax expense includes €275 million (2013: €222 million) relating to prior periods.

A deferred tax expense of €83 million (2013*: income of €42 million) is attributable to new temporary differences and the reversal of temporary differences brought forward.

The tax expense was reduced by €27 million (2013: €5 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 €49 million (2013: €7 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 %, unchanged from the previous year. After taking account of an average municipal trade tax multiplier rate (Hebesatz) of 425.0 % (2013: 420.0 %), the municipal trade tax rate for German entities is 14.9 % (2013: 14.7 %). The overall income tax rate in Germany is therefore 30.7 % (2013: 30.5 %). 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 % once again in the financial year 2014. Changes in tax rates resulted in a deferred tax expense of €22 million (2013: €2 million).

The actual tax expense for the financial year 2014 of €2,890 million (2013*: €2,564 million) is €217 million (2013*: €157 million) higher than the expected tax expense of €2,673 million (2013*: €2,407 million) which would theoretically arise if the tax rate of 30.7 % (2013: 30.5 %), applicable for German companies, was applied across the Group.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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

in € million	2014	2013*
Profit before tax	8,707	7,893
Tax rate applicable in Germany	30.7%	30.5%
Expected tax expense	2,673	2,407
Variances due to different tax rates	–55	–134
Tax increases (+)/tax reductions (–) as a result of non-deductible expenses and tax-exempt income	150	164
Tax expense (+)/benefits (–) for prior years	275	222
Other variances	–153	–95
Actual tax expense	2,890	2,564
Effective tax rate	33.2%	32.5%

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Tax increases as a result of non-deductible expenses and tax reductions due to tax-exempt income remained more or less at a similar level to the previous year. As in the previous year, tax increases as a result of non-tax-deductible expenses were attributable primarily to the impact of non-recoverable withholding taxes and transfer price issues.

The line "Other variances" comprises primarily reconciling items relating to the Group's share of results of equity accounted investments.

The allocation of deferred tax assets and liabilities to **balance sheet line items** at 31 December is shown in the following table:

	Deferred tax assets		Deferred tax liabilities	
in € million	2014	2013*	2014	2013*
Intangible assets	11	9	1,706	1,571
Property, plant and equipment	50	26	400	264
Leased products	393	436	5,486	4,498
Investments	5	6	12	5
Other assets	1,289	1,078	2,687	3,747
Tax loss carryforwards	566	512	–	–
Provisions	4,175	3,220	95	47
Liabilities	2,827	2,955	602	449
Eliminations	2,945	2,570	690	661
	12,261	10,812	11,678	11,242
Valuation allowance	–496	–409	–	–
Netting	–9,704	–8,783	–9,704	–8,783
Deferred taxes	2,061	1,620	1,974	2,459
Net	87			839

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Deferred tax assets on tax loss carryforwards and capital losses before allowances totalled €566 million (2013*: €512 million). After valuation allowances of €496 million (2013: €409 million), their carrying amount stood at €70 million (2013*: €103 million).

Tax losses available for carryforward – for the most part usable without restriction – amounted to €469 million (2013*: €402 million). This includes an amount of €228 million (2013: €42 million), for which a valuation allowance of €74 million (2013: €14 million) was recognised on the related deferred tax asset. For entities with tax losses available for carryforward, a net surplus of deferred tax assets over deferred tax liabilities is reported at

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

31 December 2014 amounting to €140 million (2013: €192 million). Deferred tax assets are recognised on the basis of management's assessment of whether it is probable that the relevant entities will generate sufficient future taxable profits, against which deductible temporary differences can be offset.

Capital losses available for carryforward in the United Kingdom which do not relate to ongoing operations increased to €2,112 million due to exchange rate factors (2013: €1,975 million). As in previous years, deferred tax assets recognised on these tax losses – amounting to €422 million at the end of the reporting period (2013: €395 million) – were fully written down since they can only be utilised against future capital gains.

Netting relates to the offset of deferred tax assets and liabilities within individual separate entities or tax groups to the extent that they relate to the same tax authorities.

Deferred taxes recognised directly in **equity** amounted to €1,889 million (2013: €451 million), an increase of €1,438 million (2013: decrease of €771 million) compared to the previous year. The change includes an increase in deferred taxes recognised in conjunction with currency translation amounting to €9 million (2013: reduction of €1 million).

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

in € million	2014	2013*
Deferred taxes at 1 January (assets (–)/liabilities (+))	**839**	128
Deferred tax expense (+)/income (–) recognised through income statement	**116**	–17
Change in deferred taxes recognised directly in equity	**–1,429**	770
Exchange rate impact and other changes	**387**	–42
Deferred taxes at 31 December (assets (–)/liabilities (+))	**–87**	**839**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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 fluctuations, first-time consolidations and deconsolidations. Deferred taxes recognised directly in equity increased in total by €1,429 million (2013: decrease of €770 million). Of this amount, €759 million (2013: €421 million) related to the fair value measurement of derivative financial instruments and marketable securities (recognised directly in equity), shown in the summary above in the line items "Other assets" and "Liabilities". A further €670 million (2013: decrease of €349 million) related to the remeasurements of the net defined benefit liability for pension plans, shown in the summary above in the line item "Provisions".

Deferred taxes are not recognised on retained profits of €30.7 billion (2013: €28.0 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.

18 — Earnings per share

		2014	2013*
Net profit for the year after minority interest	€ million	**5,798.1**	5,302.8
Profit attributable to common stock	€ million	**5,317.7**	4,865.3
Profit attributable to preferred stock	€ million	**480.4**	437.5
Average number of common stock shares in circulation	number	**601,995,196**	601,995,196
Average number of preferred stock shares in circulation	number	**54,259,767**	53,993,635
Basic earnings per share of common stock	€	**8.83**	8.08
Basic earnings per share of preferred stock	€	**8.85**	8.10
Dividend per share of common stock	€	**2.90**	2.60
Dividend per share of preferred stock	€	**2.92**	2.62

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Basic earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. As in the previous year, diluted earnings per share correspond to basic earnings per share.

19 — Other disclosures relating to the income statement

Personnel expenses

The income statement includes personnel expenses as follows:

in € million	2014	2013*
Wages and salaries	**8,094**	7,401
Social security, retirement and welfare costs	**1,670**	1,591
— thereof pension costs: €991 million (2013: €958 million)		
Personnel expenses	**9,764**	**8,992**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Personnel expenses include €42 million (2013: €48 million) of expenditure incurred to adjust the workforce size.

The average number of employees during the year was:

	2014	2013*
Employees	**105,743**	100,057
— thereof 186 (2013: 96) at proportionately-consolidated entities		
Apprentices and students gaining work experience	**7,560**	7,165
— thereof 2 (2013: 3) at proportionately-consolidated entities		
Average number of employees	**113,303**	**107,222**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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

Fee expense

The fee expense pursuant to § 314 (1) no. 9 HGB recognised in the financial year 2014 for the Group auditors amounted to €23 million (2013: €26 million) and consists of the following:

in € million	2014	2013
Audit of financial statements	**15**	14
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	3	3
Other attestation services	**2**	3
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	1	2
Tax advisory services	**4**	7
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	1	3
Other services	**2**	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	1	1
Fee expense	**23**	**26**
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	6	9

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.

Government grants and government assistance

Income from asset-related and performance-related grants, amounting to €30 million (2013*: €25 million) and €73 million (2013: €73 million) respectively, were recognised in the income statement in 2014.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

20 Share-based remuneration

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

In the case of the Employee Share Programme, non-voting shares of preferred stock in BMW AG were granted to qualifying employees during the financial year 2014 at favourable conditions (see note 35 for the number and price of issued shares). The holding period for these shares is up to 31 December 2017. The BMW Group recorded a personnel expense of €6 million (2013: €5 million) for the Employee Share Programme in 2014, corresponding to the difference between the market price and the reduced price of the shares of preferred stock purchased by employees. The Board of Management reserves the right to decide anew each year with respect to an Employee Share Programme.

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

Each Board of Management member is required to invest 20 % of his/her total bonus (after tax) in shares of BMW AG common stock, which are recorded in a separate custodian account for each member concerned (annual tranche). Each annual tranche is subject to a holding period of four years (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 department heads 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 2014).

The total carrying amount of the provision for the share-based remuneration component of eligible current and former Board of Management members and department heads at 31 December 2014 was €3,096,674 (2013: €1,647,188).

The total expense recognised in 2014 for the share-based remuneration component of eligible current and former Board of Management members and department heads was €1,449,486 (2013: €989,912).

The fair value of the programmes for Board of Management members and department heads at the date of grant of the share-based remuneration components was €1,479,939 (2013: €1,453,500), based on a total of 17,712 shares (2013: 19,196 shares) of BMW AG common stock or a corresponding cash-based settlement measured at the relevant market share price prevailing on the grant date.

Further details on the remuneration of the Board of Management are provided in the 2014 Compensation Report, which is part of the Combined Management Report.

21 — Disclosures relating to total comprehensive income

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

in € million	2014	2013*
Remeasurement of the net defined benefit liability for pension plans	**–2,298**	1,308
Deferred taxes	**706**	–372
Items not expected to be reclassified to the income statement in the future	**–1,592**	**936**
Available-for-sale securities	**40**	8
thereof gains/losses arising in the period under report	109	48
thereof reclassifications to the income statement	–69	–40
Financial instruments used for hedging purposes	**–2,194**	1,357
thereof gains/losses arising in the period under report	–1,939	1,536
thereof reclassifications to the income statement	–255	–179
Other comprehensive income from equity accounted investments	**–48**	–7
Deferred taxes	**732**	–407
Currency translation foreign operations	**764**	–633
Items expected to be reclassified to the income statement in the future	**–706**	**318**
Other comprehensive income for the period after tax	**–2,298**	**1,254**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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

in € million	2014			2013*		
	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Remeasurement of the net defined benefit liability for pension plans	**–2,298**	**706**	**–1,592**	1,308	–372	936
Available-for-sale securities	**40**	**–34**	**6**	8	19	27
Financial instruments used for hedging purposes	**–2,194**	**719**	**–1,475**	1,357	–425	932
Other comprehensive income from equity accounted investments	**–48**	**47**	**–1**	–7	–1	–8
Currency translation foreign operations	**764**	**–**	**764**	–633	–	–633
Other comprehensive income	**–3,736**	**1,438**	**–2,298**	**2,033**	**–779**	**1,254**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Other comprehensive income arising at the level of equity accounted investments is reported in the Statement of Changes in Equity within "Translation differences" with a positive amount of €140 million (2013: negative amount of €10 million) and within "Derivative financial instruments" with a negative amount of €141 million (2013: positive amount of €2 million).

22 — Analysis of changes in Group tangible, intangible and investment assets 2014

in € million	Acquisition and manufacturing cost: 1.1.2014[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12. 2014
Development costs	9,667	–	1,499	–	1,825	**9,341**
Goodwill	374	–	–	–	5	**369**
Other intangible assets	1,459	15	62	–	93	**1,443**
Intangible assets	**11,500**	**15**	**1,561**	**–**	**1,923**	**11,153**
Land, titles to land, buildings, including buildings on third party land	8,812	207	407	428	51	**9,803**
Plant and machinery	28,843	607	2,436	2,023	1,145	**32,764**
Other facilities, factory and office equipment	2,355	65	207	32	149	**2,510**
Advance payments made and construction in progress	2,972	37	1,489	–2,483	1	**2,014**
Property, plant and equipment	**42,982**	**916**	**4,539**	**–**	**1,346**	**47,091**
Leased products	**32,486**	**1,954**	**14,576**	**–**	**12,047**	**36,969**
Investments accounted for using the equity method	**638**	**–**	**600**	**–**	**150**	**1,088**
Investments in non-consolidated subsidiaries	240	2	41	–	57	**226**
Participations	575	–	66	–	–	**641**
Non-current marketable securities	–	–	–	–	–	**–**
Other investments	**815**	**2**	**107**	**–**	**57**	**867**

[1] Including first-time consolidations.
[2] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[3] Including assets under construction of €1,679 million.

Analysis of changes in Group tangible, intangible and investment assets 2013[1]

in € million	Acquisition and manufacturing cost: 1.1.2013[2]	Adjust-ment[3]	Translation differences	Additions	Reclassi-fications	Disposals	31.12. 2013
Development costs	8,488	–	–	1,744	–	565	**9,667**
Goodwill	374	–	–	–	–	–	**374**
Other intangible assets	1,008	–	–6	473	–	22	**1,453**
Intangible assets	**9,870**	**–**	**–6**	**2,217**	**–**	**587**	**11,494**
Land, titles to land, buildings, including buildings on third party land	8,182	–	–125	489	226	51	**8,721**
Plant and machinery	26,823	–	–212	2,210	982	961	**28,842**
Other facilities, factory and office equipment	2,314	–	–55	178	15	121	**2,331**
Advance payments made and construction in progress	2,617	–	–37	1,617	–1,223	3	**2,971**
Property, plant and equipment	**39,936**	**–**	**–429**	**4,494**	**–**	**1,136**	**42,865**
Leased products[4]	**31,412**	**–46**	**–734**	**13,192**	**–**	**11,338**	**32,486**
Investments accounted for using the equity method	**514**	**–**	**–**	**361**	**–**	**237**	**638**
Investments in non-consolidated subsidiaries	205	–	–1	66	–	30	**240**
Participations	571	–	–	6	–	2	**575**
Non-current marketable securities	–	–	–	–	–	–	**–**
Other investments	**776**	**–**	**–1**	**72**	**–**	**32**	**815**

[1] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Including mergers.
[3] Amended for the effect of refining the accounting policy for leased products as described in note 6 to the Group Financial Statements 2013.
[4] This line includes the adjustments described in note 24 to the Group Financial Statements 2013.
[5] Including assets under construction of €2,570 million.

Depreciation and amortisation						Carrying amount		
1.1.2014[1]	Translation differences	Current year	Changes not effecting net income	Disposals	**31.12. 2014**	**31.12. 2014**	31.12. 2013[2]	
4,645	–	1,068	–	1,825	**3,888**	**5,453**	5,022	Development costs
5	–	–	–	–	**5**	**364**	369	Goodwill
665	10	178	–	92	**761**	**682**	788	Other intangible assets
5,315	**10**	**1,246**	**–**	**1,917**	**4,654**	**6,499**	**6,179**	**Intangible assets**
3,849	85	282	–	38	**4,178**	**5,625**	4,890	Land, titles to land, buildings, including buildings on third party land
22,071	431	2,461	–	1,129	**23,834**	**8,930**	6,771	Plant and machinery
1,809	52	181	–	145	**1,897**	**613**	536	Other facilities, factory and office equipment
–	–	–	–	–	**–**	**2,014**[3]	2,971	Advance payments made and construction in progress
27,729	**568**	**2,924**	**–**	**1,312**	**29,909**	**17,182**	**15,168**	**Property, plant and equipment**
6,572	**293**	**3,401**	**–**	**3,462**	**6,804**	**30,165**	**25,914**	**Leased products**
–	**–**	**–**	**–**	**–**	**–**	**1,088**	**638**	**Investments accounted for using the equity method**
76	1	1	–	16	**62**	**164**	166	Investments in non-consolidated subsidiaries
188	–	152	57	–	**397**	**244**	387	Participations
–	–	–	–	–	**–**	**–**	–	Non-current marketable securities
264	**1**	**153**	**57**	**16**	**459**	**408**	**553**	**Other investments**

Depreciation and amortisation							Carrying amount		
1.1.2013[2]	Adjustment[3]	Translation differences	Current year	Changes not effecting net income	Disposals	**31.12. 2013**	**31.12. 2013**	31.12. 2012	
4,141	–	–	1,069	–	565	**4,645**	**5,022**	4,347	Development costs
5	–	–	–	–	–	**5**	**369**	369	Goodwill
516	–	–11	178	–	18	**665**	**788**	491	Other intangible assets
4,662	**–**	**–11**	**1,247**	**–**	**583**	**5,315**	**6,179**	**5,207**	**Intangible assets**
3,667	–	–53	251	–	34	**3,831**	**4,890**	4,502	Land, titles to land, buildings, including buildings on third party land
21,099	–	–166	2,084	–	946	**22,071**	**6,771**	5,705	Plant and machinery
1,785	–	–40	159	–	109	**1,795**	**536**	530	Other facilities, factory and office equipment
–	–	–	–	–	–	**–**	**2,971**[5]	2,604	Advance payments made and construction in progress
26,551	**–**	**–259**	**2,494**	**–**	**1,089**	**27,697**	**15,168**	**13,341**	**Property, plant and equipment**
6,944	**–175**	**–132**	**3,215**	**–**	**3,280**	**6,572**	**25,914**	**24,468**	**Leased products**[4]
–	**–**	**–**	**–**	**–**	**–**	**–**	**638**	**514**	**Investments accounted for using the equity method**
58	–	–	16	–	–	**74**	**166**	147	Investments in non-consolidated subsidiaries
170	–	–	75	–57	–	**188**	**387**	401	Participations
–	–	–	–	–	–	**–**	**–**	–	Non-current marketable securities
228	**–**	**–**	**91**	**–57**	**–**	**262**	**553**	**548**	**Other investments**

23 — 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.

Other intangible assets include a brand-name right amounting to €46 million (2013: €43 million). This line item also includes goodwill of €33 million (2013: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €331 million (2013: €336 million) allocated to the Financial Services CGU, whereby the decrease compared to 31 December 2013 related to the sale of Noord Lease B.V., Groningen.

Intangible assets amounting to €46 million (2013: €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 2014.

As in the previous year 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 22.

24 — Property, plant and equipment

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 22.

As in the previous year, there was no requirement to recognise impairment losses in 2014.

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

Property, plant and equipment include a total of €67 million (2013: €42 million) relating to land and operational buildings, for which economic ownership is attributable to the BMW Group due to the nature of the lease arrangements (finance leases). Leases to which BMW AG is party, with a carrying amount of €64 million (2013: €37 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., Tokyo, has a carrying amount of €2 million (2013: €2 million) under a lease with a remaining term of 17 years. BMW Osaka Corp., Osaka, is party to finance leases running until 2022 for operational buildings with a carrying amount of €1 million at 31 December 2014 (2013: €2 million).

Minimum lease payments of the relevant leases are as follows:

in € million	**31.12.2014**	31.12.2013
Total of future minimum lease payments		
due within one year	**13**	14
due between one and five years	**53**	13
due later than five years	**53**	44
	119	71
Interest portion of the future minimum lease payments		
due within one year	**8**	3
due between one and five years	**25**	7
due later than five years	**12**	13
	45	23
Present value of future minimum lease payments		
due within one year	**5**	11
due between one and five years	**28**	6
due later than five years	**41**	31
	74	48

25 **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 €14,712 million (2013: €12,906 million) from non-cancellable operating leases fall due as follows:

in € million	31.12.2014	31.12.2013
within one year	**7,267**	6,314
between one and five years	**7,442**	6,587
later than five years	**3**	5
Minimum lease payments	**14,712**	**12,906**

Contingent rents of €56 million (2013: €171 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.

Impairment losses recognised on leased products totalled €137 million (2013: €139 million), while reversals of impairment losses totalled €44 million (2013: €104 million).

An analysis of changes in leased products is provided in note 22.

26 **Investments accounted for using the equity method**

Investments accounted for using the equity method relate to the joint ventures BMW Brilliance Automotive Ltd., Shenyang (BMW Brilliance) on the one hand and DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, (DriveNow) on the other.

The BMW Brilliance Automotive Ltd., Shenyang, joint venture (in which BMW has a 50 % shareholding) produces various BMW brand models for the Chinese market and also has engine manufacturing facilities, which supply the joint venture's two plants with petrol engines.

The DriveNow joint venture – comprising DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, (both 50 % shareholdings) – is a car sharing provider which currently offers individual mobility services in major German cities and, going forward, increasingly outside Germany.

The accounting treatment applied to investments accounted for using the equity method is described in note 6. Financial information relating to equity accounted investments is aggregated in the following table:

	BMW Brilliance		DriveNow	
in € million	**2014**	2013	**2014**	2013
Disclosures relating to the income statement				
Revenues	**11,550**	8,963	**32**	18
Scheduled depreciation	**247**	157	**–**	–
Profit/loss before financial result	**1,702**	1,096	**–5**	–6
Interest income	**24**	16	**–**	–
Interest expenses	**–**	–	**–**	–
Income taxes	**449**	285	**–**	–
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**1,339**	834	**–5**	–7
Dividends received by the Group	**147**	127	**–**	–

in € million	BMW Brilliance 2014	BMW Brilliance 2013	DriveNow 2014	DriveNow 2013
Disclosures relating to the balance sheet				
Non-current assets	**4,171**	2,741	**1**	1
Cash and cash equivalents	**976**	593	**13**	4
Current assets	**3,404**	2,727	**19**	10
Equity	**2,910**	1,868	**12**	6
Non-current financial liabilities	**–**	–	**–**	–
Non-current provisions and liabilities	**450**	237	**–**	–
Current financial liabilities	**236**	–	**–**	–
Current provisions and liabilities	**4,215**	3,363	**8**	5
Reconciliation of aggregated financial information				
Assets	**7,575**	5,468	**20**	11
Equity and liabilities	**4,665**	3,600	**8**	5
Net assets	**2,910**	1,868	**12**	6
Group's interest in net assets (50%)	**1,455**	934	**6**	3
Eliminations	**–373**	–299	**–**	–
Carrying amount	**1,082**	635	**6**	3

If the Group's share of the at-equity result of BMW Brilliance Automotive Ltd., Shenyang, were reported as part of the Automotive segment's EBIT, the EBIT margin would increase by 0.9 percentage points (2013: 0.6 percentage points) to 10.5% (2013: 10.0%).

27 Other investments

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

The additions to investments in subsidiaries relate primarily to a share capital increase at the level of BMW iVentures B.V., Rijswijk.

Additions to participations mainly reflect the purchase of available-for-sale marketable securities.

Disposals of investments in subsidiaries result from the first-time consolidation of six European branches.

Impairment losses on participations – recognised with income statement effect – related mainly to the investment in SGL Carbon SE, Wiesbaden, which was written down on the basis of objective criteria.

A break-down of the different classes of other investments 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 22.

28 — Receivables from sales financing

Receivables from sales financing, totalling €61,024 million (2013: €54,117 million), comprise €45,849 million (2013: €40,841 million) for credit financing for retail customers and dealers and €15,175 million (2013: €13,276 million) for finance leases. Finance leases are analysed as follows:

in € million	31.12.2014	31.12.2013
Gross investment in finance leases		
due within one year	**5,366**	4,816
due between one and five years	**11,231**	9,748
due later than five years	**109**	98
	16,706	**14,662**
Present value of future minimum lease payments		
due within one year	**4,898**	4,378
due between one and five years	**10,175**	8,813
due later than five years	**102**	85
	15,175	**13,276**
Unrealised interest income	**1,531**	**1,386**

Contingent rents recognised as income (generally relating to the distance driven) amounted to €2 million (2013: €3 million). Write-downs on finance leases amounting to €183 million (2013: €159 million) were measured and recognised on the basis of specific credit risks. Non-guaranteed residual values that fall to the benefit of the lessor amounted to €140 million (2013: €120 million).

Receivables from sales financing include €37,438 million (2013: €32,616 million) with a remaining term of more than one year.

Allowances for impairment and credit risk

in € million	31.12.2014	31.12.2013
Gross carrying amount	**62,539**	55,697
Allowance for impairment	**–1,515**	–1,580
Net carrying amount	**61,024**	**54,117**

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

2014 in € million	Allowance for impairment recognised on a specific item basis	group basis	**Total**
Balance at 1 January*	1,098	482	**1,580**
Allocated / reversed	239	41	**280**
Utilised	–371	–20	**–391**
Exchange rate impact and other changes	34	12	**46**
Balance at 31 December	**1,000**	**515**	**1,515**

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

2013 in € million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	1,268	411	**1,679**
Allocated / reversed	194	104	**298**
Utilised	–302	–15	**–317**
Exchange rate impact and other changes	–61	–19	**–80**
Balance at 31 December	**1,099**	**481**	**1,580**

At the end of the reporting period, impairment allowances of €515 million (2013: €481 million) were recognised on a group basis on gross receivables from sales financing totalling €38,780 million (2013*: €33,740 million). Impairment allowances of €1,000 million (2013: €1,099 million) were recognised at 31 December 2014 on a specific item basis on gross receivables from sales financing totalling €12,951 million (2013: €12,211 million).

Receivables from sales financing which were not overdue at the end of the reporting period amounted to €10,808 million (2013*: €9,746 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 €25,443 million (2013: €23,689 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 €41 million (2013: €30 million).

* Prior year figures amended.

29 — Financial assets

Financial assets comprise:

in € million	31.12.2014	31.12.2013
Derivative instruments	**2,888**	4,013
Marketable securities and investment funds	**3,972**	3,060
Loans to third parties	**12**	32
Credit card receivables	**239**	222
Other	**297**	825
Financial assets	**7,408**	**8,152**
thereof non-current	**2,024**	2,593
thereof current	**5,384**	5,559

The decrease in derivative instruments was primarily attributable to negative market price developments of currency derivatives.

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

The amount by which the value of the investment funds exceeds obligations for part-time working arrangements (€48 million; 2013: €44 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 a Contractual Trust Arrangement (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	31.12.2014	31.12.2013
Stocks	100	87
Fixed income securities	3,340	2,551
Other debt securities	532	422
Marketable securities and investment funds	**3,972**	**3,060**

The contracted maturities of debt securities are as follows:

in € million	31.12.2014	31.12.2013
Fixed income securities		
due within three months	595	73
due later than three months	2,745	2,478
Other debt securities		
due within three months	532	422
due later than three months	–	–
Debt securities	**3,872**	**2,973**

Allowances for impairment and credit risk

Receivables relating to credit card business comprise the following:

in € million	31.12.2014	31.12.2013
Gross carrying amount	247	231
Allowance for impairment	–8	–9
Net carrying amount	**239**	**222**

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

2014	Allowance for impairment recognised on a		**Total**
in € million	specific item basis	group basis	
Balance at 1 January	9	–	**9**
Allocated / reversed	6	–	**6**
Utilised	–8	–	**–8**
Exchange rate impact and other changes	1	–	**1**
Balance at 31 December	**8**	**–**	**8**

2013	Allowance for impairment recognised on a		**Total**
in € million	specific item basis	group basis	
Balance at 1 January	13	–	**13**
Allocated / reversed	6	–	**6**
Utilised	–10	–	**–10**
Exchange rate impact and other changes	–	–	**–**
Balance at 31 December	**9**	**–**	**9**

30 — Income tax assets

Income tax assets totalling €1,906 million (2013: €1,151 million) include claims amounting to €653 million (2013: €530 million) which are expected to be settled after more than twelve months. Some of the claims may be settled earlier than this depending on the timing of proceedings.

31 — Other assets

Other assets comprise:

in € million	31.12.2014	31.12.2013*
Other taxes	**1,078**	867
Receivables from subsidiaries	**721**	779
Receivables from other companies in which an investment is held	**1,055**	950
Prepayments	**1,323**	1,074
Collateral receivables	**412**	706
Sundry other assets	**1,543**	794
Other assets	**6,132**	**5,170**
thereof non-current	**1,094**	912
thereof current	**5,038**	4,258

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Receivables from subsidiaries include trade receivables of €41 million (2013: €102 million) and financial receivables of €680 million (2013: €677 million). They include €293 million (2013: €253 million) with a remaining term of more than one year.

Receivables from other companies in which an investment is held include €1,054 million (2013*: €905 million) due within one year.

Prepayments of €1,323 million (2013*: €1,074 million) relate mainly to prepaid interest, insurance premiums and commission paid to dealers. Prepayments of €674 million (2013: €565 million) have a maturity of less than one year.

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

In the financial year 2014, expected reimbursement claims totalling €641 million arising in connection with warranty arrangements with suppliers were reclassified from other provisions to sundry other assets.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

32 — Inventories

Inventories comprise the following:

in € million	31.12.2014	31.12.2013*
Raw materials and supplies	**918**	851
Work in progress, unbilled contracts	**944**	851
Finished goods and goods for resale	**9,227**	7,893
Inventories	**11,089**	**9,595**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

At 31 December 2014, inventories measured at their net realisable value amounted to €723 million (2013: €592 million) and are included in total inventories of €11,089 million (2013*: €9,595 million). Write-downs to net realisable value amounting to €29 million (2013: €28 million) were recognised in 2014. Reversals of write-downs amounted to €3 million (2013: €4 million).

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

33 — Trade receivables

Trade receivables totalling €2,153 million (2013: €2,449 million) include an unchanged amount of €47 million which is due later than one year.

Allowances for impairment and credit risk

in € million	**31.12.2014**	31.12.2013
Gross carrying amount	**2,236**	2,555
Allowance for impairment	**–83**	–106
Net carrying amount	**2,153**	**2,449**

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

2014 in € million	Allowance for impairment recognised on a specific item basis	 group basis	**Total**
Balance at 1 January*	98	9	**107**
Allocated / reversed	–6	–2	**–8**
Utilised	–15	–	**–15**
Exchange rate impact and other changes	–1	–	**–1**
Balance at 31 December	**76**	**7**	**83**

* Including entities consolidated for the first time during the financial year.

2013 in € million	Allowance for impairment recognised on a specific item basis	 group basis	**Total**
Balance at 1 January	105	6	**111**
Allocated / reversed	2	4	**6**
Utilised	–8	–	**–8**
Exchange rate impact and other changes	–2	–1	**–3**
Balance at 31 December	**97**	**9**	**106**

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

in € million	**31.12.2014**	31.12.2013
1 – 30 days overdue	**100**	80
31 – 60 days overdue	**73**	30
61 – 90 days overdue	**26**	8
91 – 120 days overdue	**30**	13
More than 120 days overdue	**52**	17
	281	**148**

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.

34 — Cash and cash equivalents

Cash and cash equivalents of €7,688 million (2013*: €7,671 million) comprise cash on hand and at bank, all with an original term of up to three months.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

35 — Equity

Number of shares issued

	Preferred stock		Common stock	
	2014	2013	**2014**	2013
Shares issued / in circulation at 1 January	**54,259,787**	53,994,217	**601,995,196**	601,995,196
Shares issued in conjunction with Employee Share Scheme	**239,777**	266,152	**–**	–
Less: shares repurchased and re-issued	**20**	582	**–**	–
Shares issued / in circulation at 31 December	**54,499,544**	54,259,787	**601,995,196**	601,995,196

At 31 December 2014 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 54,499,544 shares (2013: 54,259,787 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 2014, a total of 239,777 shares of preferred stock was sold to employees at a reduced price of €37.08 per share in conjunction with the Company's Employee Share Programme. These shares are entitled to receive dividends with effect from the financial year 2015. 20 shares of preferred stock were bought back via the stock exchange in conjunction with the Company's Employee Share Programme.

Further information on share-based remuneration is provided in note 20.

Issued share capital increased by €0.2 million as a result of the issue to employees of 239,757 shares of non-voting preferred stock. The number of authorised shares and the Authorised Capital of BMW AG amounted to 4.8 million shares and €4.8 million respectively at the end of the reporting period. The Company is authorised to issue 5 million shares of non-voting preferred stock amounting to nominal €5.0 million prior to 14 May 2019. The share premium of €14.6 million arising on the share capital increase was transferred to capital reserves.

Capital reserves

Capital reserves include premiums arising from the issue of shares and totalled €2,005 million (2013: €1,990 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, remeasurements of the net defined benefit liability for pension plans are also presented in revenue reserves along with positive and negative goodwill arising on the consolidation of Group companies prior to 31 December 1994.

Revenue reserves increased during the financial year 2014 to €35,621 million. They were increased by the amount of the net profit attributable to shareholders of

BMW AG amounting to €5,798 million (2013*: €5,303 million) and reduced by the payment of the dividend for 2013 amounting to €1,707 million (for 2012: €1,640 million). Revenue reserves decreased by €1,592 million (2013: increased by €936 million) as a result of remeasurements of the net defined benefit liability for pension plans (net of deferred tax recognised directly in equity).

The unappropriated profit of BMW AG at 31 December 2014 amounts to €1,904 million and will be proposed to the Annual General Meeting for distribution. This amount includes €158 million relating to preferred stock. The amount proposed for distribution represents an amount of €2.92 per share of preferred stock and €2.90 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 €217 million (2013: €188 million). This includes a minority interest of €19 million in the results for the year (2013: €26 million).

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Capital management disclosures

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

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

The BMW Group is not subject to any external minimum equity capital requirements. Within the Financial Services segment, however, there are a number of individual entities which are subject to equity capital requirements set by regulatory banking agencies.

In order to manage its capital structure, the BMW Group uses various instruments including the amount of dividends paid to shareholders and share buy-backs.

Moreover, the BMW Group pro-actively manages debt capital, determining levels of debt capital transactions with a target debt structure in mind. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

The capital structure at the end of the reporting period was as follows:

in € million	**31.12.2014**	31.12.2013*
Equity attributable to shareholders of BMW AG	**37,220**	35,412
Proportion of total capital	**31.6%**	33.5%
Non-current financial liabilities	**43,167**	39,450
Current financial liabilities	**37,482**	30,854
Total financial liabilities	**80,649**	70,304
Proportion of total capital	**68.4%**	66.5%
Total capital	**117,869**	**105,716**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Equity attributable to shareholders of BMW AG decreased during the financial year by 1.9 percentage points, primarily reflecting the increase in financial liabilities.

Since December 2013, the BMW AG has a long-term rating of A+ (with stable outlook) and a short-term rating of A-1 from the rating agency Standard & Poor's, currently the highest rating given by Standard & Poor's to a European car manufacturer. Since July 2011, the BMW AG has a long-term rating of A2 (with stable outlook) and a short-term rating of P-1 from the rating agency Moody's. This means that BMW AG continues to enjoy the best ratings of all European car manufacturers, clearly reflecting the financial strength of the BMW Group.

Company rating	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+ (Standard & Poor's) 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 very good, thus enabling it to obtain refinancing funds on competitive conditions.

36 — 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, 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-retirement medical care are also accounted for 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 €60 million (2013: €51 million). Employer contributions paid to state pension insurance plans totalled €517 million (2013: €470 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 BMW Trust e.V. , Munich, in conjunction with a contractual trust arrangement (CTA). The main other countries with funded plans are the UK, the USA, Switzerland, the Netherlands, Belgium and Japan.

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 BMW Group has a right of reimbursement or a right to reduce future contributions, it reports an asset (within "Other financial assets") at an amount equivalent to the present value of the future economic benefits attached to the plan assets. If the plan is externally funded, a liability is recognised under pension provisions where the benefit obligation exceeds fund assets.

Remeasurements of the net liability arise from changes in the present value of the defined benefit obligation, the fair value of the plan assets or the asset ceiling. Reasons for remeasurements include changes in financial and demographic assumptions as well as changes in the detailed composition of beneficiaries. Remeasurements are recognised immediately in "Other comprehensive income" and hence directly in equity (within revenue reserves).

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

The defined benefit obligation is calculated on an actuarial basis. The actuarial computation requires the use of estimates and assumptions, which depend on the economic situation in each particular country. The most important assumptions applied by the BMW Group are shown below. The following weighted average values have been used for Germany, the United Kingdom and other countries:

31 December	Germany		United Kingdom		Other	
in %	**2014**	2013	**2014**	2013	**2014**	2013
Discount rate	**2.10**	3.50	**3.40**	4.40	**3.48**	4.46
Pension level trend	**1.60**	2.00	**2.43**	3.32	**0.03**	0.05

The following mortality tables are applied in countries, in which the BMW Group has significant defined benefit plans:

Germany	Mortality Table 2005 G issued by Prof. K. Heubeck (with invalidity rates reduced by 50 %)
United Kingdom	S1PA tables weighted accordingly, and S1NA tables minus 2 years, both with a minimum long term annual improvement allowance
USA	RP2014 Mortality Table with collar adjustments projected with MP2014

In Germany, the so-called "pension entitlement trend" (Festbetragstrend) also represents a significant actuarial assumption for the purposes of determining benefits payable at retirement and was left unchanged at 2.0 %. By contrast, the salary level trend assumption is subject to a comparatively low level of sensitivity within the BMW Group. The calculation of the salary level trend in the UK also takes account of restrictions due to caps and floors.

Based on the measurement principles contained in IAS 19, the following balance sheet **carrying amounts** apply to the Group's pension plans:

31 December	Germany		United Kingdom		Other		Total	
in € million	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Present value of defined benefit obligations	**9,636**	7,400	**9,499**	7,409	**1,327**	949	**20,462**	15,758
Fair value of plan assets	**7,323**	6,749	**7,734**	6,076	**804**	636	**15,861**	13,461
Effect of limiting net defined benefit asset to asset ceiling	**–**	–	**–**	–	**2**	4	**2**	4
Carrying amounts at 31 December	**2,313**	**651**	**1,765**	**1,333**	**525**	**317**	**4,603**	**2,301**
thereof pension provision	**2,313**	652	**1,765**	1,333	**526**	318	**4,604**	2,303
thereof assets	**–**	–1	**–**	–	**–1**	–1	**–1**	–2

The increase in defined benefit obligations results mainly from the change in the discount rate used for the actuarial computation in Germany, the UK and the USA.

The provision for pension-like obligations for post-employment medical care in the USA and South Africa amounts to €57 million (2013: €45 million) and is determined on a similar basis to the measurement of pension obligations in accordance with IAS 19. Increased costs do not have a direct impact on medical care obligations relating to pensioners in the USA. In the case of South Africa, however, it was assumed that costs would increase in the long term by 8.3 % (2013: 8.1 %) p.a. The expense recognised for obligations relating to post-employment medical care amounted to €8 million (2013: income of €40 million).

Numerous **defined benefit plans** are in place throughout the BMW Group, the most significant of which are described below.

Germany

Both employer- and employee-funded benefit plans are in place in Germany. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependents' benefits.

The Deferred Remuneration Retirement Plan is an employee-financed defined contribution plan with a minimum rate of return. The fact that the plan involves a minimum rate of return means that it is classified as a defined benefit plan. Employees have the option to waive payment of certain remuneration components in return for a future benefit. Any employer social security contributions saved are credited in the following year to the individual's benefits account. The converted remuneration components and the social security contributions saved are invested on capital markets. When the benefit falls due, it is paid on the basis of the higher of the value of the depot account or a guaranteed minimum amount.

Defined benefit obligations also remain in Germany, for which benefits are determined either by multiplying a fixed amount by the number of years of service or on the basis of an employee's final salary. The defined benefit plans have been closed to new entrants. With effect from 1 January 2014, new employees receive a defined contribution entitlement with minimum rate of return.

The assets of the German pension plans are administered by BMW Trust e.V. , Munich, (German registered association) in accordance with a CTA. The representative bodies of this entity are the Board of Directors and the Members' General Meeting. BMW Trust e.V., Munich, currently has seven members and three Board of Directors members elected by the Members' General Meeting. The Board of Directors is responsible for investments, drawing up and deciding on investment guidelines as well as monitoring compliance with those guidelines. The members of the association can be employees, senior executives and members of the Board of Directors. An ordinary Members' General Meeting takes place once every calendar year and deals with a range of matters, including receiving and approving the association's annual report, ratifying the activities of the Board of Directors and adopting changes to the association's statutes.

United Kingdom

In the United Kingdom, the BMW Group has defined benefit plans, which are primarily employer-funded combined with employee-funded components based on the conversion of employee remuneration. These plans are subject to statutory minimum recovery requirements. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependants' benefits. These defined benefit plans have been closed to new entrants, who, since 1 January 2014, are covered by a defined contribution plan.

The pension plans are administered by BMW Pension Trustees Limited, Hams Hall, and BMW (UK) Trustees Limited, Hams Hall, both trustee companies which act independently of the BMW Group. BMW (UK) Trustees Limited, Hams Hall, is represented by 14 trustees and BMW Pension Trustees Limited, Hams Hall, by five trustees. A minimum of one third of the trustees must be elected by plan participants. The trustees represent the interests of plan participants and decide on investment strategies and plan amendments. Recovery contributions to the funds are determined in agreement with the BMW Group.

USA

The BMW Group's defined benefit plans in the USA are primarily employer-funded and include final salary pension plans and a post-retirement medical care plan. Benefits paid in conjunction with these plans comprise old-age retirement pensions, early retirement benefits, surviving dependants' benefits as well as post-retirement medical care benefits.

Statutory minimum funding requirements apply to the final salary pension plans. Plan participants are represented by a committee consisting of six members, which is authorised to take all decisions pertaining to the relevant pension plan, including plan structure, investments and selection of investment managers as well as regular allocations and retrospective allocations to the plan. The committee members are nominated by the management of the relevant participating US entities. Plan committees act in a fiduciary capacity and are subject to statutory framework conditions.

The **change in the net defined benefit liability for pension plans** can be derived as follows:

in € million	Defined benefit obligation	Plan assets	**Total**	Limitation of the net defined benefit asset to the asset ceiling	**Net defined benefit liability**
1 January 2014	15,758	–13,461	**2,297**	4	**2,301**
Expense / income					
Current service cost	337	–	**337**	–	**337**
Interest expense (+) / income (–)	628	–540	**88**	–	**88**
Past service cost	–3	–	**–3**	–	**–3**
Gains (–) or losses (+) arising from settlements	–8	–	**–8**	–	**–8**
Remeasurements					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	–1,394	**–1,394**	–	**–1,394**
Gains (–) or losses (+) arising from changes in demographic assumptions	53	–	**53**	–	**53**
Gains (–) or losses (+) arising from changes in financial assumptions	3,490	–	**3,490**	–	**3,490**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	–1	**–1**
Gains (–) or losses (+) arising from experience adjustments	–24	–	**–24**	–	**–24**
Transfers to fund	–	–383	**–383**	–	**–383**
Employee contributions	71	–71	**–**	–	**–**
Pensions and other benefits paid	–519	522	**3**	–	**3**
Translation differences and other changes	679	–534	**145**	–1	**144**
31 December 2014	**20,462**	**–15,861**	**4,601**	**2**	**4,603**
thereof pension provision					4,604
thereof assets					–1

in € million	Defined benefit obligation	Plan assets	**Total**	Limitation of the net defined benefit asset to the asset ceiling	**Net defined benefit liability**
1 January 2013	16,255	–12,447	**3,808**	4	**3,812**
Expense / income					
Current service cost	362	–	**362**	–	**362**
Interest expense (+) / income (–)	565	–438	**127**	–	**127**
Past service cost	–53	–	**–53**	–	**–53**
Gains (–) or losses (+) arising from settlements	2	–	**2**	–	**2**
Remeasurements					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	–481	**–481**	–	**–481**
Gains (–) or losses (+) arising from changes in demographic assumptions	4	–	**4**	–	**4**
Gains (–) or losses (+) arising from changes in financial assumptions	–818	–	**–818**	–	**–818**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	1	**1**
Gains (–) or losses (+) arising from experience adjustments	34	–	**34**	–	**34**
Transfers to fund	–	–509	**–509**	–	**–509**
Employee contributions	64	–64	**–**	–	**–**
Pensions and other benefits paid	–460	324	**–136**	–	**–136**
Translation differences and other changes	–197	154	**–43**	–1	**–44**
31 December 2013	**15,758**	**–13,461**	**2,297**	**4**	**2,301**
thereof pension provision					2,303
thereof assets					–2

Net interest expense on the net defined benefit liability is presented within the financial result. All other components of pension expense are presented in the income statement under cost of sales, selling and administrative expenses.

Remeasurements on the obligations side gave rise to a positive amount of €3,519 million (2013: negative amount of €780 million) and related mainly to the lower discount rates used in Germany, the UK and the USA.

The **net defined benefit liability** for pension plans in Germany, the UK and other countries changed as follows:

Germany

in € million	Defined benefit obligation 2014	Defined benefit obligation 2013	Plan assets 2014	Plan assets 2013	Net liability 2014	Net liability 2013
1 January	**7,400**	7,974	**–6,749**	–6,064	**651**	1,910
Expense(+)/income (–)	**475**	483	**–237**	–183	**238**	300
Remeasurements	**1,872**	–946	**–351**	–174	**1,521**	–1,120
Payments to external funds	**–**	–	**–97**	–301	**–97**	–301
Employee contributions	**48**	42	**–48**	–42	**–**	–
Payments on account and pension payments	**–159**	–154	**159**	15	**–**	–139
Other changes	**–**	1	**–**	–	**–**	1
31 December	**9,636**	**7,400**	**–7,323**	**–6,749**	**2,313**	**651**

United Kingdom

in € million	Defined benefit obligation 2014	Defined benefit obligation 2013	Plan assets 2014	Plan assets 2013	Net liability 2014	Net liability 2013
1 January	**7,409**	7,137	**–6,076**	–5,782	**1,333**	1,355
Expense(+)/income (–)	**405**	345	**–275**	–233	**130**	112
Remeasurements	**1,390**	330	**–990**	–305	**400**	25
Payments to external funds	**–**	–	**–212**	–135	**–212**	–135
Employee contributions	**20**	18	**–20**	–18	**–**	–
Payments on account and pension payments	**–294**	–261	**302**	269	**8**	8
Translation differences and other changes	**569**	–160	**–463**	128	**106**	–32
31 December	**9,499**	**7,409**	**–7,734**	**–6,076**	**1,765**	**1,333**

Other

in € million	Defined benefit obligation 2014	Defined benefit obligation 2013	Plan assets 2014	Plan assets 2013	Effect of limiting the net defined benefit asset to the asset ceiling 2014	Effect of limiting the net defined benefit asset to the asset ceiling 2013	Net liability 2014	Net liability 2013
1 January	**949**	1,144	**–636**	–601	**4**	4	**317**	547
Effect of first-time consolidation	**–**	–	**–**	–	**–**	–	**–**	–
Expense(+)/income (–)	**74**	48	**–28**	–22	**–**	–	**46**	26
Remeasurements	**257**	–164	**–53**	–2	**–1**	1	**203**	–165
Payments to external funds	**–**	–	**–74**	–73	**–**	–	**–74**	–73
Employee contributions	**3**	4	**–3**	–4	**–**	–	**–**	–
Payments on account and pension payments	**–66**	–45	**61**	40	**–**	–	**–5**	–5
Translation differences and other changes	**110**	–38	**–71**	26	**–1**	–1	**38**	–13
31 December	**1,327**	**949**	**–804**	**–636**	**2**	**4**	**525**	**317**

Depending on the cash flow profile and risk structure of the pension obligations involved, pension plan assets are invested in various investment classes.

Plan assets in Germany, the UK and other countries comprised the following:

Components of plan assets

	Germany		United Kingdom		Other		Total	
in € million	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Equity instruments	**1,865**	1,718	**1,230**	1,030	**203**	133	**3,298**	2,881
Debt instruments	**4,509**	4,143	**4,562**	3,333	**379**	263	**9,450**	7,739
thereof investment grade	**3,271**	2,987	**4,331**	3,160	**334**	243	**7,936**	6,390
thereof non-investment grade	**1,238**	1,156	**231**	173	**45**	20	**1,514**	1,349
Real estate	**–**	–	**3**	3	**–**	19	**3**	22
Money market funds	**–**	89	**100**	113	**12**	43	**112**	245
Absolute return funds	**–**	–	**26**	21	**–**	–	**26**	21
Other	**–**	–	**5**	26	**–**	1	**5**	27
Total with quoted market price	**6,374**	**5,950**	**5,926**	**4,526**	**594**	**459**	**12,894**	**10,935**
Debt instruments	**183**	177	**298**	310	**12**	12	**493**	499
thereof investment grade	**183**	177	**111**	136	**12**	9	**306**	322
thereof non-investment grade	**–**	–	**187**	174	**–**	3	**187**	177
Real estate	**107**	99	**683**	570	**105**	64	**895**	733
Cash and cash equivalents	**11**	1	**9**	–	**–**	1	**20**	2
Absolute return funds	**424**	361	**557**	454	**–**	–	**981**	815
Other	**224**	161	**261**	216	**93**	100	**578**	477
Total without quoted market price	**949**	**799**	**1,808**	**1,550**	**210**	**177**	**2,967**	**2,526**
31 December	**7,323**	**6,749**	**7,734**	**6,076**	**804**	**636**	**15,861**	**13,461**

Employer contributions to plan assets are expected to amount to €652 million in the coming year. Plan assets of the BMW Group include own transferable financial instruments amounting to €5 million (2013: €4 million).

The BMW Group is exposed to risks arising from defined benefit plans on the one hand and defined contribution plans with a minimum return guarantee on the other. 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 actuarial parameters, such as expected rates of inflation, also have an impact on pension obligations.

A substantial portion of plan assets is invested in debt instruments in order to minimise the effect of capital market fluctuations on the net liability. The asset portfolio also includes equity instruments, property and alternative investments – asset classes capable of generating the higher rates of return necessary to cover risks (such as changes in mortality tables) not taken into account in the actuarial assumptions applied. The financial risk of longer-than-assumed life expectancy is hedged for the BMW Group's largest pension plan in the UK by means of a so-called "longevity hedge".

In order to reduce currency exposures, a substantial portion of plan assets are either invested in the same currency as the underlying plan or hedged by means of currency derivatives.

Pension fund assets are monitored continuously and managed from a risk-and-yield perspective. Risk is reduced by ensuring a broad spread of investments. In this context, the BMW Group continuously monitors the degree of coverage of pension plans as well as adherence to the stipulated investment strategy.

As part of the internal reporting procedures and for internal management purposes, financial risks relating to the pension plans are reported on using a deficit-value-at-risk approach. The investment strategy is also subjected to regular review together with external consultants, with the aim of ensuring that investments are structured to coincide with the timing of pension payments and the expected pattern of pension obligations. In their own way, each of these measures helps to reduce fluctuations in pension funding shortfalls.

Most of the BMW Group's pension assets are administered separately and kept legally segregated from company assets using trust fund arrangements. 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 the assets of pension funds/trust fund arrangements.

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

31 December	Germany		United Kingdom		Other	
in € million	**2014**	2013	**2014**	2013	**2014**	2013
Current employees	**6,495**	4,715	**2,295**	1,604	**1,003**	723
Pensioners	**2,650**	2,297	**4,208**	3,651	**212**	141
Former employees with vested benefits	**491**	388	**2,996**	2,154	**112**	85
Defined benefit obligation	**9,636**	**7,400**	**9,499**	**7,409**	**1,327**	**949**

The **sensitivity analysis** provided below shows the extent to which – based on an appropriate review – the defined benefit obligation would have been affected by changes in the relevant assumptions that were possible at the end of the reporting period, if the other assumptions used in the calculation were kept constant. The defined benefit obligation amounted to €20,462 million at 31 December 2014.

31 December		Change in defined benefit obligation			
		2014		2013	
		in € million	in %	in € million	in %
Discount rate	increase of 0.75%	**–2,888**	**–14.1**	–2,028	–12.9
	decrease of 0.75%	**3,675**	**18.0**	2,528	16.0
Pension level trend	increase of 0.25%	**727**	**3.6**	506	3.2
	decrease of 0.25%	**–679**	**–3.3**	–479	–3.0
Average life expectancy	increase of 1 year	**703**	**3.4**	510	3.2
	decrease of 1 year	**–700**	**–3.4**	–514	–3.3
Pension entitlement trend	increase of 0.25%	**152**	**0.7**	101	0.6
	decrease of 0.25%	**–146**	**–0.7**	–97	–0.6

In the UK, the sensitivity analysis for the pension level trend also takes account of restrictions due to caps and floors.

The **weighted duration of all pension obligations** in Germany, the UK and other countries (based on present values of the defined benefit obligation) developed as follows:

31 December	Germany		United Kingdom		Other	
in years	**2014**	2013	**2014**	2013	**2014**	2013
Weighted duration of all pension obligations	**21.4**	19.6	**19.9**	18.3	**19.2**	14.9

Statutory minimum funding and recovery requirements apply in the UK and the USA which may have an effect on future amounts. Valuations are performed regularly to measure the level of funding. In conjunction with these valuations, funding plans are drawn up and the amount of any special allocations determined.

37 — Other provisions

Other provisions comprise the following items:

in € million	31.12.2014 Total	31.12.2014 thereof due within one year	31.12.2013* Total	31.12.2013* thereof due within one year
Obligations for personnel and social expenses	**1,871**	**1,442**	1,698	1,300
Obligations for ongoing operational expenses	**4,887**	**1,786**	3,468	1,076
Other obligations	**2,032**	**1,294**	2,074	1,036
Other provisions	**8,790**	**4,522**	**7,240**	**3,412**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

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 relate primarily to warranty obligations and comprise both statutorily prescribed manufacturer warranties and other guarantees 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	1.1.2014	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	31.12.2014
Obligations for personnel and social expenses	1,698	13	1,438	9	–1,271	–16	**1,871**
Obligations for ongoing operational expenses	3,468	304	2,435*	70	–1,304	–86	**4,887**
Other obligations	2,074	62	602	23	–449	–280	**2,032**
Other provisions	**7,240**	**379**	**4,475**	**102**	**–3,024**	**–382**	**8,790**

* Including the reclassification described in note 31 amounting to €641 million.

Income from the reversal of other provisions amounting to €198 million (2013: €134 million) is recorded in cost of sales and in selling and administrative expenses.

38 — Income tax liabilities

Current income tax liabilities totalling €1,590 million (2013*: €2,319 million) include obligations amounting to €956 million (2013: €823 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 €1,590 million (2013*: €2,319 million) comprise €151 million (2013: €197 million) for taxes payable and €1,439 million (2013*: €2,122 million) for tax provisions. Tax provisions totalling €1 million were reversed in the year under report (2013: €44 million).

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

39 — 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 2014 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	8,561	22,817	4,111	**35,489**
Liabilities to banks	7,784	3,281	489	**11,554**
Liabilities from customer deposits (banking)	9,157	3,309	–	**12,466**
Commercial paper	5,599	–	–	**5,599**
Asset backed financing transactions	3,825	6,990	69	**10,884**
Derivative instruments	1,930	1,190	23	**3,143**
Other	626	387	501	**1,514**
Financial liabilities	**37,482**	**37,974**	**5,193**	**80,649**

31 December 2013 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	7,166	20,329	2,875	**30,370**
Liabilities to banks	4,326	4,146	118	**8,590**
Liabilities from customer deposits (banking)	9,342	3,115	–	**12,457**
Commercial paper	6,292	–	–	**6,292**
Asset backed financing transactions	2,579	7,517	32	**10,128**
Derivative instruments	426	632	45	**1,103**
Other	723	307	334	**1,364**
Financial liabilities	**30,854**	**36,046**	**3,404**	**70,304**

The increase in liabilities relating to derivatives results from the fair value measurement of currency and commodity derivative instruments.

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	EUR 4,835 million	2.3	0.3
	variable	GBP 380 million	1.2	0.2
	variable	SEK 6,500 million	2.3	0.3
	variable	USD 540 million	1.8	0.3
	fixed	AUD 700 million	3.9	4.6
	fixed	CHF 300 million	6.0	1.8
	fixed	EUR 13,564 million	6.6	3.0
	fixed	GBP 1,050 million	6.1	3.0
	fixed	JPY 31,000 million	2.8	0.3
	fixed	NOK 3,500 million	3.7	3.2
BMW (UK) Capital plc, Farnborough	fixed	CHF 500 million	5.0	2.1
	fixed	GBP 300 million	8.0	5.0
BMW US Capital, LLC, Wilmington, DE	variable	EUR 100 million	3.0	0.1
	variable	SEK 1,000 million	2.7	0.3
	variable	USD 1,710 million	2.8	0.3
	fixed	AUD 200 million	3.2	4.0
	fixed	CHF 325 million	7.0	3.6
	fixed	EUR 3,590 million	5.5	3.0
	fixed	GBP 300 million	5.0	2.0
	fixed	HKD 500 million	3.0	1.4
	fixed	JPY 6,000 million	2.0	0.3
	fixed	NOK 1,500 million	3.0	2.4
	fixed	NZD 100 million	3.0	4.4
	fixed	USD 2,245 million	8.0	3.5
BMW Australia Finance Ltd., Melbourne, Victoria	variable	AUD 200 million	3.0	3.3
	variable	EUR 150 million	2.3	0.3
	variable	USD 330 million	2.3	0.7
	fixed	JPY 6,500 million	2.0	0.3
Other	variable	JPY 10,000 million	3.0	0.3
	fixed	INR 6,000 million	4.2	10.2
	fixed	CAD 2,275 million	3.9	2.3
	fixed	JPY 53,000 million	3.8	0.5
	fixed	KRW 370,000 million	3.2	3.2

The following details apply to the commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
BMW Finance N.V., The Hague	EUR 1,007 million	30	0.03
	GBP 825 million	56	0.5
	USD 725 million	73	0.2
BMW Malta Finance Ltd., Floriana	EUR 250 million	12	0.03
BMW US Capital, LLC, Wilmington, DE	USD 3,260 million	33	0.1

40 — **Other liabilities**

Other liabilities comprise the following items:

31 December 2014 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Other taxes	929	–	14	**943**
Social security	69	7	2	**78**
Advance payments from customers	460	105	–	**565**
Deposits received	415	348	5	**768**
Payables to subsidiaries	162	–	–	**162**
Payables to other companies in which an investment is held	5	–	–	**5**
Deferred income	1,894	3,373	221	**5,488**
Other	3,841	193	7	**4,041**
Other liabilities	**7,775**	**4,026**	**249**	**12,050**

31 December 2013* in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Other taxes	729	1	15	**745**
Social security	60	11	3	**74**
Advance payments from customers	528	77	–	**605**
Deposits received	274	93	14	**381**
Payables to subsidiaries	157	–	–	**157**
Payables to other companies in which an investment is held	70	–	–	**70**
Deferred income	1,666	3,069	191	**4,926**
Other	3,580	121	8	**3,709**
Other liabilities	**7,064**	**3,372**	**231**	**10,667**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Deferred income comprises the following items:

in € million	31.12.2014 Total	31.12.2014 thereof due within one year	31.12.2013 Total	31.12.2013 thereof due within one year
Deferred income from lease financing	**1,685**	**780**	1,774	761
Deferred income relating to service contracts	**3,370**	**1,027**	2,855	837
Grants	**306**	**31**	193	20
Other deferred income	**127**	**56**	104	48
Deferred income	**5,488**	**1,894**	**4,926**	**1,666**

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 sector funds to promote regional structures and which have been invested in the production plants in Brazil, Leipzig and Berlin. The grants in Leipzig and Berlin 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 2014. In accordance with IAS 20, grant income is recognised over the useful lives of the assets to which they relate.

41 Trade payables

31 December 2014 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	7,580	129	–	**7,709**

31 December 2013* in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	7,293	192	–	**7,485**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts to €5,442 million (2013: €3,635 million).

42 — Contingent liabilities and other financial commitments

Contingent liabilities

No provisions were recognised for the following contingent liabilities (stated at estimated amounts), since an outflow of resources is not considered to be probable:

in € million	31.12.2014	31.12.2013
Guarantees	**33**	33
Performance guarantees	**4**	4
Other	**84**	39
Contingent liabilities	**121**	**76**

Contingent liabilities relate entirely to non-group entities.

Other financial commitments

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 50 years and in some cases contain extension and/or purchase options (also including compensation for inflation). In 2014 an amount of €350 million (2013: €320 million) was recognised as 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	31.12.2014	31.12.2013
due within one year	**299**	335
due between one and five years	**888**	852
due later than five years	**603**	587
Other financial obligations	**1,790**	**1,774**

Other financial commitments include €7 million (2013: €10 million) in respect of obligations to non-consolidated subsidiaries and, as in the previous year, €1 million for back-to-back operating leases.

Purchase commitments amounted to €2,247 million (2013: €2,661 million) for property, plant and equipment and €750 million (2013: €446 million) for intangible assets.

43 — Financial instruments

The carrying amounts and fair values of financial instruments are assigned to IAS 39 categories and cash funds as follows:[1, 2]

31 December 2014 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	–	–	62,642	61,024	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	200	200	–	–
Loans to third parties	–	–	12	12	–	–
Credit card receivables	–	–	239	239	–	–
Other	–	–	297	297	–	–
Cash and cash equivalents	7,688	7,688	–	–	–	–
Trade receivables	–	–	2,153	2,153	–	–
Other assets						
Receivables from subsidiaries	–	–	721	721	–	–
Receivables from companies in which an investment is held	–	–	1,055	1,055	–	–
Collateral receivables	412	412	–	–	–	–
Other	–	–	971	971	–	–
Total	**8,100**	**8,100**	**68,290**	**66,672**	**–**	**–**

31 December 2014 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
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] Based on the fact that maturities are generally short, it is assumed for some items that fair value corresponds to the carrying amount.
[3] Carrying amount corresponds to market value.

	Other liabilities: Fair value	Other liabilities: Carrying amount	Available-for-sale: Carrying amount[3]	Fair value option: Carrying amount[3]	Held for trading: Carrying amount[3]
Assets					
Other investments	–	–	408	–	–
Receivables from sales financing	–	–	–	–	–
Financial assets					
Derivative instruments					
Cash flow hedges	–	–	–	–	708
Fair value hedges	–	–	–	–	1,294
Other derivative instruments	–	–	–	–	886
Marketable securities and investment funds	–	–	3,772	–	–
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	**–**	**–**	**4,180**	**–**	**2,888**

	Other liabilities: Fair value	Other liabilities: Carrying amount	Available-for-sale: Carrying amount[3]	Fair value option: Carrying amount[3]	Held for trading: Carrying amount[1, 3]
Liabilities					
Financial liabilities					
Bonds	36,083	35,489	–	–	–
Liabilities to banks	11,636	11,554	–	–	–
Liabilities from customer deposits (banking)	12,487	12,466	–	–	–
Commercial paper	5,599	5,599	–	–	–
Asset backed financing transactions	10,886	10,884	–	–	–
Derivative instruments					
Cash flow hedges	–	–	–	–	1,302
Fair value hedges	–	–	–	–	721
Other derivative instruments	–	–	–	–	1,120
Other	1,514	1,514	–	–	–
Trade payables	7,709	7,709	–	–	–
Other liabilities					
Payables to subsidiaries	162	162	–	–	–
Payables to other companies in which an investment is held	5	5	–	–	–
Other	4,281	4,281	–	–	–
Total	**90,362**	**89,663**	**–**	**–**	**3,143**

31 December 2013[1,2] 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	–	–	55,536	54,117	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	250	250	–	–
Loans to third parties	–	–	32	32	–	–
Credit card receivables	–	–	222	222	–	–
Other	–	–	825	825	–	–
Cash and cash equivalents	7,671	7,671	–	–	–	–
Trade receivables	–	–	2,449	2,449	–	–
Other assets						
Receivables from subsidiaries	–	–	779	779	–	–
Receivables from companies in which an investment is held	–	–	950	950	–	–
Collateral receivables	382	382	–	–	–	–
Other	–	–	172	172	–	–
Total	**8,053**	**8,053**	**61,215**	**59,796**	**–**	**–**

31 December 2013 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
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] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[2] Based on the fact that maturities are generally short, it is assumed for some items that fair value corresponds to the carrying amount.
[3] Carrying amount corresponds to market value.
[4] The carrying amounts of cash flow and fair value hedges are allocated to the category "Held for trading" for the sake of clarity.

	Other liabilities: Fair value	Other liabilities: Carrying amount	Available-for-sale: Carrying amount[3]	Fair value option: Carrying amount[3]	Held for trading: Carrying amount[3, 4]
Assets					
Other investments	–	–	553	–	–
Receivables from sales financing	–	–	–	–	–
Financial assets					
Derivative instruments					
Cash flow hedges	–	–	–	–	1,914
Fair value hedges	–	–	–	–	1,050
Other derivative instruments	–	–	–	–	1,049
Marketable securities and investment funds	–	–	2,810	–	–
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	–	–	324	–	–
Other	–	–	–	–	–
Total	**–**	**–**	**3,687**	**–**	**4,013**

	Other liabilities: Fair value[2]	Other liabilities: Carrying amount	Available-for-sale: Carrying amount[3]	Fair value option: Carrying amount[3]	Held for trading: Carrying amount[3, 4]
Liabilities					
Financial liabilities					
Bonds	30,860	30,370	–	–	–
Liabilities to banks	8,671	8,590	–	–	–
Liabilities from customer deposits (banking)	12,471	12,457	–	–	–
Commercial paper	6,292	6,292	–	–	–
Asset backed financing transactions	10,173	10,128	–	–	–
Derivative instruments					
Cash flow hedges	–	–	–	–	317
Fair value hedges	–	–	–	–	321
Other derivative instruments	–	–	–	–	465
Other	1,364	1,364	–	–	–
Trade payables	7,485	7,485	–	–	–
Other liabilities					
Payables to subsidiaries	157	157	–	–	–
Payables to other companies in which an investment is held	70	70	–	–	–
Other	4,126	4,126	–	–	–
Total	**81,669**	**81,039**	**–**	**–**	**1,103**

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 2014 on the basis of the following interest rates:

ISO Code in %	EUR	USD	GBP	JPY	CNY
Interest rate for six months	0.13	0.31	0.68	0.07	4.91
Interest rate for one year	0.16	0.43	0.74	0.14	4.44
Interest rate for five years	0.36	1.78	1.45	0.22	4.16
Interest rate for ten years	0.82	2.31	1.87	0.52	4.22

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 are taken into account in the measurement of derivative financial instruments. The supply of data to the model used to calculate fair values also takes account of tenor and currency basis spreads, thus helping to minimise differences between the carrying amounts of the instruments and the amounts that can be realised on the financial markets on their disposal. In addition, the Group's own default risk and that of counterparties is taken into account in the form of credit default swap (CDS) contracts which have matching terms and which can be observed on the market.

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 13. This includes financial instruments that are

1. measured at their fair values in an active market for identical financial instruments (Level 1),
2. measured at their fair values in an active market for comparable financial instruments or using measurement models whose main input factors are based on observable market data (Level 2), or
3. using input factors not based on observable market data (Level 3).

The following table shows the amounts allocated to each measurement level at the end of the reporting period:

31 December 2014	Level hierarchy in accordance with IFRS 13		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment fund shares and collateral assets – available-for-sale	3,772	–	–
Other investments – available-for-sale	231	–	–
Derivative instruments (assets)			
Cash flow hedges	–	708	–
Fair value hedges	–	1,294	–
Other derivative instruments	–	886	–
Derivative instruments (liabilities)			
Cash flow hedges	–	1,302	–
Fair value hedges	–	721	–
Other derivative instruments	–	1,120	–

31 December 2013 in € million	Level hierarchy in accordance with IFRS 13 Level 1	 Level 2	 Level 3
Marketable securities, investment fund shares and collateral assets – available-for-sale	3,134	–	–
Other investments – available-for-sale	379	–	–
Derivative instruments (assets)			
Cash flow hedges	–	1,914	–
Fair value hedges	–	1,050	–
Other derivative instruments	–	1,049	–
Derivative instruments (liabilities)			
Cash flow hedges	–	317	–
Fair value hedges	–	321	–
Other derivative instruments	–	465	–

Other investments (available-for-sale) amounting to €177 million (2013: €174 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 €231 million (2013: €379 million) are measured at fair value since quoted market prices are available. These items are included in Level 1.

As in the previous year, there were no reclassifications within the level hierarchy during the financial year 2014.

In situations where a fair value was required to be measured for a financial instrument only for disclosure purposes, this was achieved using the discounted cash flow method and taking account of the BMW Group's own default risk; for this reason, the fair values calculated can be allocated to Level 2.

Offsetting of financial instruments

In the BMW Group, financial assets and liabilities relating to derivative financial instruments would normally be required to be offset. No offsetting takes place for accounting purposes, however, since the necessary criteria are not met. Since legally enforceable master netting agreements or similar contracts are in place, actual offsetting would be possible in principle, for instance in the case of insolvency. Offsetting would have the following impact on the carrying amounts of derivatives:

in € million	**31.12.2014**		31.12.2013	
	Reported on assets side	Reported on equity and liabilities side	Reported on assets side	Reported on equity and liabilities side
Balance sheet amounts as reported	**2,888**	**3,143**	4,013	1,103
Gross amount of derivatives which can be offset in case of insolvency	**–1,228**	**–1,228**	–710	–710
Net amount after offsetting	**1,660**	**1,915**	3,303	393

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	2014	2013
Held for trading		
Gains/losses from the use of derivative instruments	**–971**	571
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)	**–65**	–57
Net income from participations and investments	**3**	10
Accumulated other equity		
Balance at 1 January	**135**	108
Total change during the year	**6**	27
thereof recognised in the income statement during the period under report	**–69**	–40
Balance at 31 December	**141**	135
Loans and receivables		
Impairment losses/reversals of impairment losses	**–278**	–310
Other income/expenses	**–506**	126
Other liabilities		
Income/expenses	**238**	–235

Gains/losses from the use of derivatives relate primarily to fair value gains or losses arising on stand-alone derivatives.

Net interest income from interest rate and interest rate/currency swaps amounted to €101 million (2013: €126 million).

Impairment losses of €152 million (2013: €73 million) were recognised in the income statement in 2014 on available-for-sale securities accounted for as participations, for which fair value changes had previously been recognised directly in equity. Reversals of impairment losses on marketable securities amounting to €7 million (2013: €70 million) were recognised directly in equity.

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	2014	2013
Balance at 1 January	**1,136**	202
Total changes during the year	**–1,616**	934
thereof reclassified to the income statement	**–255**	–179
Balance at 31 December	**–480**	**1,136**

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.

As in the previous year, no gains/losses were recognised in “Financial Result” in 2014 in connection with forecasting errors and the resulting over-hedging of currency exposures. Losses attributable to the ineffective portion of cash flow hedges amounting to €27 million were recognised in “Financial Result” (2013: gains of €8 million). Losses of €6 million (2013: €– million) arising in connection with forecasting errors relating to cash flow hedges for commodities and gains of €6 million (2013: loss of €8 million) attributable to the ineffective portion of commodity hedges were recognised in “Financial Result” in 2014.

At 31 December 2014 the BMW Group held derivative financial instruments (mainly forward currency and option contracts) with terms of up to 60 months (2013: 60 months) 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 60 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 €278 million of net losses, recognised in equity at the end of the reporting period, will be reclassified to profit and loss in the new financial year (2013: net gains of €162 million).

At 31 December 2014 the BMW Group held derivative financial instruments (mostly interest rate swaps) with terms of up to one month (2013: 13 months) to hedge interest rate risks. These derivative instruments are intended to hedge interest-rate risks arising on financial instruments with variable interest payments within the coming month. 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 expected that €1 million of net losses, recognised in equity at the end of the reporting period, will be reclassified to profit and loss in the new financial year (2013: €– million).

At 31 December 2014 the BMW Group held derivative financial instruments (mostly commodity swaps) with terms of up to 59 months (2013: 60 months) to hedge raw materials price risks attached to future transactions over the coming 59 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 instruments mature. It is expected that €54 million of net losses, recognised in equity at the end of the reporting period, will be reclassified to profit and loss in the new financial year (2013: €60 million).

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in € million	**31.12.2014**	31.12.2013
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	**369**	–525
Gains/losses from hedged items	**–359**	503
Ineffectiveness of fair value hedges	**10**	**–22**

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 €1,181 million (2013: €943 million). The equivalent figure for dealer financing is €22,025 million (2013: €19,856 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 the section on accounting policies (note 6).

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 28, 29 and 33.

Liquidity risk

The following table shows the maturity structure of expected contractual cash flows (undiscounted) for financial liabilities:

31 December 2014 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	9,266	23,786	4,232	**37,284**
Liabilities to banks	8,110	3,432	489	**12,031**
Liabilities from customer deposits (banking)	9,225	3,461	–	**12,686**
Commercial paper	5,601	–	–	**5,601**
Asset backed financing transactions	3,882	7,226	77	**11,185**
Derivative instruments	2,100	1,317	1	**3,418**
Trade payables	7,581	129	–	**7,710**
Other financial liabilities	177	434	500	**1,111**
Total	**45,942**	**39,785**	**5,299**	**91,026**

31 December 2013 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	7,933	21,434	3,043	**32,410**
Liabilities to banks	4,686	4,328	126	**9,140**
Liabilities from customer deposits (banking)	9,405	3,243	–	**12,648**
Commercial paper	6,294	–	–	**6,294**
Asset backed financing transactions	2,814	7,614	32	**10,460**
Derivative instruments	426	659	80	**1,165**
Trade payables	7,283	195	–	**7,478**
Other financial liabilities	210	361	367	**938**
Total	**39,051**	**37,834**	**3,648**	**80,533**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for derivatives comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. At 31 December 2014 irrevocable credit commitments to dealers which had not been called upon at the end of the reporting period amounted to €7,247 million (2013: €6,760 million).

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt structure. The BMW Group has good access to capital markets as a result of its solid financial position and a diversified refinancing strategy. This is underpinned by the longstanding long- and short-term ratings issued by Moody's and Standard & Poor's.

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 Standard & Poor's 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, including a syndicated credit line totalling €6 billion (2013: €6 billion). Intra-group cash flow fluctuations are evened out by the use of daily cash pooling arrangements.

Market risks

The principal market risks to which the BMW Group is exposed are currency risk, interest rate risk and raw materials price risk.

Protection against such risks is provided in the first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Financial instruments are only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Currency, interest rate and raw materials price risks of the BMW Group are managed at a corporate level.

Further information is provided in the "Report on outlook, risks and opportunities" section of the Combined Management Report.

Currency risks

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues is generated outside the euro currency region and the procurement of production material and funding is also organised on a worldwide basis, the currency risk is an extremely important factor for Group earnings.

At 31 December 2014 derivative financial instruments, mostly in the form of forward currency and option contracts, were in place to hedge the main currencies.

A description of the management of this risk is provided in the Combined Management Report. The BMW Group measures currency risk using a cash-flow-at-risk model.

The starting point for analysing currency risk with this model is the identification of forecast foreign currency transactions or "exposures". At the end of the reporting period, the principal exposures for the relevant coming year were as follows:

in € million	**31.12.2014**	31.12.2013
Euro/Chinese Renminbi	**10,937**	10,691
Euro/US Dollar	**4,743**	4,401
Euro/British Pound	**4,818**	3,852
Euro/Russian Rouble	**758**	1,738
Euro/Japanese Yen	**1,004**	1,469

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	31.12.2014	31.12.2013
Euro/Chinese Renminbi	**173**	197
Euro/US Dollar	**73**	65
Euro/British Pound	**66**	80
Euro/Russian Rouble	**160**	109
Euro/Japanese Yen	**6**	44

Currency risk for the BMW Group is concentrated on the currencies referred to above.

Interest rate risks

The BMW Group's financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates.

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 five main currencies were as follows at the end of the reporting period:

in € million	31.12.2014	31.12.2013
Euro*	**17,535**	16,495
US Dollar	**12,087**	11,931
British Pound	**5,091**	3,960
Chinese Renminbi	**574**	1,787
Japanese Yen	**113**	189

* Prior year figures amended for one additional interest-bearing exposure.

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 rate risks is provided in the Combined Management Report.

As stated there, the BMW Group applies a group-wide value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts measured on the basis of a holding period of 250 days and a confidence level of 99.98%. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

In the following table the potential volumes of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest-rate-sensitive exposures of the BMW Group:

in € million	31.12.2014	31.12.2013
Euro*	**398**	363
US Dollar	**347**	246
British Pound	**108**	62
Chinese Renminbi	**44**	11
Japanese Yen	**11**	6

* Prior year figures amended for the value-at-risk of one additional interest-bearing exposure.

Raw materials price risk

The BMW Group is exposed to the risk of price fluctuations for raw materials. A description of the management of these risks is provided in the Combined Management Report.

The first step in the analysis of the raw materials price risk is to determine the volume of planned purchases of raw materials (and components containing those raw materials). These amounts, which represent the gross exposure, were as follows at each reporting date for the following financial year:

in € million	31.12.2014	31.12.2013
Raw materials price exposures	**3,770**	4,550

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 raw materials 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 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	31.12.2014	31.12.2013
Cash flow at risk	**230**	405

44 – 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 the 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 the 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 2014 amounted to €1 million (2013: €4 million).

45 — 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 already included in the Group Financial Statements of BMW AG as consolidated companies. 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.

In addition, the disclosure requirements of IAS 24 also cover transactions with associated companies, joint ventures, joint operations 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 2014, the disclosure requirements contained in IAS 24 affect the BMW Group with regard to business relationships with non-consolidated subsidiaries, joint ventures, joint operations 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 the financial year under report for an amount of €4,417 million (2013: €3,588 million). At 31 December 2014, receivables of Group companies from BMW Brilliance Automotive Ltd., Shenyang, totalled €943 million (2013: €898 million). Group companies had no payables to BMW Brilliance Automotive Ltd., Shenyang, at the end of the reporting period (2013: €66 million). Group companies received goods and services from BMW Brilliance Automotive Ltd., Shenyang, in 2014 for an amount of €34 million (2013: €31 million).

All relationships of BMW Group entities 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.

Transactions of Group companies with SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, were reported in their entirety in the Group Financial Statements until 1 January 2014. As a result of the first-time application of IFRS 11 (Joint Arrangements) in the financial year 2014, these entities are now consolidated, as **joint operations,** on a proportionate basis (49 %) and the appropriate portion of transactions eliminated on consolidation. The remaining 51 % of the transactions continue to be reported in the Group Financial Statements (non-consolidated portion) and are described below. Prior year figures have been adjusted accordingly. All relationships with the joint operations are attributable to the ordinary activities of the entities concerned. All transactions were conducted on the basis of arm's length principles. At 31 December 2014, loans receivable from the joint operations amounted to €111 million (2013*: €52 million). Interest income recognised on these loans amounted to €2.4 million (2013*: €1.4 million) in the financial year 2014. Goods and services received by Group companies from the joint operations during the twelve-month period totalled €62 million (2013*: €18 million). Amounts payable to the joint operations at the end of the reporting period totalled €5 million (2013*: €4 million).

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 Deputy Chairman of the Supervisory Board of BMW AG. He is also the sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H., which, via its subsidiaries, performed logistic-related services for the BMW Group during the financial year 2014. In addition, companies of the DELTON Group used vehicles provided by the BMW Group, mostly in the form of leasing contracts. Stefan Quandt is also the indirect majority shareholder of Solarwatt GmbH, Dresden. Cooperation arrangements are in place between BMW AG and Solarwatt GmbH, Dresden, within the field of electromobility. The focus of this collaboration is on providing complete photovoltaic solutions for rooftop systems and carports to BMW i customers. Solarwatt GmbH, Dresden, leased vehicles from the BMW Group in 2014. The service, cooperation and lease contracts referred to above are not material for the BMW Group. They 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 2014, 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 vehicle lease contracts concluded on an arm's length basis, companies of the BMW Group have not entered into any contracts with members of the Board of Management or Supervisory Board of BMW AG. The same applies to close members of the families of those persons.

BMW Trust e.V., Munich, administers assets on a trustee basis to secure obligations relating to pensions and pre-retirement part-time 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.

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

46 — 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 2014 of the BMW Group and is also available to shareholders on the BMW Group website at www.bmwgroup.com/ir.

47 — Shareholdings of members of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.61 % (2013: 27.62 %) of the issued common and preferred stock shares, of which 16.06 % (2013: 16.07 %) relates to Stefan Quandt, Germany, and 11.54 % (2013: 11.55 %) to Susanne Klatten, Germany. 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.

48 — Compensation of members of the Board of Management and Supervisory Board

The total compensation of the current members of the Board of Management and the Supervisory Board of BMW AG for the financial year 2014 amounted to €46.1 million (2013: €43.4 million) and comprised the following:

in € million	2014	2013
Short-term employment benefits	39.5	38.4
Share-based remuneration component	1.0	0.7
Post-employment benefits	2.1	2.2
Benefits in conjunction with the termination of an employment relationship	3.5	2.1
Compensation	**46.1**	**43.4**

The total compensation of the current Board of Management members for 2014 amounted to €35.7 million (2013: €34.5 million). This comprised fixed components of €7.7 million (2013: €7.9 million), variable components of €27.0 million (2013: €25.9 million) and a share-based compensation component totalling €1.0 million (2013: €0.7 million). Pension obligations to current members of the Board of Management are covered by provisions amounting to €31.3 million (2013: €24.8 million), computed in accordance with IAS 19 (Employee Benefits).

The compensation of the members of the Supervisory Board for the financial year 2014 amounted to €4.8 million (2013: €4.6 million). This comprised fixed components of €2.0 million (2013: €2.0 million) and variable components of €2.8 million (2013: €2.6 million).

The remuneration of former members of the Board of Management and their dependants amounted to €5.8 million (2013: €4.7 million).

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €68.4 million (2013: €58.0 million), computed in accordance with IAS 19.

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 or 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 Management Report.

49 — Application of exemption provisions

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

The following German 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
- BMW Beteiligungs GmbH & Co. KG, Munich

In addition, the Dutch entity, BMW International Holding B.V., The Hague, applies the exemption provision contained in Article 2:403 of the Civil Code of the Netherlands.

50 — 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, China and Russia via subsidiary companies and elsewhere by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells motorcycles as well as spare parts and accessories.

The principal lines of business of the Financial Services segment are car leasing, fleet business, multi-brand business, retail customer and 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., Farnborough, BMW (UK) Investments Ltd., Farnborough, Bavaria Lloyd Reisebüro GmbH, Munich, and MITEC Mikroelektronik Mikrotechnik Informatik GmbH, Munich, – which are not allocated to one of the other segments.

Internal management and reporting

Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. Exceptions 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) and cross-segment impairment losses on investments in subsidiaries. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in the column "Eliminations". Inter-segment sales take place at arm's length prices.

The role of "chief operating decision maker" with respect to resource allocation and performance assessment of the reportable segment is embodied in the full Board of Management. In order to assist the decision-taking process, various measures of segment performance as well as segment assets have been set for the various operating segments.

The performance of the Automotive and Motorcycles segments is managed on the basis of return on capital employed (RoCE). The relevant measure of segment results used is therefore profit before financial result. Capital employed is the corresponding measure of segment assets used to determine how to allocate resources and comprises all current and non-current operational assets after deduction of liabilities used operationally which are not subject to interest (e.g. trade payables).

The performance of the Financial Services segment is measured on the basis of return on equity (RoE), with profit before tax therefore representing the measure of segment result used. For this reason, the measure of segment assets in the Financial Services segment corresponds to net assets, defined as total assets less total liabilities.

The performance of the Other Entities segment is assessed on the basis of profit or loss before tax. The corresponding measure of segment assets used to manage the Other Entities segment is total assets less tax assets and intragroup investments.

Segment information by operating segment is as follows:

Segment information by operating segment

in € million	Automotive 2014	Automotive 2013*	Motorcycles 2014	Motorcycles 2013
External revenues	**59,654**	56,286	**1,671**	1,495
Inter-segment revenues	**15,519**	14,344	**8**	9
Total revenues	**75,173**	**70,630**	**1,679**	**1,504**
Segment result	**7,244**	6,649	**112**	79
Income from equity accounted investments	**655**	407	**–**	–
Capital expenditure on non-current assets	**6,022**	6,659	**69**	85
Depreciation and amortisation on non-current assets	**4,080**	3,657	**64**	65

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

in € million	Automotive 31.12.2014	Automotive 31.12.2013*	Motorcycles 31.12.2014	Motorcycles 31.12.2013
Segment assets	**11,489**	10,318	**575**	488
Investments accounted for using the equity method	**1,088**	638	**–**	–

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Financial Services 2014	Financial Services 2013*	Other Entities 2014	Other Entities 2013	Reconciliation to Group figures 2014	Reconciliation to Group figures 2013*	Group 2014	Group 2013*	
19,073	18,276	**3**	2	**–**	–	**80,401**	76,059	External revenues
1,526	1,598	**4**	4	**–17,057**	–15,955	**–**	–	Inter-segment revenues
20,599	**19,874**	**7**	**6**	**–17,057**	**–15,955**	**80,401**	**76,059**	**Total revenues**
1,723	1,619	**154**	164	**–526**	–618	**8,707**	7,893	Segment result
–	–	**–**	–	**–**	–	**655**	407	Income from equity accounted investments
19,206	17,484	**–**	–	**–4,621**	–4,325	**20,676**	19,903	Capital expenditure on non-current assets
7,539	7,021	**–**	–	**–4,112**	–3,787	**7,571**	6,956	Depreciation and amortisation on non-current assets

Financial Services 31.12.2014	Financial Services 31.12.2013*	Other Entities 31.12.2014	Other Entities 31.12.2013*	Reconciliation to Group figures 31.12.2014	Reconciliation to Group figures 31.12.2013*	Group 31.12.2014	Group 31.12.2013*	
9,357	8,388	**61,516**	55,300	**71,866**	63,883	**154,803**	138,377	Segment assets
–	–	**–**	–	**–**	–	**1,088**	638	Investments accounted for using the equity method

Write-downs on inventories to their net realisable value amounting to €29 million (2013: €28 million) were recognised by the Automotive segment in the financial year 2014. Reversals of write-downs during the same period amounted to €3 million (2013: €4 million).

Impairment losses on other investments amounting to €153 million (2013: €84 million) relating to the Automotive segment were recognised as part of the financial result and are therefore not included in segment result.

Interest and similar income of the Financial Services segment is a component of segment result and totalled €4 million (2013: €5 million). Interest and similar expenses of the Financial Services segment amounted to €29 million (2013*: €27 million).

Financial Services segment result was negatively impacted by impairment losses totalling €268 million recognised on leased products. Reversals of impairment losses amounted to €169 million.

The Other Entities segment result includes interest and similar income amounting to €1,295 million (2013: €1,340 million) and interest and similar expenses amounting to €1,197 million (2013: €1,279 million). The segment result was not impacted by any impairment losses in the financial year 2014 (2013: €7 million).

The information disclosed for capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

Segment figures can be reconciled to the corresponding Group figures as follows:

in € million	2014	2013*
Reconciliation of segment result		
Total for reportable segments	9,233	8,511
Financial result of Automotive segment and Motorcycles segment	–363	–91
Elimination of inter-segment items	–163	–527
Group profit before tax	**8,707**	**7,893**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	25,297	24,228
Elimination of inter-segment items	–4,621	–4,325
Total Group capital expenditure on non-current assets	**20,676**	**19,903**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	11,683	10,743
Elimination of inter-segment items	–4,112	–3,787
Total Group depreciation and amortisation on non-current assets	**7,571**	**6,956**

in € million	31.12.2014	31.12.2013*
Reconciliation of segment assets		
Total for reportable segments	82,937	74,494
Non-operating assets – Other Entities segment	6,658	5,989
Operating liabilities – Financial Services segment	96,959	83,942
Interest-bearing assets – Automotive and Motorcycles segments	39,449	37,357
Liabilities of Automotive and Motorcycles segments not subject to interest	28,488	25,473
Elimination of inter-segment items	–99,688	–88,878
Total Group assets	**154,803**	**138,377**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

In the case of information by geographical region, external sales are based on the location of the customer's registered office. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. Eliminations disclosed for non-current assets relate to leased products.

Information by region

in € million	External revenues 2014	External revenues 2013*	Non-current assets 2014	Non-current assets 2013*
Germany	**12,992**	11,797	**27,137**	25,320
USA	**13,666**	12,691	**17,093**	12,911
China	**15,002**	15,348	**25**	21
Rest of Europe	**24,635**	22,552	**11,643**	10,651
Rest of the Americas	**2,961**	3,103	**2,050**	1,668
Other	**11,145**	10,568	**1,102**	1,025
Eliminations	**–**	–	**–5,204**	–4,335
Group	**80,401**	**76,059**	**53,846**	**47,261**

* Prior year figures have been adjusted in accordance with IAS 8, see note 9.

Munich, 19 February 2015

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Milagros Caiña Carreiro-Andree

Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner

Klaus Fröhlich

Harald Krüger

Dr. Ian Robertson (HonDSc)

Peter Schwarzenbauer

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 and the Supervisory Board as well as among employees and compliance with the law. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to § 289 a HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution
The designation "BMW Group" comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) based on the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and authorities of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and 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 Board of Management and Supervisory Board in the interests of the enterprise as described above is also known as a "two-tier board structure".

Declaration of 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 by the Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code":

1. Since issuance of the last Declaration in December 2013, BMW AG has complied with all of the recommendations published officially on 10 June 2013 (Code version dated 13 May 2013), to the extent that they were already applicable.

2. BMW AG will in future comply with all of the recommendations published on 30 September 2014 in the electronic Federal Gazette (Code version dated 24 June 2014), with the following exception:

   It is recommended in section 4.2.5 sentences 5 and 6 of the Code that specified information pertaining to management board compensation be disclosed in the Compensation Report. These recommendations will not be complied with, due to uncertainties with respect to their interpretation and doubts as to whether the supplementary use of model tables would be instrumental in making the BMW Group's Compensation Report transparent and generally understandable in accordance with generally applicable financial reporting requirements (see section 4.2.5 sentence 3 of the Code).

Munich, December 2014

Bayerische Motoren Werke
Aktiengesellschaft

On behalf of the
Supervisory Board

Prof. Dr.-Ing. Dr. h. c.
Dr.-Ing. E. h. Joachim Milberg
Chairman

On behalf of the
Board of Management

Dr.-Ing. Dr.-Ing. E. h.
Norbert Reithofer
Chairman

Members of the Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer (born 1956)
Chairman

Mandates
- **—** Siemens Aktiengesellschaft (since 27. 01. 2015)
- — Henkel AG & Co. KGaA (Shareholders' Committee)

Milagros Caiña Carreiro-Andree (born 1962)
Human Resources, Industrial Relations Director

Dr.-Ing. Herbert Diess (born 1958)
Development
(until 09. 12. 2014)

Dr.-Ing. Klaus Draeger (born 1956)
Purchasing and Supplier Network

Dr. Friedrich Eichiner (born 1955)
Finance

Mandates
- **—** Allianz Deutschland AG
- **—** FESTO Aktiengesellschaft
- — BMW Brilliance Automotive Ltd. (Deputy Chairman)
- — FESTO Management Aktiengesellschaft

Klaus Fröhlich (born 1960)
Development
(since 09. 12. 2014)

Harald Krüger (born 1965)
Production

Mandates
- — BMW (South Africa) (Pty) Ltd. (Chairman)
- — BMW Motoren GmbH (Chairman)

Dr. Ian Robertson (HonDSc) (born 1958)
Sales and Marketing BMW,
Sales Channels BMW Group

Mandates
- — Dyson James Group Limited

Peter Schwarzenbauer (born 1959)
MINI, Motorcycles, Rolls-Royce,
Aftersales BMW Group

Mandates
- — Rolls-Royce Motor Cars Limited (Chairman)

General Counsel:
Dr. Jürgen Reul

— Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Members of the Supervisory Board

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 (Deputy Chairman)
— Bertelsmann SE & Co. KGaA (Deputy Chairman)
— FESTO Aktiengesellschaft (Deputy Chairman) (until 25. 04. 2014)
— Deere & Company
— FESTO Management Aktiengesellschaft (Deputy Chairman) (until 25. 04. 2014)

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. (until 11. 11. 2014)
— Entrust Datacard Corp. (since 12. 11. 2014)

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
— Bertelsmann SE & Co. KGaA
— Deutsche Lufthansa Aktiengesellschaft

Christiane Benner[2] (born 1968)
(since 15. 05. 2014)
Executive Member of the Executive Board of IG Metall

Mandates
— Robert Bosch GmbH
— T-Systems International GmbH (until 31. 07. 2014)

Bertin Eichler[2] (born 1952)
(until 15. 05. 2014)
Former Executive Member of the Executive Board of IG Metall

Mandates
— C. + H. Winter GmbH (since 01. 05. 2014)
— Luitpoldhütte AG
— ThyssenKrupp AG (Deputy Chairman) (until 17. 01. 2014)
— BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH (Chairman Advisory Board)

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
— Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

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 (until 14.05.2014)
- — Giesecke & Devrient GmbH (until 08.04.2014)
- — 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
- **—** Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
- — Nokia Corporation (until 17.06.2014)
- — Wipro Limited (until 30.06.2014)

Susanne Klatten (born 1962)
Entrepreneur

Member of the Nomination Committee

Mandates
- **—** ALTANA AG (Deputy Chairman)
- **—** SGL Carbon SE (Chairman)
- — 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
- **—** Robert Bosch GmbH

Ulrich Kranz[3] (born 1958)
(since 15.05.2014)
Head of Product Line BMW i

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 Group GmbH
- **—** KraussMaffei Technologies GmbH
- **—** MAN Truck & Bus AG

Willibald Löw[1] (born 1956)
Chairman of the Works Council, Landshut

Wolfgang Mayrhuber (born 1947)
Chairman of the Supervisory Board of Deutsche Lufthansa Aktiengesellschaft

Mandates
- **—** Deutsche Lufthansa Aktiengesellschaft (Chairman)
- **—** Infineon Technologies AG (Chairman)
- **—** Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
- — HEICO Corporation

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
— Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Dr. Dominique Mohabeer[1] (born 1963)
Member of the Works Council, Munich

Brigitte Rödig[1] (born 1963)
Member of the Works Council, Dingolfing

Dr. Markus Schramm[3] (born 1963)
(until 15. 05. 2014)
Head of Development Aftersales
Business Management and
Mobility Services BMW Group

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

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 Finance will represent him.

Minutes are taken of all meetings and the Board of Management's resolutions and signed by the Chairman. Decisions taken by the Board of Management are binding for all employees.

The rules relating to meetings and resolutions taken by the full Board of Management are also applicable for its committees.

Members of the Board of Management not represented in a committee are provided with the agendas and minutes of committee meetings. Committee matters are dealt with in full board meetings if the committee considers it necessary or at the request of a member of the Board of Management.

A secretariat for Board of Management matters has been established to assist the Chairman and other board members with the preparation and follow-up work connected with board meetings.

At meetings of the Operations Committee (generally held 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: Purchasing and Supplier Network; Production; Sales and Marketing BMW, Sales Channels BMW Group; and MINI, Motorcycles, Rolls-Royce, Aftersales BMW Group. If the committee chairman is not present or unable to attend a meeting, the Member of the Board responsible for Production represents him. Resolutions taken at meetings of the Operations Committee are made online.

The full board usually convenes twice a year in its function as Sustainability Board in order to define strategy with regard to sustainability and decide upon measures to implement that strategy. The Head of Corporate Affairs and the Representative for Sustainability and Environmental Protection participate in these meetings in an advisory capacity.

The Board's Committee for Executive Management Matters deals with enterprise-wide issues affecting executive managers of the BMW Group, either in their entirety or individually (such as the executive management structure, potential candidates for executive management, nominations for or promotions to senior management positions). This committee has, on the one hand, an advisory and preparatory role (e.g. making suggestions for promotions to the two remuneration groups below board level and preparing decisions to be taken at board meetings with regard to human resources principles with the emphasis on executive management issues) and a decision-taking function on the other (e.g. deciding on appointments to senior management positions and promotions to higher remuneration groups or the wording of human resources principles decided on by the full board). The Committee has two members who are entitled to vote at meetings, namely the Chairman of the Board of Management (who also chairs the meetings) and the board member responsible for Human Resources and Social Affairs. The Head of Human Resources, Personnel Network and Human Resources International and the Head of Human Resources Executive 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 and the Supervisory Board at regular intervals 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. One meeting each year is planned to cover a number of days and is used, amongst other things, to enable an in-depth exchange on strategic and technological matters. The main emphases of meetings in the period under report 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. Members of the Supervisory Board are in particular legally bound to maintain confidentiality with respect to any confidential reports they receive and any confidential discussions in which they partake.

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, if it also results in a tie.

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 all resolutions and meetings.

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.

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 2014).

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 parties), 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 audit focus as well as the auditor's fee. The Audit Committee prepares the Supervisory Board's resolution relating to the Company and Group Financial Statements and discusses interim reports with the Board of Management before publication. The Audit Committee also decides on the Supervisory Board's agreement to use the Authorised Capital 2014 (Article 4 no. 5 of the Articles of Incorporation) and on amendments to the Articles of Incorporation which only affect its wording.

In line with the recommendations of the German Corporate Governance Code, the Chairman of the Audit Committee is independent and not a former Chairman of the Board of Management and has 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 2014	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	95%
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	6	97%
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 2014 – amendments to Articles of Incorporation only affecting wording – establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Karl-Ludwig Kley[1, 2] Joachim Milberg Manfred Schoch Stefan Quandt Stefan Schmid	4 plus 3 telephone conferences	94%
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.)	2	88%
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:

- If possible 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 enterprise. The Supervisory Board should not, however, include more than two former members of the Board of Management.
- If possible 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 or large-sized 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 or 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 (BMW AG: 14.8 %; BMW Group 17.8 %) and in management positions (BMW AG: 11.4 %; BMW Group: 14.2 %) at 31 December 2014, the Supervisory Board is of the opinion that a proportion of three female members out of a total of 20 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 2016 should be used to maintain the current proportion of 25 % 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 includes an appropriate number of qualified women.
- At least twelve of the 20 members of the Supervisory Board should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code, including at least six members representing the Company's shareholders. Two independent members of the Supervisory Board should have expert knowledge of accounting or auditing.
- No persons carrying out directorship functions or advisory tasks for important competitors of the BMW Group may belong to the Supervisory Board. In compliance with prevailing legislation, the members of the Supervisory Board will strive to ensure that no persons will be nominated for election with whom a serious conflict of interests 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 2016. 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 composition as at 31 December 2014 fulfilled the composition objectives detailed above.

In order to provide shareholders with a profile of the individual members of the Supervisory Board and to make it easier to assess composition targets, brief curricula vitae of the current members of the Supervisory Board are available on the Company's website at www.bmwgroup.com.

Information 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").

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 and further training on recent developments in this area. Two dedicated helplines – the "Human Rights Contact" and the BMW Group SpeakUP Line – are available to employees wishing to raise queries or complaints relating to human rights issues. The UN Guiding Principles for Business and Human Rights provide a framework for critical reflection and continuous improvement in our endeavours to ensure that human rights are respected throughout the organisation.

Further information on social responsibility to employees can be found in the section "Workforce".

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. For instance, we are successively requiring our dealers and importers to comply with ecological and social standards on a contractual basis. Similarly, corresponding criteria are embedded in our purchasing terms and our evaluation of suppliers with a view to ensuring the inclusion of sustainability aspects throughout the purchasing system. The BMW Group Sustainability Standard is an integral component of our enquiry documents and of the automotive supplier self-assessment questionnaire on sustainability required to be completed sector-wide by new suppliers. The BMW Group expects suppliers to ensure that the BMW Group's sustainability criteria are also adhered to by sub-suppliers. Purchasing terms and conditions and other information relating to purchasing can be found in the publicly available section of the BMW Group Partner Portal at https://b2b.bmw.com.

We also work in close partnership with our suppliers and promote their commitment to sustainability.

Compliance in the BMW Group

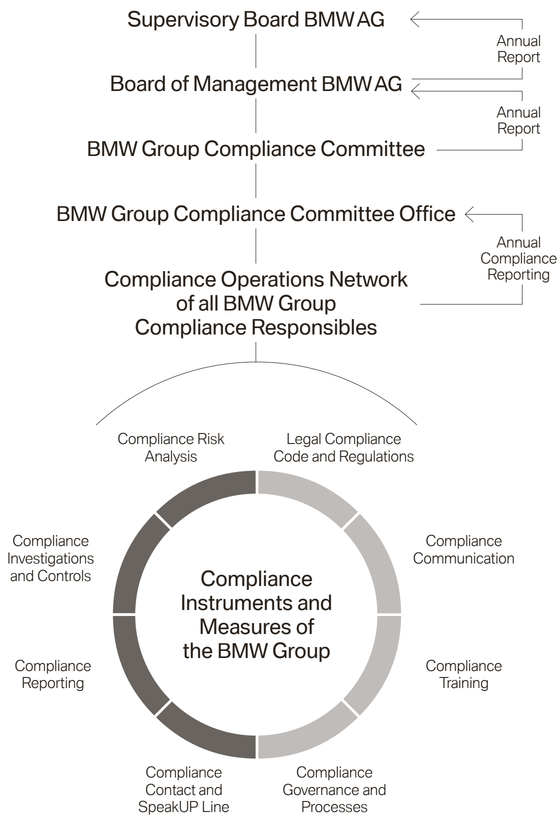
Responsible and lawful conduct is fundamental to the success of the BMW Group. It is an integral part of our corporate culture and the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations.

This principle has been embedded in BMW's internal rules of conduct for many years. In order to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee several years ago, mandated to establish a worldwide Compliance Management System throughout the BMW Group.

The BMW Group Compliance Committee comprises the heads of the following divisions: Legal Affairs and Patents, Corporate and Governmental Affairs, Corporate Audit, Group Reporting, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law (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 refining the BMW Group Compliance Management System, details of investigations performed, known infringements of the law, sanctions imposed and corrective/preventative measures implemented. This ensures that the Board of Management is immediately notified of any cases of particular significance. The decisions taken by the BMW Group Compliance Committee are drafted in concept, and implemented operationally, by the BMW Group Compliance Committee Office. The BMW Group Compliance Committee Office comprises ten employees and is allocated in organisational terms to the Chairman of the Board of Management.

BMW Group Compliance Management System



The Chairman of the BMW Group Compliance Committee keeps the Audit Committee (which is part of the Supervisory Board) informed on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis as the need arises.

The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and input from the BMW Group Compliance Committee. Measures to improve the Compliance Management System are initiated on the basis of identified requirements.

A coordinated set of instruments and measures is employed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on compliance with antitrust legislation and the avoidance of corruption risks. Compliance measures are supplemented by a whole range of internal policies, guidelines and instructions, which in part reflect applicable legislation. The BMW Group Policy "Corruption Prevention" and the BMW Group Instruction "Corporate Hospitality and Gifts", which were revised in 2014, deserve particular mention. These documents deal with lawful handling of gifts and benefits and define appropriate assessment criteria and approval procedures for specified actions.

Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment covering all 331 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, which oversees a network of more than 180 Compliance Responsibles.

The various elements of the BMW Group Compliance Management System 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 Management System, spelling out the Board of Management's commitment to compliance as a joint responsibility ("tone from the top"). This document, which was revised and expanded in 2014, explains the significance of legal compliance and provides an overview of the various areas relevant for the BMW Group. It is available both as a printed brochure and for download in German and English. In addition, translations into eleven other languages are available in the BMW Group intranet.

Managers in particular bear a high degree of responsibility and must set a good example with regard to preventing infringements. Managers throughout the BMW Group acknowledge this principle by signing a written declaration, in which they also undertake to inform staff working for them of the content and significance of the Legal Compliance Code and make them aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate regularly with staff on this issue. Any indication of non-compliance with the law must be rigorously investigated.

More than 25,400 managers and staff worldwide have received training in essential compliance matters since the introduction of the BMW Group Compliance Management System. The training material is available on an Internet-based training platform in German and English and includes a final test. Successful completion of the training programme, which is documented by a certificate, is mandatory for all BMW Group managers. Appropriate processes are in place to ensure that all newly recruited managers and promoted staff undergo compliance training. In this way, the BMW Group ensures full training coverage for its managers in compliance matters.

In addition to this basic training, more in-depth training is also provided to certain groups of staff on specific compliance issues. In 2014, a total of 1,900 employees at BMW AG branches received further training as anti-money laundering measures were upgraded. Antitrust law training was also expanded in 2013, targeting employees who come into contact with antitrust-related issues as a result of their functions within sales and marketing, purchasing, production or development. A total of 3,900 employees have already completed this training. The relevant divisions also implemented further measures and processes to make employees who participate in meetings with competitors sufficiently aware of antitrust risks.

Additional compliance coaching has also been implemented for international sales and financial service locations in local markets. These multi-day classroom seminars strengthen the understanding of compliance in selected units and enhance cooperation between the central BMW Group Compliance Committee Office and decentralised compliance offices. In 2014, market coaching was conducted in Canada, China and the UK.

In order to avoid legal risks, all members of staff are expected to discuss compliance matters with their managers and with the relevant departments within the BMW Group, in particular Legal Affairs, Corporate Audit and Corporate Security. The BMW Group Compliance Contact serves as a further point of contact for both employees and non-employees for any questions regarding compliance.

Employees also have the opportunity to submit information – anonymously and confidentially – via the BMW Group SpeakUP Line about possible breaches of the law within the company. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local toll-free numbers in all countries in which BMW Group employees are engaged in activities.

Compliance-related queries and concerns are documented and followed up by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the Works Council and legal departments may be called upon to assist in the investigation process.

Through the group-wide reporting system, Compliance Responsibles throughout the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, on an ad hoc basis. This includes reporting on the compliance status of the relevant entities, on identified legal risks and incidences of non-compliance, as well as on corrective/preventative measures implemented.

Compliance with and implementation of the Legal Compliance Code are audited regularly by Corporate Audit and subjected to control checks by Corporate Security and the BMW Group Compliance Committee Office. As part of its regular activities, Corporate Audit carries out on-site audits. The BMW Group Compliance Committee also engages Corporate Audit to perform compliance-specific checks. In addition, a BMW Group Compliance Spot Check, a sample test specifically designed to identify potential corruption risks, was carried out in 2014. Compliance control activities are coordinated by the BMW Group Panel Compliance Controls. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

It is essential that employees are aware of and comply with applicable legal regulations. The BMW Group does not tolerate violations of the law by its employees. Culpable violations of the law result in employment-contract sanctions and may involve personal liability consequences for the employee involved.

To avoid this, BMW Group employees are kept fully up-to-date with the instruments and measures used by the Compliance Management System via various internal channels. As of 2014, all new staff receive a welcome email underscoring the BMW Group's special commitment to compliance when they join the company. The central means of communication is the Compliance website within the BMW Group's intranet, where employees can find compliance-related information and access training materials in both German and English. The website contains a special service area where various practical tools are made available to employees to help them deal with typical compliance-related matters. BMW Group employees also have access on the website to an electronically supported approval process for invitations in connection with business partners and an evaluation tool for independent assessment of the admissibility of incentive schemes to promote sales.

In the same way that the BMW Group is committed to lawful and responsible conduct, it expects no less from its business partners. In 2012, the BMW Group developed a new Business Relations Compliance programme aimed at ensuring the reliability of its business relations. Relevant business partners are checked and evaluated with a view to identifying potential compliance risks. These procedures are particularly relevant for relations with sales partners and service providers, such as agencies and consultants. Depending on the results of the evaluation, appropriate measures – such as communication measures, training and possible monitoring – are implemented to manage compliance risks. The Business Relations Compliance programme has already been introduced in 32 units since its launch and, over the coming years, will be rolled out successively throughout the BMW Group's worldwide sales organisation. In 2014, the company also continued integrating compliance clauses to protect contractual relationships into dealer and importer contracts.

Compliance is also an important factor in safeguarding the future of the BMW Group workforce. With this in mind, the Board of Management and the national and international employee representative bodies of the BMW Group have agreed on a binding set of Joint Principles for Lawful Conduct. In doing so, all parties involved made a commitment to the principles contained in the BMW Group Legal Compliance Code and to trustful cooperation in all matters relating to compliance. Employee representatives are therefore regularly involved in the process of refining compliance measures within the BMW Group.

In the interest of investor protection and to ensure that the BMW Group complies with regulations relating to potential insider information, the Board of Management appointed an Ad Hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members examine the relevance of issues for ad hoc disclosure purposes. All persons working on behalf of the company who have access to insider information in accordance with existing rules have been, and continue to be, included in a corresponding, regularly updated list and informed of the duties arising from insider rules.

Reportable securities transactions (“Directors Dealings”)

Pursuant to § 15 a 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 equals or exceeds an amount of €5,000 during any given calendar year. No securities transactions pursuant to § 15 a WpHG were notified to the Company during the financial year 2014.

Shareholdings of members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.61 % of the Company's shares of common and preferred stock (2013: 27.62 %), of which 16.06 % (2013: 16.07 %) relates to Stefan Quandt, Germany, and 11.54 % (2013: 11.55 %) to Susanne Klatten, Germany. The shareholdings of the members of the Board of Management total less than 1 % of the issued shares.

Share-based remuneration schemes for employees and Management Board members

Three share-based remuneration schemes were in place at BMW AG during the year under report, namely the Employee Share Programme (under which entitled employees of BMW AG have been able to participate in the enterprise's success since 1989 in the form of non-voting shares of preferred stock), a share-based remuneration scheme for Board of Management members and a share-based remuneration scheme for department heads (relating in both cases to shares of common stock). The share-based remuneration scheme for Board of Management members is described in detail in the Compensation Report (see also the “Share-based remuneration” section in the Compensation Report and note 20 to the Group Financial Statements).

The share-based remuneration scheme for qualifying department heads, introduced with effect for financial years beginning after 1 January 2012, is closely based on the scheme for Board of Management members and is aimed at rewarding a long-term, entrepreneurial approach to running the business on a sustainable basis.

Under the terms of this scheme, participants give a commitment to invest an amount equivalent to 20 % of their performance-based bonus in BMW common stock and to hold the shares so acquired for four years. In return for this commitment, BMW AG pays 100 % of the investment amount as a net subsidy. Once the four-year holding period requirement has been fulfilled, the participants receive – for each three common stock shares held and at the Company's option – one further share of common stock or the equivalent amount in cash.

Under the terms of the Employee Share Programme, employees were able in 2014 to acquire packages of between four and ten shares of non-voting preferred stock with a discount in each case of €25 (2013: €19.23) per share compared to the market price (average closing price in Xetra trading during the period from 6 November to 12 November 2014: €62.08). All employees of BMW AG and its – directly or indirectly – wholly owned German subsidiaries (if agreed to by the directors of those entities) were entitled to participate in the 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. A total of 239,777 (2013: 266,152) shares of preferred stock were acquired by employees under the scheme in 2014; 239,757 (2013: 265,570) of these shares were drawn from the Authorised Capital 2014, the remainder were bought back via the stock exchange. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in notes 20 and 35 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 2014 is disclosed by individual and analysed in its component parts.

1. Board of Management compensation

Responsibilities

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.

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 of the BMW Group. One further 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 on behalf of 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 executive managers and with the average salaries of employees of BMW AG in Germany, in both cases in terms of level and of changes over time. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Compensation system, compensation components

The compensation of the Board of Management comprises both fixed and variable remuneration as well as a share-based component. Retirement and surviving dependants' benefit entitlements are also in place.

Fixed 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 is unchanged from the previous year, namely €0.75 million p.a. for a board member during the first period of office, €0.9 million p.a. for a board member from the second term of appointment or fourth year of office onwards and €1.5 million p.a. for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of Board of Management members comprises variable cash remuneration on the one hand and a share-based remuneration component on the other.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a cash bonus and share-based remuneration component equivalent to 20% of a board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration are also borne by the Company. In 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 %) for a Board of Management member, for both components of variable compensation, totals €1.5 million p.a., rising to €1.75 million p.a. from the second term of appointment or fourth year of office onwards. The equivalent figure for the Chairman of the Board of Management is €3 million p.a. The amount of bonus is capped for all Board of Management members. With effect from financial years beginning on or after 1 January 2014, the upper limits are 200 % of the relevant target bonus (2013: 250 %).

The corporate earnings-related bonus is based on the BMW Group's net profit and post-tax return on sales (which are combined in a single earnings factor) and the level of the dividend (common stock). The corporate earnings-related bonus is derived by multiplying the target amount fixed for each member of the Board of Management by the earnings factor and by the dividend factor. In exceptional circumstances, for instance when there have been major acquisitions or disposals, the Supervisory Board may adjust the level of the corporate earnings-related bonus.

An earnings and dividend factor of 1.00 would give rise to an earnings-based bonus of €0.75 million for the financial year 2014 for a member of the Board of Management during the first period of office and one of €0.875 million during the second term of appointment or from the fourth year in office. The equivalent bonus for the Chairman of the Board of Management is €1.5 million. The earnings factor is 1.00 in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %. The dividend factor is 1.00 in the event that the dividend paid on the shares of common stock is between 101 and 110 cents. If the Group net profit is below €1 billion or if the post-tax return on sales is less than 2 %, the earnings factor for the financial year 2014 would be zero. In this case, no corporate earnings-related bonus would 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 carbon 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 are fixed in advance for a period of three financial years, during which time they may not be amended retrospectively.

Share-based remuneration programme

The compensation system includes a share-based remuneration programme, in which the level of share-based remuneration is based on the amount of 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 if 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 Board of Management members was changed to a defined contribution system with a guaranteed minimum return with effect from 1 January 2010. However, given the fact that board members appointed for the first time prior to 1 January 2010 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 and 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) upon retirement – depending on the wish of the ex-board member concerned – in the form of a lifelong monthly pension, as a one-off amount, in 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.

Depending on the length of membership in the Board of Management and previous activities, the annual contribution to be paid amounts to between €350,000 and €400,000 for each member of the Board of Management and €700,000 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). A Board of Management member entering office at 50 years of age and serving as member of the Board of Management to the age of 60 can expect a retirement savings capital of €4.2 million.

In the case of invalidity or death, a minimum contribution 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.

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

Overview of compensation system and compensation components

Component	Parameter/measurement base
Basic compensation p.a.	
	Member of the Board of Management: – €0.75 million (first term of appointment) – €0.90 million (from second term of appointment onwards or fourth year in office) Chairman of the Board of Management: – €1.50 million
Variable compensation	
Bonus	Target bonuses p.a. (if target is 100% achieved): – €1.50 million (first term of appointment) – €1.75 million (from second term of appointment onwards or fourth year in office) – €3.00 million (Chairman of the Board of Management)
a) Corporate earnings-related bonus (corresponds to 50% of target bonus if target is 100% achieved)	– Quantitative criteria fixed in advance for a period of three financial years – Formula: 50% of target bonus x earnings factor x dividend factor (common stock) – The earnings factor is derived from the Group net profit and the Group post-tax return on sales
b) Performance-related bonus (corresponds to 50% of target bonus if target is 100% achieved)	– Primarily qualitative criteria, expressed in terms of a performance factor aimed at measuring the board members' contribution to sustainable and long-term performance and the future viability of the business – Formula: 50% of target bonus x performance factor – Criteria for the performance factor also include: innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer orientation, ability to adapt, leadership accomplishments 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 an appropriate basis, contractual basis, no entitlement
Share-based remuneration programme	– Requirement for Board of Management members to each invest an amount equivalent to 20% of their total bonus (after tax) in BMW AG common stock
a) Cash compensation component	– Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions
b) Share-based remuneration component (matching component)	– Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash, unless the employment relationship was ended before expiry of the agreed contractual period (except where caused by death or invalidity).
Other compensation	
	Contractual agreement, main points: use of company cars, insurance premiums, contributions towards security systems, medical check-up

Retirement and surviving dependants' benefits

Model	Principal features
a) Defined benefits (only applies to board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b))	Pension of €120,000 (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, various forms of disbursement Pension contributions p.a.: Member of the Board of Management: €350,000–€400,000 Chairman of the Board of Management: €700,000

Remuneration caps (maximum remuneration)

in € p.a.	Bonus	Share-based compensation programme: Cash compensation for share acquisition	Share-based compensation programme: Monetary value of matching component	Possible special bonus	Total*
Member of the Board of Management in the first term of appointment	3,000,000	700,000	700,000	1,000,000	4,925,000
Member of the Board of Management in the second term of appointment or from fourth year in office	3,500,000	800,000	800,000	1,200,000	5,500,000
Chairman of the Board of Management	6,000,000	1,400,000	1,400,000	1,500,000	9,850,000

* Including basic remuneration, other fixed remuneration elements and pension contribution. The overall cap is lower than the sum of the maximum amounts for each of the individual components.

applicable to senior heads of departments. Retired Chairmen of the Board of Management are entitled, like senior heads of departments, to use a BMW Group vehicle as a company car and, depending on availability and as part of an offset arrangement, use the BMW chauffeur services.

Termination benefits on premature termination of board activities, benefits paid by third parties

In conjunction with the amicable early termination of Dr Reithofer's Board of Management mandate with effect from the end of the Annual General Meeting 2015, the Company also reached agreement with Dr Reithofer concerning the early termination of his service contract with effect from the end of the Annual General Meeting 2015. The contract termination agreement envisages calculation of variable cash remuneration for prorated activities in the financial year 2015 on the basis of the target attainment for the financial year 2013, entitling Dr Reithofer to an amount of €1.9 million, payable in 2015, i.e. in the period after he has left the Board of Management. This arrangement ensures that – in the event that Dr Reithofer is elected to the Supervisory Board – he will not be involved in deciding on the level of his own performance-related remuneration. As settlement of the remuneration to which he is entitled on the basis of the original term of his service contract (i.e. up to 2016), the Company agreed to pay an amount of €2.5 million to Dr Reithofer in 2015. The Company will make a final pension contribution of €0.7 million on behalf of Dr Reithofer for the financial year 2015.

After leaving the Board of Management on 9 December 2014, an agreement was reached with Dr Diess for the early termination of his service contract with effect from 30 June 2015. The agreement envisages the continued payment of fixed remuneration amounting to €0.5 million for the period from the termination of Dr Diess' mandate to the expiry of the service contract. As settlement of the variable cash remuneration relating to the remainder of the contractual period, a payment of €0.6 million, payable in 2015, was also agreed. A performance-related bonus is no longer payable for this period. The Company will make a final pension contribution of €0.4 million on behalf of Dr Diess for the financial year 2014.

Apart from these, there are no contractual commitments to pay compensation if a board member's mandate is terminated early. 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 2014 on account of their activities as members of the Board of Management of BMW AG.

Remuneration caps

The Supervisory Board has stipulated caps for all variable remuneration components and for the remuneration of Board of Management members in total. The caps are shown in the overview of the compensation system and compensation components.

Compensation of the Board of Management for the financial year 2014 (2013) (total)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2014 amounted to €35.4 million (2013: €34.5 million), of which €7.7 million (2013: €7.9 million) relates to fixed components (including other remuneration). Variable components amounted to €27.0 million (2013: €25.9 million) and share-based remuneration components to €0.7 million (2013: €0.7 million).

in € million	**2014**		2013	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	**7.7**	**21.8**	7.9	22.9
Variable cash compensation	**27.0**	**76.3**	25.9	75.1
Share-based compensation component*	**0.7**	**1.9**	0.7	2.0
Total compensation	**35.4**	**100.0**	**34.5**	**100.0**

* Matching component; provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled.

In addition, an expense of €2.1 million (2013: €2.2 million) was recognised in the financial year 2014 for current members of the Board of Management for the period after the end of their service relationship, which relates to the expense for allocations to pension provisions.

The amount paid to former members of the Board of Management and their dependants for the financial year 2014 was €5.8 million (2013: €4.7 million). The figure for 2014 includes continued payment of the fixed remuneration of Dr Diess after leaving the Board of Management amounting to €0.1 million. Pension obligations to former members of the Board of Management, including Dr Diess, and their surviving dependants are fully covered by pension provisions amounting to €68.4 million (2013: €58.0 million), computed in accordance with IAS 19.

Compensation of the individual members of the Board of Management for the financial year 2014 (2013)

in € or number of matching shares	Fixed compensation: Basic compensation	Fixed compensation: Other compensation	Fixed compensation: Total	Variable cash compensation	Share-based compensation component (matching component)[1]: Number	Share-based compensation component (matching component)[1]: Monetary value	**Compensation Total**	Expense for share-based compensation component in year under report in accordance with HGB and IFRS	Provision at 31.12.2014 for share-based compensation component in accordance with HGB and IFRS[2]
Norbert Reithofer	1,500,000	30,152	1,530,152	5,563,800	1,810	151,207	**7,245,159**	191,845	411,815
	(1,500,000)	(119,232)	(1,619,232)	(5,270,400)	(1,886)	(143,204)	(7,032,836)	(122,700)	(219,970)
Milagros Caiña Carreiro-Andree	750,000	68,555	818,555	2,781,900	971	81,117	**3,681,572**	103,493	159,210
	(750,000)	(98,213)	(848,213)	(2,635,200)	(1,012)	(76,841)	(3,560,254)	(49,469)	(55,717)
Herbert Diess[3]	844,355	20,580	864,935	2,749,360	–	–	**3,614,295**	92,633	254,686
	(900,000)	(19,210)	(919,210)	(3,074,400)	(1,181)	(89,673)	(4,083,283)	(91,437)	(162,052)
Klaus Draeger	900,000	24,790	924,790	3,245,550	1,133	94,651	**4,264,991**	191,814	407,415
	(900,000)	(26,374)	(926,374)	(3,074,400)	(1,181)	(89,673)	(4,090,447)	(125,097)	(215,602)
Friedrich Eichiner	900,000	21,952	921,952	3,245,550	1,133	94,651	**4,262,153**	181,389	363,844
	(900,000)	(24,225)	(924,225)	(3,074,400)	(1,181)	(89,673)	(4,088,298)	(104,017)	(182,455)
Klaus Fröhlich[4]	46,371	394	46,765	172,000	52	4,623	**223,388**	130	130
	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Harald Krüger	900,000	18,071	918,071	3,245,550	1,055	88,135	**4,251,756**	94,542	202,917
	(900,000)	(18,588)	(918,588)	(3,074,400)	(1,100)	(83,523)	(4,076,511)	(60,843)	(108,375)
Ian Robertson	900,000	14,161	914,161	3,245,550	1,133	94,651	**4,254,362**	125,621	266,831
	(900,000)	(14,401)	(914,401)	(3,074,400)	(1,181)	(89,673)	(4,078,474)	(79,152)	(141,210)
Peter Schwarzenbauer	750,000	26,481	776,481	2,781,900	971	81,117	**3,639,498**	31,055	41,435
	(562,500)	(13,424)	(575,924)	(1,976,400)	(812)	(57,603)	(2,609,927)	(10,380)	(10,380)
Total[5]	**7,490,726**	**225,136**	**7,715,862**	**27,031,160**	**8,258**	**690,152**	**35,437,174**	**1,012,523**	**2,108,284**
	(7,537,500)	(344,101)	(7,881,601)	(25,894,500)	(9,534)	(719,863)	(34,495,964)	(712,103)	(1,253,625)

[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 20 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 30 December 2014 (€89.77) (fair value at reporting date).
[3] Member of the Board of Management until 9 December 2014.
[4] Member of the Board of Management since 9 December 2014.
[5] Figures for the previous year include the remuneration of the member of the Board of Management who left office during the financial year 2013.

Pension benefits of the individual members of the Board of Management

in €	Service cost in accordance with IFRS for the financial year 2014[1]	Service cost in accordance with HGB for the financial year 2014[1]	Present value of pension obligations (defined benefit plans), in accordance with IFRS[2]	Present value of pension obligations (defined benefit plans), in accordance with HGB[2]
Norbert Reithofer	281,278	717,656	9,600,845	7,346,081
	(313,038)	(233,100)	(7,234,887)	(6,036,606)
Milagros Caiña Carreiro-Andree	366,848	368,968	990,507	989,277
	(369,827)	(372,277)	(555,874)	(555,190)
Klaus Draeger	147,483	409,663	5,359,750	4,485,792
	(162,426)	(407,482)	(4,086,628)	(3,694,976)
Friedrich Eichiner	177,335	409,663	5,599,794	4,633,694
	(174,279)	(407,482)	(4,683,637)	(3,827,095)
Klaus Fröhlich[3]	3,643	2,747	2,138,633	1,286,247
	(–)	(–)	(–)	(–)
Harald Krüger	220,609	359,256	3,927,671	3,204,346
	(143,734)	(358,325)	(2,648,384)	(2,516,021)
Ian Robertson	356,067	414,827	3,029,448	2,395,377
	(395,507)	(274,357)	(2,025,994)	(1,771,848)
Peter Schwarzenbauer	369,234	371,398	688,271	687,570
	(262,500)	(262,500)	(289,681)	(289,308)
Total[4]	**1,922,497**	**3,054,178**	**31,334,919**	**25,028,384**
	(2,033,085)	(2,723,228)	(24,819,665)	(21,753,227)
Herbert Diess[5]	178,809	383,900	4,256,732	3,858,064
	(211,774)	(407,705)	(3,294,607)	(3,062,183)

[1] Service cost differs due to the different valuation bases used to measure pension obligations for HGB purposes (expected settlement amount) and for IFRS purposes (present value of the defined benefit obligation).
[2] Based on legal right to receive the benefits already promised to them, Board of Management members appointed for the first time prior to 1 January 2010 were given the option of choosing between the old and new models at the time the Company changed from a defined benefit to a defined contribution system.
[3] Member of the Board of Management since 9 December 2014.
[4] The previous year's figures include amounts relating to Dr Diess.
[5] Member of the Board of Management until 9 December 2014.

2. Supervisory Board compensation

Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is specified by resolution of the shareholders at the Annual General Meeting or in the Articles of Incorporation. The compensation regulation valid for the financial year under report was resolved by shareholders at the Annual General Meeting on 14 May 2013 and is set out in Article 15 of BMW AG's Articles of Incorporation, which can be viewed and/or downloaded at www.bmwgroup.com/ir under the menu items "Corporate Facts" and "Corporate Governance".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives a fixed compensation component as well as a corporate performance-related compensation component which is oriented toward sustainable growth, based on a multi-year assessment. The corporate performance-related component is based on average earnings per share of common stock for the remuneration year and the two preceding financial years.

These two interacting components are intended to ensure that the compensation of Supervisory Board members is commensurate overall in relation to the tasks performed and the Company's financial condition and also takes account of business performance over several years.

In accordance with the Articles of Incorporation, each member of BMW AG's Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €70,000 (payable at the end of the year) as well as a corporate performance-related compensation of €170 for each full €0.01 by which the average amount of (undiluted) earnings per share (EPS) of common stock reported in the Group Financial Statements for the remuneration year and the two preceding financial years exceeds a minimum amount of €2.00 (payable after the Annual General Meeting held in the following year). An upper limit corresponding to twice the amount of the fixed compensation (€140,000) is in place for the corporate performance-related compensation.

With this combination of fixed compensation elements and a corporate performance-related compensation component oriented toward sustainable growth, the compensation structure in place for BMW AG's Supervisory Board complies with the recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the German Corporate Governance Code (version dated 24 June 2014).

The German Corporate Governance Code also recommends in section 5.4.6 paragraph 1 sentence 2 that the exercising of chair and deputy chair positions in the Supervisory Board as well 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 2014 (total)

In accordance with § 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2014 amounted to €4.8 million (2013: €4.6 million). This includes fixed compensation of €2.0 million (2013: €2.0 million) and variable compensation of €2.8 million (2013: €2.6 million).

in € million	**2014** Amount	**2014** Proportion in %	2013 Amount	2013 Proportion in %
Fixed compensation	**2.0**	**41.7**	2.0	43.5
Variable compensation	**2.8**	**58.3**	2.6	56.5
Total compensation	**4.8**	**100.0**	**4.6**	**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 2014 (2013)

in €	Fixed compensation	Attendance fee	Variable	**Total**
Joachim Milberg (Chairman)	210,000 (210,000)	10,000 (10,000)	317,730 (294,270)	**537,730** (514,270)
Manfred Schoch (Deputy Chairman)[1]	140,000 (140,000)	10,000 (10,000)	211,820 (196,180)	**361,820** (346,180)
Stefan Quandt (Deputy Chairman)	140,000 (140,000)	10,000 (10,000)	211,820 (196,180)	**361,820** (346,180)
Stefan Schmid (Deputy Chairman)[1]	140,000 (140,000)	10,000 (10,000)	211,820 (196,180)	**361,820** (346,180)
Karl-Ludwig Kley (Deputy Chairman)	140,000 (140,000)	6,000 (8,000)	211,820 (196,180)	**357,820** (344,180)
Christiane Benner[1,2]	44,301 (–)	8,000 (–)	67,028 (–)	**119,329** (–)
Bertin Eichler[1,3]	25,890 (70,000)	2,000 (10,000)	39,172 (98,090)	**67,062** (178,090)
Franz Haniel	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Reinhard Hüttl	70,000 (70,000)	8,000 (10,000)	105,910 (98,090)	**183,910** (178,090)
Henning Kagermann	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Susanne Klatten	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Renate Köcher	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Ulrich Kranz[2]	44,301 (–)	8,000 (–)	67,028 (–)	**119,329** (–)
Robert W. Lane	70,000 (70,000)	8,000 (10,000)	105,910 (98,090)	**183,910** (178,090)
Horst Lischka[1]	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Willibald Löw[1]	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Wolfgang Mayrhuber	70,000 (70,000)	8,000 (8,000)	105,910 (98,090)	**183,910** (176,090)
Dominique Mohabeer[1]	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Brigitte Rödig[1]	70,000 (33,370)	10,000 (6,000)	105,910 (46,761)	**185,910** (86,131)
Markus Schramm[3]	25,890 (52,740)	2,000 (8,000)	39,172 (73,903)	**67,062** (134,643)
Jürgen Wechsler[1]	70,000 (70,000)	10,000 (6,000)	105,910 (98,090)	**185,910** (174,090)
Werner Zierer[1]	70,000 (70,000)	10,000 (10,000)	105,910 (98,090)	**185,910** (178,090)
Total[4]	**1,820,382** (1,818,082)	**190,000** (192,000)	**2,754,240** (2,547,653)	**4,764,622** (4,557,735)

[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 15.05.2014.
[3] Member of the Supervisory Board until 15.05.2014.
[4] Figures for the previous year include the remuneration of members of the Supervisory Board who left office during the financial year 2013.

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.

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 4 and § 315 (1) sentence 6 of the German Commercial Code (HGB)
"To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 19 February 2015

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Milagros Caiña Carreiro-Andree

Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner

Klaus Fröhlich

Harald Krüger

Dr. Ian Robertson (HonDSc)

Peter Schwarzenbauer

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 2014. 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 give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 5 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pastor	Feege
Wirtschaftsprüfer	Wirtschaftsprüfer

OTHER INFORMATION

BMW Group Ten-year Comparison

		2014	2013	2012	2011
Sales volume					
Automobiles	units	**2,117,965**	1,963,798	1,845,186	1,668,982
Motorcycles[1]	units	**123,495**	115,215	106,358	104,286
Production volume					
Automobiles	units	**2,165,566**	2,006,366	1,861,826	1,738,160
Motorcycles[1]	units	**133,615**	110,127	113,811	110,360
Financial Services					
Contract portfolio	contracts	**4,359,572**	4,130,002	3,846,364	3,592,093
Business volume (based on balance sheet carrying amounts)[2]	€ million	**96,390**	84,347	80,974	75,245
Income Statement					
Revenues	€ million	**80,401**	76,059[3]	76,848	68,821
Gross profit margin Group[4]	%	**21.2**	20.1	20.2	21.1
Profit before financial result	€ million	**9,118**	7,978[3]	8,275	8,018
Profit before tax	€ million	**8,707**	7,893[3]	7,803	7,383
Return on sales (earnings before tax/revenues)	%	**10.8**	10.4	10.2	10.7
Income taxes	€ million	**2,890**	2,564[3]	2,692	2,476
Effective tax rate	%	**33.2**	32.5	34.5	33.5
Net profit for the year	€ million	**5,817**	5,329[3]	5,111	4,907
Balance Sheet					
Non-current assets	€ million	**97,959**	86,193[3]	81,305	74,425
Current assets	€ million	**56,844**	52,184[3]	50,530	49,004
Equity	€ million	**37,437**	35,600[3]	30,606	27,103
Equity ratio Group	%	**24.2**	25.7[3]	23.2	22.0
Non-current provisions and liabilities	€ million	**58,288**	51,643[3]	52,834	49,113
Current provisions and liabilities	€ million	**59,078**	51,134[3]	48,395	47,213
Balance sheet total	€ million	**154,803**	138,377[3]	131,835	123,429
Cash Flow Statement					
Cash and cash equivalents at balance sheet date	€ million	**7,688**	7,671[3]	8,370	7,776
Operating cash flow[5]	€ million	**9,423**	9,964[3]	9,167	8,110
Capital expenditure	€ million	**6,100**	6,711[3]	5,240	3,692
Capital expenditure ratio (capital expenditure/revenues)	%	**7.6**	8.8	6.8	5.4
Personnel					
Workforce at the end of year[6]		**116,324**	110,351	105,876	100,306
Personnel cost per employee	€	**92,337**	89,869[3]	89,161	84,887
Dividend					
Dividend total	€ million	**1,904**	1,707	1,640	1,508
Dividend per share of common stock/preferred stock	€	**2.90/2.92**	2.60/ 2.62	2.50/2.52	2.30/ 2.32

[1] Excluding Husqvarna, sales volume up to 2013: 59,776 units; production up to 2013: 59,426 units.
[2] Amount computed on the basis of balance sheet figures: until 2007 from the Group balance sheet, from 2008 onwards from the Financial Services segment balance sheet.
[3] Prior year figures have been adjusted in accordance with IAS 8, see note 9.
[4] Research and development expenses 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] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.

	2010	2009	2008	2007	2006	2005
Sales volume						
Automobiles	1,461,166	1,286,310	1,435,876	1,500,678	1,373,970	1,327,992
Motorcycles[1]	98,047	87,306	101,685	102,467	100,064	97,474
Production volume						
Automobiles	1,481,253	1,258,417	1,439,918	1,541,503	1,366,838	1,323,119
Motorcycles[1]	99,236	82,631	104,220	104,396	103,759	92,012
Financial Services						
Contract portfolio	3,190,353	3,085,946	3,031,935	2,629,949	2,270,528	2,087,368
Business volume (based on balance sheet carrying amounts)[2]	66,233	61,202	60,653	51,257	44,010	40,428
Income Statement						
Revenues	60,477	50,681	53,197	56,018	48,999	46,656
Gross profit margin Group[4]	18.1	10.5	11.4	21.8	23.1	22.9
Profit before financial result	5,111	289	921	4,212	4,050	3,793
Profit before tax	4,853	413	351	3,873	4,124	3,287
Return on sales (earnings before tax / revenues)	8.0	0.8	0.7	6.9	8.4	7.0
Income taxes	1,610	203	21	739	1,250	1,048
Effective tax rate	33.1	49.2	6.0	19.1	30.3	31.9
Net profit for the year	3,243	210	330	3,134	2,874	2,239
Balance Sheet						
Non-current assets	67,013	62,009	62,416	56,619	50,514	47,556
Current assets	43,151	39,944	38,670	32,378	28,543	27,010
Equity	23,930	19,915	20,273	21,744	19,130	16,973
Equity ratio Group	21.7	19.5	20.1	24.4	24.2	22.8
Non-current provisions and liabilities	46,100	45,119	41,526	33,469	31,372	29,509
Current provisions and liabilities	40,134	36,919	39,287	33,784	28,555	28,084
Balance sheet total	110,164	101,953	101,086	88,997	79,057	74,566
Cash Flow Statement						
Cash and cash equivalents at balance sheet date	7,432	7,767	7,454	2,393	1,336	1,621
Operating cash flow[5]	8,149	4,921	4,471	6,246	5,373	6,184
Capital expenditure	3,263	3,471	4,204	4,267	4,313	3,993
Capital expenditure ratio (capital expenditure / revenues)	5.4	6.8	7.9	7.6	8.8	8.6
Personnel						
Workforce at the end of year[6]	95,453	96,230	100,041	107,539	106,575	105,798
Personnel cost per employee	83,141	72,349	75,612	76,704	76,621	75,238
Dividend						
Dividend total	852	197	197	694	458	419
Dividend per share of common stock / preferred stock	1.30/1.32	0.30/0.32	0.30/0.32	1.06/1.08	0.70/0.72	0.64/0.66

BMW Group Locations

The BMW Group is present in the world markets with 30 production and assembly plants, 42 sales subsidiaries and a research and development network.

— H **Headquarters**

— R Research and Development

BMW Group Research and Innovation Centre (FIZ), Munich, Germany
BMW Group Research and Technology, Munich, Germany
BMW Car IT, Munich, Germany
BMW Innovation and Technology Centre, Landshut, Germany
BMW Diesel Competence Centre, Steyr, Austria
BMW Group Designworks, Newbury Park, USA
BMW Group Technology Office USA, Mountain View, USA
BMW Group Engineering and Emission Test Center, Oxnard, USA
BMW Group ConnectedDrive Lab China, Shanghai, and BMW Group Designworks Studio Shanghai, China
BMW Group Engineering China, Beijing, China
BMW Group Engineering Japan, Tokyo, Japan
BMW Group Engineering USA, Woodcliff Lake, USA

— 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)

— C Contract production

Magna Steyr Fahrzeugtechnik, Austria
VDL Nedcar, Netherlands

— A Assembly plants

CKD production Araquari, Brazil
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
Finland
France
Germany
Great Britain
Greece
Hungary*
India
Indonesia*
Ireland
Italy
Japan
Luxembourg
Malaysia
Malta*
Mexico
Netherlands
New Zealand
Norway
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.

Combined heat and power
Combined heat and power (CHP) or cogeneration is the simultaneous conversion of energy sources into electricity and useful heating. In comparison to separate generation of electricity in conventional power plants, energy is converted more efficiently and with greater flexibility. As a result, this technology helps to reduce CO_2 emissions.

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 investments in marketable securities and term deposits.

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.

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.

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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Financial Calendar

Annual Accounts Press Conference	18 March 2015
Analyst and Investor Conference	19 March 2015
Quarterly Report to 31 March 2015	6 May 2015
Annual General Meeting	13 May 2015
Quarterly Report to 30 June 2015	4 August 2015
Quarterly Report to 30 September 2015	3 November 2015

Annual Report 2015	16 March 2016
Annual Accounts Press Conference	16 March 2016
Analyst and Investor Conference	17 March 2016
Quarterly Report to 31 March 2016	3 May 2016
Annual General Meeting	12 May 2016
Quarterly Report to 30 June 2016	2 August 2016
Quarterly Report to 30 September 2016	4 November 2016

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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.

A FURTHER CONTRIBUTION TOWARDS PRESERVING RESOURCES

The BMW Group Annual Report was printed on paper with the Blue Angel eco-label. The paper used was produced, climate-neutrally and without optical brighteners and chlorine bleach, from recycled waste paper.

The CO_2 emissions generated through print and production were neutralised by the BMW Group. To this end, the corresponding amount of emissions allowances was erased, with the transaction identification EU241734 on 6 February 2015.

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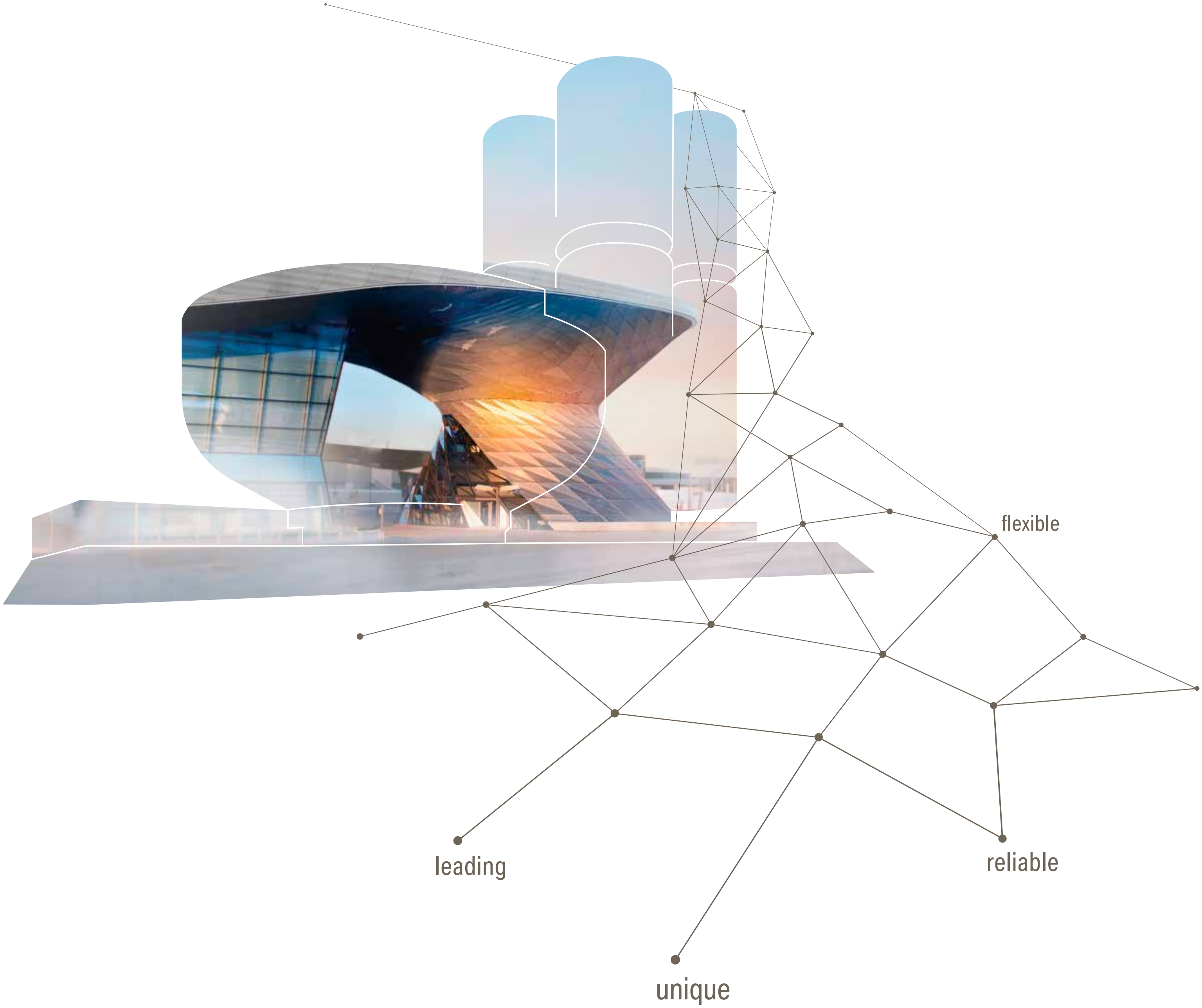

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