

Registered in England and Wales  
Number 1213133

# BMW (UK) HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 1996



## BMW (UK) HOLDINGS LIMITED

DIRECTORS                      A L Burns  
                                      R J Griffiths  
                                      Dr D Löchelt  
                                      Dr W Stofer

### REPORT OF THE DIRECTORS

The directors present the Annual Report of the Company, together with the Financial Statements for the year ended 31 December 1996.

#### Review of activities

The profit and loss account for the year is set out on page 5.

The Company operates as a holding company for certain BMW and Rover Group companies. It does not itself trade and has no direct sales.

#### Directors

The names of the present directors of the Company are listed above.

Dr W Reitzle resigned as a director and chairman on 1 April 1996. J Towers, D G Bower, B T Carey, A Curtis, H A Rose and J K Russell resigned as directors on 1 April 1996. A L Burns, R J Griffiths, Dr D Löchelt and Dr W Stofer were appointed as directors on 1 April 1996.

None of the directors held any interest in the share capital of the Company or any of its subsidiary undertakings at 31 December 1996.

#### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently ;
- make judgements and estimates that are reasonable and prudent ;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements ;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

BMW (UK) HOLDINGS LIMITED

REPORT OF THE DIRECTORS - continued

Dividends

The directors recommend that no dividend should be paid for the year ended 31 December 1996.

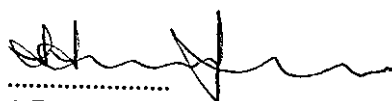
Charitable donations

During the year the Company made no donations to charitable organisations (1995: £nil).

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution to reappoint KPMG as auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board:



.....  
A T Armitage  
SECRETARY  
11 April 1997

BMW (UK) HOLDINGS LIMITED

REPORT OF THE AUDITORS KPMG TO THE MEMBERS  
OF BMW (UK) HOLDINGS LIMITED

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditors

As described on page 2, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
.....  
Chartered Accountants  
Registered Auditors  
Birmingham

11 April 1997

## BMW (UK) HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 1996

	<u>Notes</u>	<u>1996</u> <u>£ million</u>	<u>1995</u> <u>£ million</u>
Net operating income	1	-	5.2
Provisions in respect of subsidiaries		(81.8)	-
Dividend received from subsidiary		<u>0.2</u>	<u>-</u>
(Loss)/profit on ordinary activities before interest and taxation		(81.6)	5.2
Net interest receivable and similar income	3	<u>0.3</u>	<u>0.7</u>
(Loss)/profit on ordinary activities before taxation		(81.3)	5.9
Tax on (loss)/profit on ordinary activities	4	<u>-</u>	<u>(0.5)</u>
(Loss)/profit for financial year	11	<u>(81.3)</u>	<u>5.4</u>

## CONTINUING OPERATIONS

None of the Company's operations were acquired or discontinued during the above two financial years.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 1996


	<u>1996</u> <u>£ million</u>	<u>1995</u> <u>£ million</u>
(Loss)/profit for financial year	(81.3)	5.4
Movement on revaluation of subsidiary undertaking	<u>-</u>	<u>(35.4)</u>
Total recognised gains and losses relating to the year	<u>(81.3)</u>	<u>(30.0)</u>


## BMW (UK) HOLDINGS LIMITED

BALANCE SHEET  
AT 31 DECEMBER 1996

	Notes	1996 £ million	1996 £ million	1995 £ million	1995 £ million
Fixed Assets					
Investments	5		<u>1,656.1</u>		<u>1,631.1</u>
Current Assets					
Debtors	6		190.2		189.3
Cash at bank and in hand			<u>-</u>		<u>0.4</u>
			190.2		189.7
Creditors - amounts falling due within one year	7		<u>(25.0)</u>		<u>-</u>
Net current assets			<u>165.2</u>		<u>189.7</u>
Total assets less current liabilities			1,821.3		1,820.8
Provisions for liabilities and charges	8		<u>(81.8)</u>		<u>-</u>
			<u>1,739.5</u>		<u>1,820.8</u>
Capital and reserves					
Called up share capital	9		1,463.0		1,463.0
Share premium account	11		567.2		567.2
Revaluation reserve	11		268.1		268.1
Capital contribution reserve	11		180.0		180.0
Profit and loss account	11		<u>(738.8)</u>		<u>(657.5)</u>
Equity interests		1,289.5		1,370.8	
Non-equity interests		<u>450.0</u>		<u>450.0</u>	
Total shareholders' funds	10		<u>1,739.5</u>		<u>1,820.8</u>

These Financial Statements were approved by the Board of Directors on 11 April 1997  
and were signed on its behalf by:

  
.....  
Dr W Stofer

  
.....  
A L Burns

## BMW (UK) HOLDINGS LIMITED

### ACCOUNTING POLICIES

#### Accounting convention

These financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention, as modified by the revaluation of investments.

#### Taxation

Provision is made for deferred taxation on the liability method to take account of timing differences between the treatment of certain items for accounting and taxation purposes. Provision is only made to the extent that it is probable that an actual liability will crystallise.

#### Investments in subsidiary undertakings

Investments in subsidiary undertakings are included at directors' valuation, which has regard to the underlying net asset value and earnings potential reflected in goodwill at the time of acquisition of the subsidiary undertakings. The directors' valuation is reviewed annually and provision is made for any permanent diminution in value, as appropriate.

## BMW (UK) HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

## 1. Net operating income

	1996 <u>£ million</u>	1995 <u>£ million</u>
Net operating income is calculated as follows:		
Administrative expenses	-	(0.1)
Sundry income	-	5.3
	<u>-</u>	<u>5.2</u>

Sundry income includes:

Release of provision	-	4.7
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Auditors' remuneration was borne by another Group company.

## 2. Directors' remuneration

The emoluments, including pension contributions, of the directors were as follows:-

	1996 <u>£000</u>	1995 <u>£000</u>
Management Remuneration	nil	1,701

The emoluments, excluding pensions contributions, of the chairman were £nil (1995: £nil) and of the highest paid director were £nil (1995: £365,563). The emoluments, excluding pension contributions, of the directors were within the following bands:

	Number of directors	
<u>£000</u>	1996	1995
0 to 5	-	2
120 to 125	-	1
150 to 155	-	1
210 to 215	-	1
240 to 245	-	1
250 to 255	-	1
275 to 280	-	1
365 to 370	-	1

In 1995 the management remuneration was borne on behalf of the Company by Rover Group Limited.

## 3. Net interest receivable and similar income

	1996 <u>£ million</u>	1995 <u>£ million</u>
Receivable from subsidiary undertakings	<u>0.5</u>	<u>1.0</u>
Payable to subsidiary undertakings	<u>(0.2)</u>	<u>(0.3)</u>
Net interest receivable	<u>0.3</u>	<u>0.7</u>



## BMW (UK) HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS - continued

## 4. Tax on (loss)/profit on ordinary activities

Based on the results for the year no provision for UK Corporation Tax or deferred taxation is required. In 1995 the charge for tax represents payment for group relief.

## 5. Investments

	1996 <u>£ million</u>
Shares in group undertakings At directors' valuation	
At beginning of year	1,631.1
Additions	<u>25.0</u>
At end of year	<u>1,656.1</u>
Amount provided at beginning and end of year	<u>-</u>
Net book value: 31 December 1996	1,656.1
31 December 1995	1,631.1

The historical cost of shares in group undertakings is £1,208.0 million (1995: £1,183.0 million).

During the year the Company acquired the whole of the share capital in BMW Motorsport Ltd and increased its investment in its subsidiary, BMW (UK) Capital Plc.

The Company's wholly owned subsidiary companies comprise the entire ordinary and redeemable ordinary share capital of Rover Group Limited, the entire ordinary share capital of BMW (GB) Limited (and its subsidiaries), the entire ordinary share capital of BMW (UK) Capital Plc and the entire ordinary share capital of BMW Motorsport Ltd, all registered in England and Wales. Rover Group Limited is engaged in the manufacture and sale of motor vehicles, BMW (GB) Limited is engaged in the wholesale of motor vehicles and BMW (UK) Capital Plc trades as a finance company.

## 6. Debtors - amounts falling due within one year

	1996 <u>£ million</u>	1995 <u>£ million</u>
Amounts owed by subsidiaries	<u>190.2</u>	<u>189.3</u>

## 7. Creditors - amounts falling due within one year

	1996 <u>£ million</u>	1995 <u>£ million</u>
Amount due to subsidiary undertaking	<u>25.0</u>	<u>-</u>

## BMW (UK) HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS - continued

## 8. Provisions for liabilities and charges

	1996 £ million
Provision for losses of subsidiary	
At beginning of year	-
Provision made	81.8
At end of year	81.8

## 9. Share capital

	Redeemable ordinary shares		Ordinary shares	
	1996	1995	1996	1995
	£ million	£ million	£ million	£ million
Authorised	1.0	1.0	1,768.0	1,768.0
Allotted, issued and fully paid:				
1,462.0 million ordinary shares of £1 each	-	-	1,462.0	1,462.0
1.0 million redeemable ordinary shares of £1 each	1.0	1.0	-	-
	1.0	1.0	1,462.0	1,462.0

The dividend rights, voting rights and rights on the winding up of the Company of the redeemable ordinary shares rank pari passu with the ordinary shares.

## 10. Reconciliation of movements in shareholders' funds

	1996 £ million	1995 £ million
Total recognised gains and losses relating to the year	(81.3)	(30.0)
Shares issued	-	450.0
Capital contribution	-	180.0
Opening shareholders' funds	1,820.8	1,220.8
Closing shareholders' funds	1,739.5	1,820.8

## 11. Reserves

	Share Premium £ million	Revaluation Reserve £ million	Capital Contribution Reserve £ million	Profit and Loss Account £ million
At beginning of year	567.2	268.1	180.0	(657.5)
Loss for the year	-	-	-	(81.3)
At end of year	567.2	268.1	180.0	(738.8)

## BMW (UK) HOLDINGS LIMITED

### NOTES TO THE ACCOUNTS - continued

#### 12. Contingent liabilities

Guarantees with a maximum value of £41 million (1995: £200 million) have been given in relation to borrowing facilities of subsidiary undertakings.

#### 13. Ultimate parent company

The ultimate parent company is Bayerische Motoren Werke Aktiengesellschaft, which is incorporated in Germany.

The address where Bayerische Motoren Werke Aktiengesellschaft's accounts can be obtained is Petenling 130, D-80809 Munich, Germany.

#### 14. Group accounts

The Company being a subsidiary undertaking of another company is not required to present group accounts. These accounts represent the results of the Company as an individual entity. The parent undertaking which draws up the group accounts is Bayerische Motoren Werke Aktiengesellschaft, which is incorporated in Germany.

# BMW Annual Report 1996

Abridged Version

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COMPANIES HOUSE 10/10/97

I hereby certify this to be a true  
and accurate copy of the original  
Signed [Signature]  
SOLICITOR

# BMW Year to Year Comparison

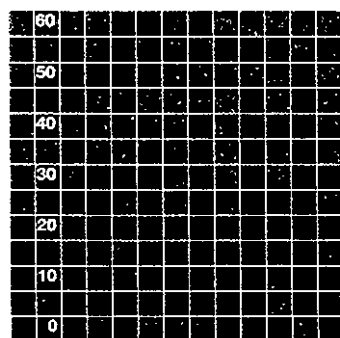
In case of differences of opinion,  
the German text shall prevail.

BMW Group		1996	1995	Change in %
Sales	DM million	52,265	46,144	+ 13.3
Automobile production				
Group	units	1,143,558	1,098,582	+ 4.1
BMW	units	639,433	595,056	+ 7.5
Rover Group	units	504,125	503,526	+ 0.1
Automobile deliveries to customers				
Group	units	1,151,361	1,073,161	+ 7.3
BMW	units	644,107	590,072	+ 9.2
Rover Group	units	507,254	483,089	+ 5.0
Motorcycle production <sup>1)</sup>	units	48,950	52,653	- 7.0
Motorcycle deliveries to customers	units	50,465	50,246	+ 0.4
Workforce at end of year		116,112	115,763	+ 0.3
Investment	DM million	3,830	3,477	+ 10.2
Depreciation	DM million	3,002	2,877	+ 4.3
Cash flow	DM million	4,092	3,755	+ 9.0
Net income	DM million	820	692	+ 18.5

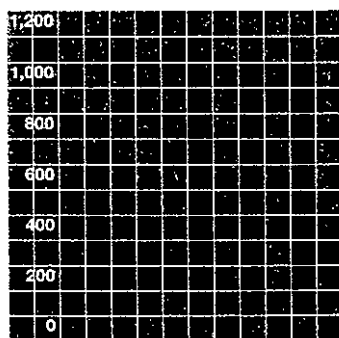
BMW AG		1996	1995	Change
Dividends	DM million	297 <sup>2)</sup>	267	+ 11.2
per ordinary share of DM50 nominal value	DM	15.00 <sup>2)</sup>	13.50	
per preference share of DM50 nominal value	DM	16.00 <sup>2)</sup>	14.50	

<sup>1)</sup> Incl. F 650 assembly at Aprilia S.p.A.

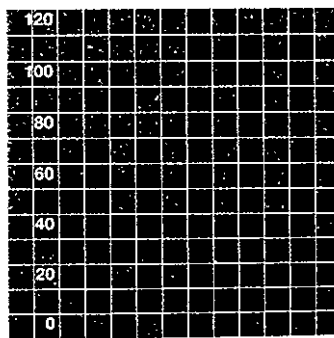
<sup>2)</sup> Proposal of the Management



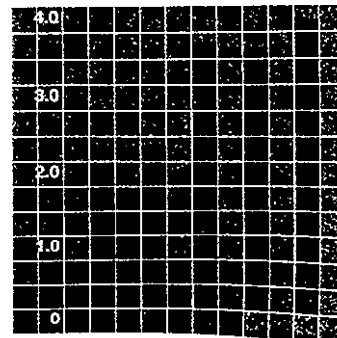
Sales  
in DM billion



Automobile Production  
in thousands



Workforce  
in thousands



Investment  
in DM billion

# Bayerische Motoren Werke Aktiengesellschaft, Munich

## Abridged Version of the 1996 Annual Report

Dear Shareholders,

We take pleasure in presenting you with the Abridged Version of the BMW Annual Report 1996. We shall be pleased to send you the full Annual Report upon request.

Munich, March 1997

Yours faithfully,

The Board of Management

Continuing a long series of successful business years for BMW, 1996 was significant in several ways.

First of all, in terms of the Company's key statistics, it was one of the best business years ever. Never before was demand for BMW cars and motorcycles so strong. Production and sales, in units and value, achieved all-time highs.

The foundations for today's success were laid by programmes initiated in the past; programmes involving high investment and expenditure.

With our products, we have succeeded, consistently and worldwide, in gaining a leading position in the luxury performance segment. Each new model has been more successful than the preceding generation.

Our worldwide sales organisation, developed and expanded progressively over many years, created the conditions for the products' market success.

Substantial investments have been made not only in developing, but also in constantly renewing state-of-the-art production facilities. These are essential if we are to meet our customers' quality demands and achieve our aim of providing modern, productive jobs.

Even in these conditions, qualified and dedicated employees are, ultimately, decisive for our success. Time and again, we have attracted new, highly motivated employees, thus ensuring a steady influx of knowledge.

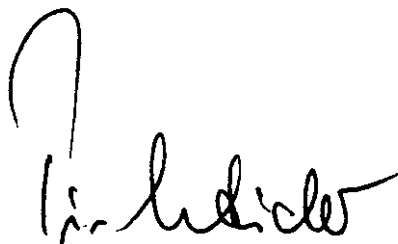
Today, we are harvesting what we have sown in the past. At the same time, we are sowing the seeds for tomorrow's harvest. This applies to the entire Group, and particularly to the car business at BMW and Rover, and the aero engine business at BMW Rolls-Royce.

BMW Group's car business is in the midst of a new model policy. From 1997, we shall launch at least two completely new products each and every year. However, true to our practice hitherto, we shall not present these models to the public until production is about to start up.

At Rover our programme, lasting several years, includes not only the actual range of products, but also the development of a worldwide sales organisation and the further modernisation of production facilities.

Our policy of consistent and targeted expenditure is particularly striking in the aero engine business at BMW Rolls-Royce. With the beginning of delivery of the first aero engines to customers, we shall increasingly reap the benefits of the preparations we have made for many years.

Despite the immense expenditure on our Company's future, 1996 continued a long series of particularly successful years, confirming BMW's corporate policy: our investments in products, production and employees are investments in the Company's future – to the advantage of our shareholders, customers and workforce.

A handwritten signature in black ink, appearing to read 'B. Pischetsrieder', with a large, stylized initial 'B'.

Bernd Pischetsrieder



**1996 was a good year for the BMW Group. On the one hand, the broadest model policy and the largest investment programme in the Company's history were continued unremittingly. On the other hand, the product and capacity measures of recent years provided the basis for successful business. With marques that are rich in tradition, an international corporate structure and total deliveries of 1.15 million cars, the BMW Group is prepared for a new dimension in global competition.**

**BMW Group develops dynamically**

In 1996, deliveries of new BMW cars to customers increased by 54,000 to 644,100 units and thus achieved a new high. The BMW motorcycle business set a new record. With 507,300 units, deliveries of Rover Group vehicles had not been as high since 1988.

The Company's dynamic character and innovative strength were shown by the new 5 Series BMW and the Z3 roadster. Demand for both models by far exceeded their original targets. With deliveries of more than 50,000 7 Series cars to customers, the large saloons continued to be successful worldwide.

The new plant in the United States increased the Company's potential for producing high-quality, individual cars at competitive costs. With this plant, BMW also became part of the North American car industry. In addition to its successful position in this large market, the Company will benefit, in the long term, from cooperation with US suppliers.

At Rover Group, projects to prepare new models and improve the sales organisation in numerous foreign markets advanced rapidly. The new generations of Rover 200 and 400 cars and the MGF sports car stimulated sales as expected.

Rover Group plants are being prepared, on schedule, to meet the challenges ahead. The company's new Design and Engineering Centre was opened at the end of 1996. This was a major step towards close cooperation between BMW and Rover.

The shape of the future Group is also reflected in the decisions to build new engine plants in Great Britain and Latin America.

This also applies to the development of business with aero engines at BMW Rolls-Royce GmbH. The company achieved an important milestone when the BR710 aero engine received its international licenses in the summer of 1996.

Even during a period of great change, the Group's income and financial position continues to be sound. Earning power was strengthened.

**Car production and sales achieve new highs**

In 1996, the plants of the BMW Group manufactured some 1.14 million BMW, Rover, MG, Mini and Land Rover vehicles; 4% more than in the previous year. Fifty percent of the vehicles were produced and 78% of them delivered to customers outside Germany.

BMW car production rose steadily with the start-up of the new 5 Series at the Dingolfing plant and as a result of the capacities at the new US plant. It increased by 7% to 639,400 units and thus, for the first time, exceeded the 600,000-mark.

Rover Group manufactured 504,100 vehicles; the same level as in the previous year. With the model change-over in the Rover 200 Series, the company had to cope with the production start-up of a large-volume model.

As many as 1.15 million new BMW and Rover Group vehicles were delivered to customers; 7% more than in the previous year. The most important sales markets for BMW Group products were again Germany, Great Britain and the United States. The Company is also represented by its own production plants in these countries. The BMW plant in South Africa is gradually being integrated into the Group's international system of linked production plants.

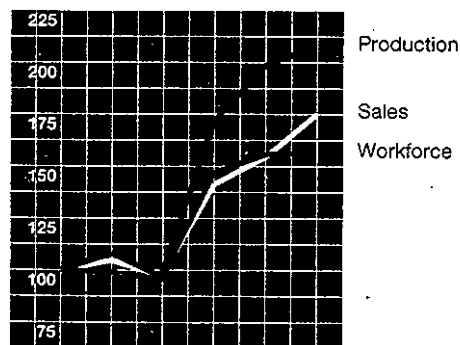
At the end of 1996, the Group's international sales organisation comprised

### Group sales rise to DM52 billion

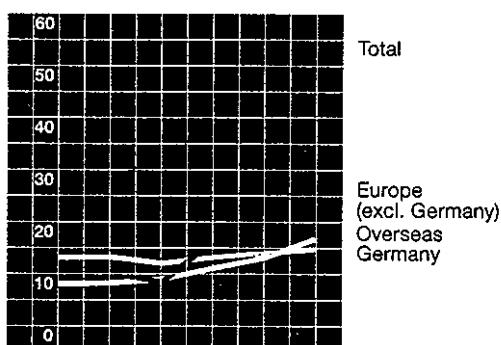
In 1996, the sales of the BMW Group rose by 13% to DM52.3 billion. Thus, they were twice as high as at the end of the 1980s. In 1996, sales grew far more strongly than vehicle production and sales. This was due to the marked shift in demand to more expensive models and the revaluation of major trading currencies against the D-mark.

When excluding Rover Group, BMW Group sales rose by 12% to DM37.3 billion. Rover Group sales, excluding intercompany sales, rose by 15% to around DM15 billion.

With 68%, the Group generated by far the largest part of its sales in Europe. On the one hand, North America and, on the other hand, the markets of the Asian-Pacific region, Latin America and Africa



**Sales, Automobile Production and Workforce of the BMW Group**  
Index: 1991 = 100



**Sales of the BMW Group According to Regions**  
in DM billion

35 sales companies, around 180 importers and more than 6,000 dealer businesses for cars and motorcycles.

In Germany, BMW products were sold through some 850 independent dealers and 18 sales outlets. At the end of 1996, some 270 German dealers belonged to the Rover Group sales organisation.

each accounted for half the business volume overseas.

When taking account of the increase in product inventories and own work capitalised amounting to DM0.7 billion, the Group's total value of production was DM53.0 billion, 12% higher than in the previous year.

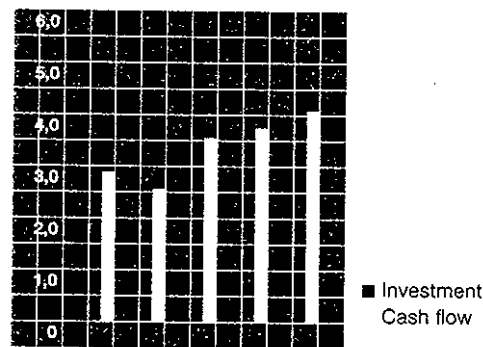
Material costs amounted to DM31.1 billion, compared with DM27.4 billion in the previous year. Their share of the total value of production rose by 0.7 percentage points to 58.6%. In the BMW Group, wages, salaries, pension plans and social security

contributions cost DM9.8 billion, 11% more than in the previous year. With 18.6%, the share of personnel costs decreased slightly compared with the previous year.

Depreciation on intangible and tangible fixed assets increased by 4% to DM3.0 billion. The rise in depreciation is due to the renewed marked increase in the level of investment.

In view of the Group's numerous product projects and continuing high expenditure on development in the aero engine business, the earning power of the BMW Group developed satisfactorily.

The result from ordinary business activities in the BMW Group rose by 21% to DM1,660 million. After deduction of taxes on income and other taxes, net income improved by 18.5% to DM820 million.



**Investment and Cash Flow  
of the BMW Group**  
in DM billion

The return on shareholders' equity after tax increased by 0.6 percentage points to 9.0% although shareholders' equity rose by more than 10% to DM 9.1 billion.

### Results improved in all fields of business

The result from ordinary business activities in the BMW Automobiles segment increased by 9% to DM2,389 million and thus greatly determined the development of the group result. This segment includes business with motorcycles which, with DM19 million, again made a positive contribution to the group result. In the Rover Group Automobiles segment, the previous year's loss of DM335 million was reduced by DM56 million to DM279 million.

In the Aero Engines business, expenditure on development continued to be high. However, the previous year's loss was reduced by DM25 million to DM627 million.

Financial Services achieved a positive result of DM26 million, taking full account of depreciation, using the declining balance method, in the entire Group.

Key data on the income and assets of the segments of the BMW Group are shown in tables on pages 16 and 17.

### Higher dividend proposed

The Board of Management and the Supervisory Board propose to the Annual General Meeting that BMW AG's unappropriated profit available for distribution, amounting to DM297 million, be used to pay a dividend of DM15 per ordinary share and DM16 per preference share with a nominal value of DM50 each on the share capital entitled to dividend (DM920.5 million in ordinary shares and DM66.4 million in preference shares).

Thus, the Company's shareholders continue to take part in the generally satisfactory development of the BMW Group. With this proposal, the Board of Management and the Supervisory Board would like to express their thanks to the shareholders for their confidence in the Company's development.

### **Purchasing becomes increasingly international**

In 1996, the BMW Group purchased goods and services worth DM31.9 billion. This expenditure was mainly on production materials and capital goods. Despite several contrary trends, prices for purchases of materials in Germany were generally stable.

World market prices in US dollars decreased by 9% for industrial raw materials, but increased by 8% for energy. Moderate wage settlements in most industrial countries and increasing efficiency in the supply industry helped to check the growth of the cost of materials. In contrast, increases in the value of the US dollar and other major trading currencies against the D-mark had a negative effect on costs.

In 1996, Germany accounted for around 50%, Great Britain for 30% and other international sources for around 20% of the volume of purchases. Favourable cost structures and the innovative strength of suppliers with worldwide operations contributed decisively to the increasingly international character of BMW Group's purchasing activities. When selecting new suppliers, special attention was paid to their flexibility and reliability.

Joint purchasing activities and the selection of the same suppliers for BMW and Rover resulted in cost savings of more than DM100 million in 1996. The use of standard technologies and components in future BMW and Rover vehicles also has great savings potential. In 1996, cooperation focused on work on product projects of this kind.

With the new plant in the United States, the planned engine plant in South America and the development of capacities in South Africa, the BMW Group is opening up new opportunities for cooperation with the supply industry in these regions.

### **New jobs in production, increased international cooperation**

At the end of 1996, the BMW Group employed 116,112 people worldwide; around 350 more than in the previous year. While the workforce in the BMW car business increased by 857 to 70,510, it decreased at Rover Group by 730 to 39,407.

Additional employees were required mainly for the production of the new 5 Series BMW at the Dingolfing plant and the Z3 roadster in the United States. New employees were also recruited to assemble aero engines at the Dahlewitz plant of BMW Rolls-Royce GmbH and to strengthen financial services.

At the Rover Group factories, the number of associates declined as productivity rose. Personnel capacity was adjusted to new development and production structures during the course of natural fluctuation.

In the medium term, the Group's international character and extensive investment programmes helped to safeguard and increase employment at the Group's individual plants. Within three years, more than 3,000 new jobs were created by BMW in Germany, around 5,000 associates were recruited by Rover Group in Great Britain and almost 1,900 associates were hired at the new US plant in South Carolina.

The Company's worldwide development, and particularly the acquisition of Rover Group, has greatly changed the size and structure of the workforce. At the end of 1996, around 45% of the Group's employees worked outside Germany, compared with only 14% at the end of 1993. The Company's increasingly international character made new demands on cross-frontier and cross-cultural cooperation between specialists and executive personnel within the Group. By improving the guiding principles for executive personnel, binding criteria were created for cooperation throughout the Group.

## **Economic Review of the BMW Group and of BMW AG**

For many BMW and Rover employees, 1996 brought a change of workplace. For example, around 1,000 employees at the Munich and Regensburg plants moved to the Dingolfing production plant, thus proving their mobility.

At Rover Group, the design and engineering resources which used to be at different sites were brought together in the new Design and Engineering Centre at Gaydon. The introduction of new structures in the entire BMW Group will demand great flexibility on the part of employees.

### **Increased level of investment**

In 1996, BMW Group's investments in fixed assets increased by 10% to DM3.8 billion. This rise reflects primarily the Company's preparations for new models and the development of production facilities in the coming years. In 1996, group investments were again financed from funds generated by the Group. The cash flow amounted to DM4.1 billion.

Investments in the BMW car plants in Germany continued to be made according to plan. Again, around DM2 billion were invested in the German plants. At Rover Group, investments of DM1.2 billion remained at the previous year's high level.

While investments in the Spartanburg plant decreased after production start-up, they increased at the BMW engine plant at Steyr. At BMW Rolls-Royce, investments in intangible and tangible assets increased to DM0.3 billion.

In 1996, the Company and its sales partners invested heavily in the individual image of the Group's marques, compared with its international competitors, and in the quality of services.

### **International network of research and development**

BMW Group has a worldwide system of linked development facilities. The BMW Research and Engineering Centre in Munich with more than 5,000 employees, Rover Group's Design and Engineering Centre at Gaydon and the Diesel Development Centre at Steyr form the nucleus of this system. In California, BMW has its own design studio, Designworks/USA. In the BMW Group, some 12,000 engineers and specialists work on the development of new products and production processes.

In 1996, project- and process-oriented working methods and highly developed, linked information and communications systems further reduced development times and non-recurrent expenditure. The quality of development and planning processes is expected to improve with the increased use of computer simulation techniques.

### **New engine plants in Latin America and Great Britain**

In Latin America, BMW and Chrysler Corp. will jointly build a plant for 1.4- to 1.6-litre, 4-cylinder engines. After investments of 500 million US dollars, up to 400,000 engines will be produced there at the beginning of the next decade.

BMW and Chrysler will each hold a 50% stake in the joint venture. The two companies will also have an equal share of the plant's production capacities. The new engines are based on a Chrysler design which will be enhanced on a joint basis.

Through cooperation with Chrysler, the BMW Group will be able to meet, at particularly favourable costs, the engine demand expected for the new Mini. The joint engine plant will also improve opportunities for opening up the entire Latin American market for the sale of group products and for increased cooperation with the local supply industry.

The second engine plant is being built at Hams Hall, near Birmingham, in Great Britain. This plant will manufacture the new BMW 1.6- to 2.0-litre, 4-cylinder engines which, with corresponding specifications, will be used in both BMW and Rover cars. Investment of DM1 billion is scheduled for this plant.

With the construction of the new engine plants and the introduction of new engines, the BMW Group will restructure engine production in the BMW Group. Thus, operations will become more efficient and production capacities will increase.

#### **Development in the first quarter of 1997**

Sales continued to develop satisfactorily at the beginning of 1997. Deliveries of new BMW cars to customers in the first three months will be markedly higher than the previous year's comparable figure.

Deliveries of Rover Group vehicles in the first quarter of 1997 will continue at the level of the previous year's comparable period. On March 7th 1997, the company's new Design and Engineering Centre was opened officially at Gaydon.

#### **Outlook**

In 1997, demand for cars in the industrial countries will continue to be influenced by replacement requirements. In Europe, with real incomes barely rising and no tax incentives to buy new cars, growth rates will be low. The car markets of North America and Japan are expected to stagnate.

After strong growth in 1996, the trend in BMW car sales should stabilise at a high level. The new 5 Series BMW is now fully available; its touring version and the high-performance Z3 2.8 and M roadsters will be delivered to customers from the spring of 1997.

Rover Group will continue to strengthen its position in the world car market with new models and the quantitative and qualitative development of its sales organisation.

At the same time, the development and investment programme required for the Group's product and market policy will advance according to plan. From 1997, at least two completely new BMW Group products will be launched each year.

With a sound financial basis, the BMW Group will make the most of its opportunities to continue to increase its productivity and strengthen its earning power.

**In 1996, the BMW Group continued to be in a sound financial position. Balance sheet structures remained sound and the cash flow exceeded investments. Earning power improved in all segments. Net income increased by 18.5% to DM820 million. In 1996, the BMW share price rose by more than 40%; far more strongly than the DAX (German share index). BMW proposes a higher dividend to its shareholders.**

#### **Strong balance sheet growth due to exchange influences**

In 1996, the total assets of BMW Group rose by 11.0% to DM45.3 billion; DM4.5 billion more than in the previous year. This increase includes DM1.8 billion which resulted from the translation of foreign currency accounts at different exchange rates on the transaction date from the previous year. Financial services again accounted for a large share of the growth with DM1.8 billion. Thus, the financial services' share of the Group's balance sheet total increased by 0.3 percentage points to 37.0%.

The industrial core business is usually financed with a higher proportion of own funds than financial services. Therefore, the balance sheet of the BMW Group is divided into core business and financial services within the framework of legal requirements. The balance sheet structures of the two fields of business are explained separately.

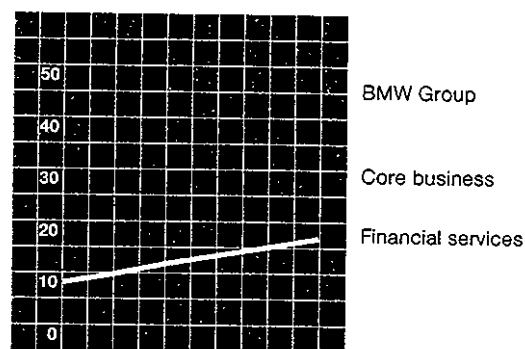
The total assets of the core business rose by 10.5% to DM28.5 billion.

Investment in intangible and tangible fixed assets, amounting to DM3,830 million, contrasted with depreciation of DM3,002 million. Fixed assets increased by DM666 million or 6% compared with the previous year as a result of the translation of foreign currency accounts.

Investment amounted to 7.3% of sales, with 78.4% covered by depreciation. Again, cash flow completely financed investment.

Inventories rose by 3.0% and thus far less strongly than the balance sheet total.

In contrast, receivables increased more strongly than the balance sheet total.



**Total Assets**  
in DM billion

Trade receivables increased by 26.1% as a result of the growth of sales in the last few months of 1996 when the availability of new models improved. Other receivables increased mainly as a result of financing subsidiaries which are not included in the consolidated financial statements.

Liquid funds of DM4.0 billion were DM0.3 billion lower than the previous year as a result of reduced financial liabilities. Net financial assets, ie, liquid funds less financial liabilities, increased by DM496 million to DM655 million.

With 25.0%, the ratio of own funds of the core business is at the same level as the previous year, despite the increase in total assets of DM2.7 billion. Own funds cover 53.2% of fixed assets. Own funds, provisions and accruals cover 134.1% of fixed assets.

Provisions and accruals rose by 13.2%; more strongly than total assets.

Financial liabilities were 19.5% lower than the previous year as a result of repayment.

In contrast, other liabilities rose by 29.0%; more strongly than the balance sheet total. This was due to exchange influences and higher liabilities from leased fixed assets.

Financial services include the assets and liabilities from sales financing in the consolidated balance sheet.

The total assets of financial services increased by 11.9% to DM16.8 billion. Leased products increased by 14.6% and receivables from sales financing by 9.0%, compared with the previous year. Leased products accounted for 53.1% (previous year: 51.9%) of the total assets of financial services.

Leased products were valued at group manufacturing costs. Additions amounted to DM7,183 million (previous year: DM5,964 million). Depreciation amounted to DM3,973 million (previous year: DM3,371 million). Used car book values decreased by DM2,387 million (previous year: DM1,299 million) as a result of the

Balance Sheet Structure		31.12.1996		31.12.1995		Change
Core Business		DM million	%	DM million	%	DM million
Fixed assets		13,429	47.1	11,905	46.1	+1,524
Inventories		5,840	18.7	5,188	20.0	+652
Receivables		5,742	20.1	4,397	17.0	+1,345
Liquid funds		4,085	14.4	4,354	16.9	-269

Balance sheet total		28,544	100.0	25,839	100.0	+2,705
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Own funds		7,140	25.0	6,491	25.1	+649
Provisions and accruals		10,872	38.1	9,608	37.2	+1,264
Financial liabilities		3,378	11.8	4,195	16.2	-817
Other liabilities		7,154	25.1	5,545	21.5	+1,609

Balance Sheet Structure		31.12.1996		31.12.1995		Change
Financial Services		DM million	%	DM million	%	DM million
Leased products		8,921	53.1	7,782	51.9	+1,139
Receivables from sales financing		7,877	46.9	7,226	46.1	+651
Balance sheet total		16,798	100.0	15,008	100.0	+1,790

Own funds		1,927	11.5	1,709	11.4	+218
Liabilities from sales financing		14,871	88.5	13,299	88.6	+1,572



# Finance

<b>Statement of Sources and Application of Funds</b>	1996	1995
DM million		
Net income	820	692
Depreciation of intangible and tangible fixed assets	3,002	2,979
Increase in pension fund provisions	270	84
<b>Cash flow</b>	<b>4,092</b>	<b>3,755</b>
Depreciation of leased products	3,973	3,371
Change in other provisions and accruals	627	- 123
Income from the sale of fixed assets	-	20
Retained income of associated companies	- 51	- 33
Changes in current assets and liabilities		
Change in inventories	197	- 456
Increase in receivables	- 736	- 461
Increase in liabilities	1,422	2,088
<b>Cash flow from operating activities</b>	<b>9,524</b>	<b>8,161</b>
Investment in tangible fixed assets	- 3,830	- 3,477
Investment in financial assets	- 74	- 99
Investment in leased products (less disposals)	- 4,796	- 4,665
Increase in receivables from sales financing	- 388	- 1,010
Other	143	23
<b>Application of funds for investment activities</b>	<b>- 8,945</b>	<b>- 9,228</b>
Issue of new shares	23	21
Payment of dividends for the previous year	- 267	- 277
Increase in bonds	601	1,165
Change in financial liabilities	- 23	532
Reduction of commercial papers	- 819	- 573
Other	5	- 14
<b>Decrease/Increase of funds from financing activities</b>	<b>- 480</b>	<b>854</b>
Influence of exchange rates and other changes in value on liquid funds	- 420	248
<b>Change in liquid funds</b>	<b>- 321</b>	<b>35</b>
Liquid funds on January 1st	4,354	4,319
<b>Liquid funds on December 31st</b>	<b>4,033</b>	<b>4,354</b>
of which: marketable securities and notes	1,335	1,474
liquid funds	2,698	2,880

sale of the cars concerned. Exchange influences from the translation of foreign currency accounts increased the amount generated by leased products by DM316 million (previous year: DM197 million).

Own funds in the financial services were increased by DM218 million. At 11.5%, the ratio of own funds to total assets is as high as in the previous year.

#### **Cash flow rose again**

The cash flow increased by DM337 million to DM4,092 million and thus exceeded investments in tangible fixed assets. In addition, the cash flow from operating activities covered the application of funds for all the Group's investment activities, including investment in financial services.

#### **Segment report**

In the segment report, the activities of the BMW Group are defined according to fields of business and regions. The activities of the BMW Group have been arranged in BMW Automobiles, Rover Group Automobiles, Aero Engines and Financial Services.

BMW Automobiles and Rover Group Automobiles account for the majority of BMW Group's activities. These fields of business develop, manufacture, assemble and sell cars, including off-road vehicles, spare parts and accessories.

BMW products are sold in Germany by the sales outlets of BMW AG and legally independent authorised dealers. Rover Group products are sold in Great Britain, their home market, solely by legally independent authorised dealers. Local subsidiaries are responsible for sales in the most important markets.

The BMW car segment also includes the development, manufacture, assembly and sale of motorcycles, including spare parts and accessories. The BMW motorcycle business accounts for 2.5% (previous year: 2.8%) of this segment's sales.

In the aero engine segment, BMW Rolls-Royce develops, manufactures, assembles and sells worldwide aero engines.

The financial services segment concentrates on the leasing of cars and loan financing for customers and dealers. The financial result of this segment includes interest expense from the financing of the leasing business.

Software, electronics and electrical engineering activities appear under Miscellaneous, consolidated companies, together with activities covering several segments in the BMW Group. These concern, in particular, group financing and BMW Group investments.

In the consolidated companies, receivables and liabilities, provisions and accruals, income and expenses, and results are eliminated between the segments. The assets of the various fields of business include assets which have contributed towards the achievement of the segment's result.

The segment information by region shows external sales according to the regions in which the products are sold.

The segment information is based on the same methods of accounting and presentation as the BMW consolidated financial statements.

# Finance

Segment information by business DM million	External sales		Intersegment sales		Total sales	
	1996	1995	1996	1995	1996	1995
BMW Automobiles <sup>1)</sup>	31,004	27,996	5,818	4,407	36,822	32,403
Rover Group Automobiles	14,936	12,960	267	-	15,203	12,960
Aero Engines	205	106	12	6	217	112
Financial Services	5,954	4,865	358	313	6,312	5,178
Miscellaneous, consolidated companies	166	217	- 6,455	- 4,726	- 6,289	- 4,509
<b>BMW Group</b>	<b>52,265</b>	<b>46,144</b>	<b>-</b>	<b>-</b>	<b>52,265</b>	<b>46,144</b>

Segment information, by business DM million	Segment income (loss)		Financial income (loss)		Result from ordinary business activities	
	1996	1995	1996	1995	1996	1995
BMW Automobiles <sup>1)</sup>	2,336	2,091	53	94	2,389	2,185
Rover Group Automobiles	- 67	- 146	- 212	- 189	- 279	- 335
Aero Engines	- 587	- 611	- 40	- 41	- 627	- 652
Financial Services	527	425	- 501 <sup>2)</sup>	- 527 <sup>2)</sup>	26	- 102
Miscellaneous, consolidated companies	49	174	102	97	151	271
<b>BMW Group</b>	<b>2,258</b>	<b>1,933</b>	<b>- 598</b>	<b>- 566</b>	<b>1,660</b>	<b>1,367</b>

<sup>1)</sup> Including BMW motorcycles

<sup>2)</sup> Interest expense from the financing of the leasing business

Segment information by business		Assets		Capital expenditure		Depreciation and amortisation	
DM million		1996	1995	1996	1995	1996	1995
BMW Automobiles <sup>1)</sup>		20,402	18,756	2,273	2,031	1,957	1,937
Rover Group Automobiles		9,219	7,478	1,238	1,195	875	829
Aero Engines		836	545	293	155	119	87
Financial Services		17,624	15,282	18	63	35	8
Miscellaneous, consolidated companies		- 2,739	- 1,214	8	33	16	16
<b>BMW Group</b>		<b>45,342</b>	<b>40,847</b>	<b>3,830</b>	<b>3,477</b>	<b>3,002</b>	<b>2,877</b>

Segment information by region		External sales		Assets		Capital expenditure	
DM million		1996	1995	1996	1995	1996	1995
Germany		14,621	13,862	19,796	18,420	2,058	1,928
Great Britain		8,930	8,242	10,975	8,409	1,246	1,201
Rest of Europe		12,218	10,088	5,840	5,997	215	70
North America		8,228	6,177	6,203	5,348	229	223
Asia		5,574	5,291	2,444	2,449	18	10
Miscellaneous, consolidated companies		2,694	2,484	84	224	64	45
<b>BMW Group</b>		<b>52,265</b>	<b>46,144</b>	<b>45,342</b>	<b>40,847</b>	<b>3,830</b>	<b>3,477</b>

<sup>1)</sup> Including BMW motorcycles

**Continuing low interest rates on international financial markets**

In 1996, the central banks of the leading industrial countries continued to pursue an expansive monetary policy. As a result, the yields of long-term investments decreased again on most capital markets.

Since the key lending rates remained stable or were reduced in Europe, the United States and Japan, short-term interest rates were also low.

**Movement on the foreign exchange markets**

During 1996, the value of major trading currencies increased considerably against the D-mark.

The US dollar began the year at DM1.43 and achieved a high of DM1.56 in December. In 1996, the US dollar averaged DM1.50; 5% higher than in the previous year. In contrast, at an average of DM1.38, the Japanese yen was 10% below the previous year's average.

After the previous year's losses in value, major European currencies strengthened again. This applied, in particular, to the pound sterling which firmed up against the D-mark to more than DM2.60 at year end. The Italian lire also became increasingly stable. At the end of November 1996, it returned to the European monetary system at an average rate of 990 lire to the D-mark.

In all, the foreign exchange value of the D-mark decreased by 3% against the currencies of Germany's most important trading partners. This offset the real revaluation of the D-mark in the previous year.

**International group financing**

In order to finance its activities, the BMW Group uses increasingly the opportunities offered by the international money and capital markets. There BMW AG, in particular, and group financing companies in Belgium, Great Britain, the Netherlands and the United States raise funds and pass them on to the operating companies as required.

In 1996, BMW issued three public bonds with a total volume of around DM600 million to meet long-term capital requirements. BMW US Capital Corp. issued bonds amounting to DM200 million for around four years and bonds amounting to 200 million US dollars for more than three years. BMW Australia Ltd. raised 100 million Australian dollars with five-year bonds. The type of bond issue depends on interest and currency conditions in the markets.

BMW AG increased the Euro Medium Term Note Programme, issued in 1994, from 1 billion US dollars to 3 billion US dollars. At the end of the year, about half of this financing programme was used.

BMW AG has a commercial paper programme of DM1.5 billion and, after an increase of 1 billion US dollars in 1996, BMW US Capital Corp. has one of 3.5 billion US dollars to meet short-term financial requirements.

In recent years, outside funds have been used mainly to refinance the strong expansion of financial services.

### Currency and interest management

Derivative financial instruments are used to hedge foreign exchange and interest risks. At BMW, they hedge only flows of payments in the operating business.

Currency risks occur mainly when exporting cars and when purchasing materials which have to be paid in foreign currencies, while interest risks occur primarily when refinancing the lending and leasing business.

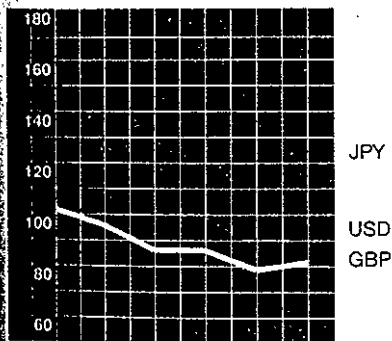
In order to hedge currency risks, the Group concluded foreign currency forward contracts and options, and used cross currency swaps. At the end of the year, hedging of this kind was mainly for payments in US dollars, Japanese yen, pound sterling, Italian lire and French francs.

Interest risks are limited by interest swaps and forward rate agreements, and by caps and floors which limit the interest fluctuations for BMW to a defined range. These instruments are tailored to meet respective needs in terms of currency, amount and maturity.

### Monitoring and risk limitation

BMW pursues a policy of strict separation of trade, handling and monitoring procedures in all transactions with derivatives. Organisation and work sequences are regulated by detailed guidelines. Systems and procedures are constantly checked and improved.

In order to minimise risks, business is concluded only with first-class banks. In addition, individual maximum limits are set for business with these banks. BMW is also guided by the assessments of leading rating agencies.



Yearly Average Exchange Rates  
of Major Trading Currencies  
against the D-mark  
Index: 1990 = 100

In the long term, BMW aims to largely balance flows of payments in foreign currencies within the Group. With the development of production and purchasing activities in the United States, the Company will become increasingly independent of fluctuations in the US dollar. In Europe, the introduction of a single European currency, scheduled for 1999, is expected to put an end to the distortions of competition caused by exchange rates.

**Above-average gains for the BMW share**

In 1996, the international share markets were influenced by dynamic price movements. In December 1996, the Dow Jones Index of the 30 most important industrial shares in the United States achieved a historic high of 6561 points.

Against this background, the DAX (German share index) also reached a record 2910 points. The favourable economic environment with low interest rates, a weaker D-mark and improved economic prospects contributed to this development. At the end of the year, the DAX closed at 2889 points; 28% higher than in the previous year.

The price of the BMW ordinary share rose strongly during the year. After opening at DM742, it peaked at DM1,078 in December. Thus, it greatly exceeded its previous high of DM927 in May 1994 following the acquisition of Rover Group. The BMW ordinary share ended the year at a price of DM1,062; 44% higher than the previous year. Thus, the price of the BMW ordinary share increased far more strongly than the German share index.

The price of the BMW preference share also rose markedly, ending the year at DM742, compared with DM519 at the beginning of 1996. BMW preference shares were introduced in 1989 to encourage

<b>BMW Shares</b>	1992	1993	1994	1995	1996
<b>Ordinary share</b>					
Number of shares in thousands	16,875	16,875	18,409	18,409	18,409
Stock exchange quotation in DM <sup>1)</sup>					
Year end	469	689	767	740	1,062
High	594	690	927	835	1,078
Low	432	433	643	670	742
<b>Preference share</b>					
Number of shares in thousands	1,103	1,156	1,293	1,328	1,366
Stock exchange quotation in DM <sup>1)</sup>					
Year end	349	498	558	519	742
High	449	498	671	600	751
Low	324	324	464	485	519
<b>Key data per share in DM<sup>2)</sup></b>					
Dividend					
Ordinary share	12.50	12.50	12.50	13.50	15.00 <sup>3)</sup>
			1.50 <sup>4)</sup>		
Preference share	13.50	13.50	13.50	14.50	16.00 <sup>5)</sup>
			1.50 <sup>4)</sup>		
<b>Tax credit for shareholders</b>					
resident in Germany					
Ordinary share	7.03	5.36	6.00	5.79	6.43
Preference share	7.59	5.79	6.43	6.21	6.86
Net income	40.45	28.66	35.44	35.12	41.62
Cash flow	160	143	181	191	208
Shareholders' equity <sup>6)</sup>	362	378	389	403	445

<sup>1)</sup> Cash quotations on the Frankfurt Stock Exchange

<sup>2)</sup> Without values adjusted retroactively due to the capital increase in 1994 in a ratio of 11:1

<sup>3)</sup> Weighting of shares according to entitlement to dividend in year of issue

<sup>4)</sup> Bonus

<sup>5)</sup> Proposal of the Management

<sup>6)</sup> Excluding unappropriated profit available for distribution

savings among the employees of BMW AG and its wholly-owned subsidiaries in Germany.

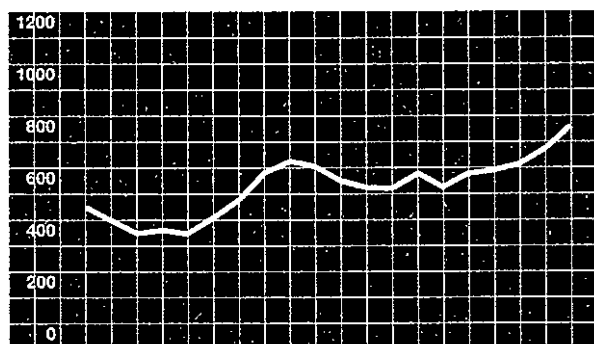
The BMW share has been an attractive investment in recent years. Investors in BMW shares have had an average yearly yield of around 12% for ten years. In the last five years, the annual yield has been more than 20%. German government bonds yielded only 5.8% and 8.1% respectively in the same periods.

The proposed dividend of DM15.00 per BMW ordinary and DM16.00 per BMW preference share for 1996 increases to DM21.43 and to DM22.86 respectively, when including the full tax credit of 3/7

#### **New preference shares for BMW employees**

In 1996, BMW employees again had an opportunity to acquire their Company's preference shares. Some 38,000 new BMW preference shares were issued to employees in order to encourage employees' savings.

As a result, more than DM23 million flowed into the Company. The subscribed capital of BMW AG increased by DM1.9 million to DM988.7 million. The Company now has approved capital of DM9.7 million for issuing new preference shares.



**Performance of the BMW share**  
Quarterly average in DM

— Ordinary share  
- - - Preference share

for shareholders resident in Germany. Total dividend payments for 1996 amount to DM297 million, compared with DM267 million in the previous year.



### January

The BMW Z3 roadster was introduced to the public at the Detroit Motor Show.

BMW presented an Art Car, painted by David Hockney, at the Royal Academy in London.

### February

COMPANION, the warning system developed by BMW, began to be tested on the A92 near Munich.

In Japan, the open-top, two-seater MGF sports car was voted "Import Car of the Year 1996".

### March

At Wackersdorf, excavation work began for a BMW industrial park for the supply industry.

### April

A company agreement on the introduction of banking systems for working hours came into force at the German BMW plants.

The 725tds was the first 7 Series BMW to be equipped with a diesel engine.

Rover Group received the prestigious Queen's Award for Technology for its Modular Engine Management System, MEMS.

### May

BMW Group's Euro Medium Term Note Programme was increased by 2 billion US dollars to 3 billion US dollars.

A new importer was appointed for the sale of BMW and Land Rover vehicles in Bolivia.

### June

The new Rover 200 was introduced to the German market where it soon became the Rover model in greatest demand.

Sixty years ago, on June 14th 1936, a prototype of the BMW 328 roadster won the "Eifelrennen", its first race, on the Nürburgring.

### July

Plastics production at the Landshut plant was certified in accordance with quality standards QS 9000 and ISO 9000-1.

### August

The Spartanburg plant began to manufacture only the Z3 roadster and achieved its daily production target of 250 units.

The BMW Rolls-Royce BR710 aero engine received its first license from the European Joint Aviation Authority.

### September

A parts logistics centre was opened in Singapore for the twenty BMW markets in Southeast Asia.

In Germany, 875 young people began their vocational training at BMW; 50 more than in the previous year.

### October

BMW and Chrysler signed a memorandum of understanding on the construction of an engine plant in Latin America.

BMW presented a new sporting tourer, the K 1200 RS.

The first of the 23 Land Rover Centres, currently planned for Australia, was opened in Southport, Queensland.

The first associates moved into Rover Group's new Design and Engineering Centre at Gaydon.

### November

The construction of a BMW Group engine plant at Hams Hall, near Birmingham, was announced.

### December

The Mini became available with comprehensive technical improvements.

On December 23rd, the 200,000th new 5 Series BMW came off the assembly lines at the Dingolfing plant.

The BMW ordinary share peaked at DM1,078; a new high. It gained 44% during the year.

# Consolidated Financial Statements

**Consolidated Balance Sheet**  
at December 31st 1996  
(in millions of DM)

<b>Assets</b>	<b>Notes</b>	<b>31.12.1996 DM million</b>	<b>31.12.1995 DM million</b>
Intangible assets	( 6)	464	358
Tangible assets		12,376	11,093
Financial assets	( 7)	589	454
<b>Fixed assets</b>		<b>13,429</b>	<b>11,905</b>
Inventories	( 8)	5,340	5,183
Leased products		8,921	7,782
Receivables from sales financing		7,877	7,226
Assets from sales financing	( 9)	16,798	15,008
Trade receivables	(10)	3,245	2,573
Other receivables and miscellaneous assets	(10)	1,812	1,253
Marketable securities and notes	(11)	1,335	1,474
Liquid funds	(12)	2,698	2,880
<b>Current assets</b>		<b>31,228</b>	<b>28,371</b>
<b>Prepaid expenses and deferred taxes</b>	(13)	<b>685</b>	<b>571</b>
		<b>45,342</b>	<b>40,847</b>
<b>Shareholders' equity and liabilities</b>	<b>Notes</b>	<b>31.12.1996 DM million</b>	<b>31.12.1995 DM million</b>
Subscribed capital	(14)	989	987
Capital reserve	(14)	1,614	1,593
Revenue reserves	(15)	6,043	5,227
Unappropriated profit available for distribution		297	267
Minority interest	(16)	124	126
<b>Shareholders' equity</b>	(17)	<b>9,067</b>	<b>8,200</b>
<b>Registered profit-sharing certificates</b>		<b>77</b>	<b>79</b>
Pension provisions		2,279	2,009
Other provisions and accruals		8,593	7,599
<b>Provisions and accruals</b>	(18)	<b>10,872</b>	<b>9,608</b>
Bonds		1,633	2,791
Liabilities to banks		1,745	1,404
Trade payables		3,014	2,513
Other liabilities		3,872	2,781
<b>Liabilities</b>	(19)	<b>10,264</b>	<b>9,489</b>
Liabilities from sales financing		12,977	11,268
Deferred income from lease financing		1,894	2,031
<b>Liabilities from sales financing</b>	(20)	<b>14,871</b>	<b>13,299</b>
<b>Deferred income</b>		<b>191</b>	<b>172</b>
		<b>45,342</b>	<b>40,847</b>

**Consolidated Income Statement**  
for the financial year ended December 31st 1996  
(in millions of DM)

	Notes	1996 DM million	1995 DM million
<b>Net sales</b>	(21)	<b>52,265</b>	<b>46,144</b>
Increase in product inventories and own work capitalised	(22)	696	1,189
<b>Total value of production</b>		<b>52,961</b>	<b>47,333</b>
Other operating income	(23)	2,078	1,814
Material costs	(24)	31,057	27,397
Personnel costs	(25)	9,844	8,846
Depreciation on intangible and tangible fixed assets	(26)	3,002	2,877
Other operating expenses	(27)	9,248	8,444
Net income from investments	(28)	69	91
Net interest income	(29)	204	220
Interest expense from lease financing	(30)	501	527
<b>Result from ordinary business activities</b>		<b>1,660</b>	<b>1,367</b>
Taxes on income	(31)	714	537
Other taxes		126	138
<b>Net income</b>	(32)	<b>820</b>	<b>692</b>

## Notes

### Development of Consolidated Fixed Assets

#### Acquisition and manufacturing costs

	1.1.1996 DM million	Translation difference DM million	Additions DM million	Reclassi- fications DM million	Disposals DM million	31.12.1996 DM million
<b>Intangible assets</b>	<b>1,035</b>	<b>31</b>	<b>307</b>	<b>2</b>	<b>38</b>	<b>1,337</b>
Land, titles to land, and buildings, including buildings on third-party land	7,223	341	336	103	58	7,945
Technical plant and machinery	21,257	1,002	1,974	300	1,428	23,105
Other plant, factory and office equipment	2,771	145	508	40	264	3,200
Advance payments and construction in progress	1,134	119	705	- 445	22	1,491
<b>Tangible assets</b>	<b>32,385</b>	<b>1,607</b>	<b>3,523</b>	<b>- 2</b>	<b>1,772</b>	<b>35,741</b>
Shares in subsidiaries	40	3	25	-	10	58
Loans to subsidiaries	5	-	-	-	-	5
Investment in associated companies	261	37	51	-	-	349
Investment in other companies	10	-	-	-	-	10
Long-term securities	11	-	8	-	-	19
Other long-term loans receivable	145	8	41	-	23	171
<b>Financial assets</b>	<b>472</b>	<b>48</b>	<b>125</b>	<b>-</b>	<b>33</b>	<b>612</b>
<b>Fixed assets</b>	<b>33,892</b>	<b>1,686</b>	<b>3,955</b>	<b>-</b>	<b>1,843</b>	<b>37,690</b>

**Depreciation****Net book value**

1.1.1996	Translation difference	Charge for year	Reclassi- fications	Disposals	31.12.1996	31.12.1996	31.12.1995
DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million
677	11	221	1	37	873	464	358
2,557	104	257	10	24	2,904	5,041	4,666
16,519	728	2,118	- 12	1,407	17,946	5,159	4,738
2,216	129	406	1	237	2,515	685	555
-	-	-	-	-	-	1,491	1,134
21,292	961	2,781	- 1	1,668	23,365	12,376	11,093
2	-	5	-	-	7	51	38
-	-	-	-	-	-	5	5
-	-	-	-	-	-	349	261
6	-	-	-	-	6	4	4
-	-	-	-	-	-	19	11
10	-	-	-	-	10	161	135
18	-	5	-	-	23	589	454
21,987	972	3,007	-	1,705	24,261	13,429	11,905

## Notes

### Principles

#### Consolidated companies (1)

The consolidated companies comprise BMW AG and, in principle, all subsidiaries in the Federal Republic of Germany and abroad. A total of 18 (1995: 17) subsidiaries in Germany and 123 (1995: 123) foreign subsidiaries have been consolidated.

Sixty-eight (1995: 66) dormant or minor companies are not included in the consolidated financial statements, since they are not material to the Group's financial and earnings position. As in the previous year, five subsidiaries are not included in accordance with Section 296 Para. 1 No. 2 of the German Commercial Code (HGB). They are accounted for using the equity method.

In addition, the BMW Pensionskasse (Österreich) AG, Steyr, has not been consolidated because its assets are assigned for a specific purpose.

The non-inclusion of subsidiaries has an impact on Group sales of about 1%.

Three associated companies are accounted for using the equity method. Eleven (1995: 12) associated companies are not included in the consolidated financial statements because of their relative insignificance to the Group's financial and earnings position. These associated companies are stated at cost, less write-downs where applicable, under investment in other companies.

A complete list of the Group's shareholdings is filed with the Commercial Register of the Munich Local Court (HRB 42243). The principal subsidiaries are listed on page 136.

#### Changes in consolidated group (2)

BMW Leasing GmbH and Co. OHG, Dingolfing, BMW Motoren GmbH, Steyr, BMW Korea Co., Ltd., Seoul, and BMW New Zealand Ltd., Auckland, have been included in the consolidated financial statements for the first time. ARG Holdings Ltd., Birmingham, and Pressed Steel Fisher Ltd.,

Birmingham, have left the consolidated group. BMW (Schweiz) AG, Dielsdorf, has merged with BMW Holding AG, Dielsdorf, to form BMW (Schweiz) AG, Dielsdorf.

The effect on the Group's financial and earnings position is not material.

#### Principles of consolidation (3)

The investment in subsidiaries is consolidated using the net book value method. Under this method, the cost of investment is set off against the Group's share of equity of the consolidated subsidiaries at the time of acquisition or initial consolidation. Any resulting excess of purchase consideration over the net assets acquired is set off against revenue reserves.

The same principles are applied in consolidating associated companies under the equity method.

Receivables, liabilities, provisions, income and intercompany profits are eliminated.

In the individual financial statements of BMW AG and its subsidiaries, receivables and liabilities are translated at the rate applicable on the transaction date. Provisions are made for unrealised exchange rate losses at the balance sheet date. Where foreign currency receivables and liabilities of non-German subsidiaries have been hedged by forward exchange contracts, they are valued at the appropriate hedging rate.

In the consolidated financial statements, fixed assets are translated at the closing rates of exchange like other assets and liabilities stated in foreign currency. Income and expenses are translated at the average rate of exchange rate for the year. Exchange differences resulting from the translation of shareholders' equity are offset directly through revenue reserves.

**Foreign currency translation**  
**(4)**

To improve clarity of presentation, individual items in the consolidated balance sheet and in the consolidated income statement have been combined. These items are shown separately in the Notes to the consolidated financial statements. Separate items have been added to the consolidated financial statements to show the effects of sales financing.

Tangible assets are valued at acquisition or manufacturing cost less depreciation. Office and factory buildings are depreciated using the straight-line method. Other depreciable tangible assets having a useful life of more than three years are depreciated using the declining balance method, switching to the straight-line method as soon as the latter results in higher depreciation.

**Accounting policies and presentation**  
**(5)**

Expenditure on low-value fixed assets is written off in full in the year in which it is incurred.

Office and factory buildings including utility distribution systems permanently attached to a building are depreciated in 8 to 25 years, residential buildings in up to 50 years, technical plant and machinery in up to 10 years, and other plant, factory and office equipment, in general, in 5 years. For machinery used in multiple-shift operations, depreciation rates are increased to take account of the additional utilisation.

The individual financial statements have been prepared using uniform accounting policies. In order to ensure uniformity of valuation within the Group, the tax-allowable depreciation and special reserves which are included in the individual financial statements of the consolidated subsidiaries based solely on tax laws and regulations, are not included in the consolidated financial statements. Deviations from Group accounting policies by associated companies have not been adjusted if the amounts involved are immaterial.

Purchased intangible assets are carried at cost and written down primarily using the straight-line method.



## Notes

### Principles

The investment in non-consolidated subsidiaries and associated and other companies is valued at the lower of cost or current value. Long-term loans are stated at their discounted net present value.

Inventories of raw materials, supplies and goods for resale are stated at the lower of cost or market value. Work in progress and finished goods are valued at their direct material and production cost. Inventories resulting from goods supplied by consolidated companies include an appropriate portion of performance-related production overheads. Write-downs are made to cover risks arising for slow moving items or for technical obsolescence.

Own products which are included as assets of the group's leasing companies are recorded at manufacturing cost as permitted for financial reporting purposes. All other leased products are valued at cost. If the net realisable value is lower, then this value is used.

All risks identifiable on receivables and other assets are covered by appropriate write-downs. Receivables with current maturities of more than one year which bear nominal or no interest have been discounted.

Marketable securities and notes are stated at cost or market value at the balance sheet date, whichever is the lower.

Pension provisions are set up in accordance with actuarial principles, using a rate of interest of 5%. Other provisions and accruals are made to take account of all identifiable risks. Provisions are also made for deferred expenditure.

Deferred taxation is calculated on timing differences arising on the different treatment of transactions for financial and tax reporting purposes. Deferred tax assets and liabilities calculated on such timing differences are netted. A net deferred tax asset balance arising from deferred taxation in the individual financial statements is not recorded. Deferred taxes arising from consolidation adjustments are shown in accordance with the legal requirements.

**Notes**  
Consolidated Balance Sheet

Intangible assets include grants for tool costs, licences, entry fees and software.

**Intangible assets  
(6)**

The additions to shares in subsidiaries relate primarily to a capital increase at BMW do Brasil Ltda., São Paulo, and the formation of BMW Finance Ibérica, E. F. C., S.A., Madrid.

The disposals of shares in subsidiaries relate to the initial consolidation of BMW Korea Co., Ltd., Seoul, and BMW New Zealand Ltd., Auckland.

The investment in associated companies includes the subgroup of Bavaria Wirtschaftsgesellschaft GmbH, Munich, EL-MOS Elektronik in MOS-Technologie GmbH, Dortmund, Rover Finance Holdings Ltd., Redhill, and UGC Limited, Oxford.

**Financial assets  
(7)**

	31.12.1996 DM million	31.12.1995 DM million
Materials and supplies	642	573
Work in progress	927	801
Finished goods and goods for resale	4,270	4,195
Advance payments	50	35
	5,889	5,604
Advance payments received	549	421
	5,340	5,183

**Inventories  
(8)**

**Notes**  
Consolidated Balance Sheet

**Assets from  
sales financing  
(9)**

	31.12.1996 DM million	31.12.1995 DM million
Leased products	8,921	7,782
Receivables from sales financing		
Customer loan receivables	7,684	7,104
- of which: with a maturity of more than one year: DM2,994 million (1995: DM2,659 million) -		
Other receivables	193	122
- of which: with a maturity of more than one year: DM29 million (1995: DM16 million) -		
	7,877	7,226
	<b>16,798</b>	<b>15,008</b>

Leased products include additions totalling DM7,183 million (1995: DM5,964 million) and depreciation totalling DM3,937 million (1995: DM3,371 million). The disposals amount to DM2,387 million

(1995: DM1,299 million). Foreign currency gains on the translation of foreign currency accounts amount to DM316 million (1995: losses of DM197 million).

**Receivables and  
miscellaneous  
assets  
(10)**

	31.12.1996 DM million	31.12.1995 DM million
Trade receivables	3,245	2,573
- of which: with a maturity of more than one year: DM38 million (1995: DM31 million) -		
Other receivables and miscellaneous assets		
Receivables from subsidiaries	659	475
- of which: with a maturity of more than one year: DM125 million (1995: DM53 million) -		
Receivables from associated and other companies in which an investment is held	50	22
- of which: with a maturity of more than one year: DM21 million (1995: DM22 million) -		
Miscellaneous assets	1,103	756
- of which: with a maturity of more than one year: DM191 million (1995: DM162 million) -		
	1,812	1,253
	<b>5,057</b>	<b>3,826</b>

Receivables from subsidiaries relate predominantly to financial receivables. Miscellaneous assets include primarily tax refund

claims, deferred interest receivable, loans and shareholder rights.

	31.12.1996 DM million	31.12.1995 DM million
Other securities	1,317	1,450
Notes	18	24
	<b>1,335</b>	<b>1,474</b>

**Marketable securities  
and notes  
(11)**

Other securities include primarily fixed-interest securities and shares in investment funds.

Liquid assets relate to cash in hand, deposits at the Bundesbank and cash at banks.

**Liquid funds  
(12)**

	31.12.1996 DM million	31.12.1995 DM million
Prepaid expenses	162	158
Deferred taxes	523	413
	<b>685</b>	<b>571</b>

**Prepaid expenses  
and deferred taxes  
(13)**

The subscribed capital of BMW AG amounts to DM989 million and is divided into 10,599,110 ordinary shares with a nominal value of DM50 each, 225,000 ordinary shares with a nominal value of DM100 each, 368,000 ordinary shares with a nominal value of DM1,000 and 1,365,790 non-voting preference shares with a nominal value of DM50 each. The preference shares participate and bear an extra dividend of DM1 per share. All shares are bearer shares.

The subscribed capital increased by DM1.9 million through the issuance of 37,900 non-voting preference shares. A subscription right in the case of a rights issue is excluded for these shares. As a result, the remaining authorised capital of BMW AG, which permits non-voting preference shares with a nominal value of DM15 million to be issued up to May 1st 1999, amounted to DM9.7 million at the balance sheet date. The premium of DM21 million from this capital increase was transferred to capital reserve.

**Subscribed capital  
and capital reserve  
(14)**

Revenue reserves consist of legal reserves of DM2 million, the other revenue reserves of BMW AG, and the reserves set up from the net results of consolidated companies.

**Revenue reserves  
(15)**

Minority interest represents the share of third parties in the equity of consolidated subsidiaries.

It includes primarily minority shareholders' interests in BMW Rolls-Royce GmbH, Oberursel.

**Minority interest  
(16)**

**Notes**  
Consolidated Balance Sheet

DM million

**Shareholders' equity**  
**(17)**

Movements in shareholders' equity:

Balance at December 31st 1995	8,200
Dividend of BMW AG for 1995	- 267
Increase in subscribed capital from remaining authorised capital	+ 2
Transfer to capital reserve from capital increase for preference shares	+ 21
Movements in revenue reserves	+ 516
- Transfer from net income	+ 16
- Set-off of differences resulting from capital consolidation	+ 284
- Currency translation adjustment	+ 816
Unappropriated profit available for distribution	+ 297
Change in minority interest	- 2
- of which from net income: DM7 million -	
Balance at December 31st 1996	9,067

The set-off of differences resulting from capital consolidation relate primarily to the initial consolidation of BMW New Zealand Ltd., Auckland, and BMW Korea Co., Ltd., Seoul.

The currency translation adjustment includes the currency difference resulting from the translation of shareholders' equity.

**Provisions and accruals**  
**(18)**

	31.12.1996 DM million	31.12.1995 DM million
Pension provisions	2,279	2,009
Other provisions and accruals for		
Taxes	727	463
Personnel expenses	947	864
Ongoing operations	5,479	5,048
Miscellaneous	1,440	1,224
	8,593	7,599
	10,872	9,608

The pension provisions relate mainly to commitments to pay old-age pensions to employees of BMW AG. The pension commitments are fully covered by provisions.

This also applies if the pension commitments are stated with an interest rate of 7% in compliance with international accounting standards.

Other provisions and accruals cover all recognisable specific risks and group commitments for which the amounts involved are uncertain.

In addition, this heading includes accruals for outstanding invoices from dealers and suppliers, anticipated losses on con-

tracts and risks arising from litigation and guarantees. Provisions have also been set up for maintenance expenditure required in the financial year but deferred until the following year. Additional provisions have been created for anticipated major repairs.

	31.12.1996		31.12.1995	
	of which: with a maturity of			
	up to		over	
	1 year		5 years	
	DM million	DM million	DM million	DM million
Bonds	1,633	314	723	2,791
Liabilities to banks	1,745	904	776	1,404
Trade payables	3,014	3,014	–	2,513
Other liabilities				
Liabilities on bills accepted and drawn	206	206	–	68
Liabilities to subsidiaries	145	143	–	135
Liabilities to companies in which an investment is held	32	32	–	34
Liabilities to BMW employee welfare fund	68	–	68	66
Miscellaneous liabilities	3,421	2,258	209	2,478
– of which: for taxes	(515)	(515)	–	(462)
– of which: for social security	(176)	(176)	–	(162)
	3,872	2,639	277	2,781
	10,264	6,871	1,776	9,489

## Liabilities (19)

Liabilities due in one year to five years total DM1,617 million.

When viewed together with the bonds disclosed under liabilities from sales financing, bonds amount to DM6,037 million (1995: DM5,218 million).

Notes  
Consolidated Balance Sheet

Liabilities from  
sales financing  
(20)

	31.12.1996		31.12.1995	
	of which: with a maturity of			
	up to		over	
	1 year		5 years	
	DM million	DM million	DM million	DM million
Liabilities from sales financing				
Bonds	4,404	817	1,087	2,427
Liabilities to banks	5,571	3,505	416	5,616
– of which: secured by real estate liens	(62)			(97)
Trade payables	686	668	–	352
Commercial paper	1,623	1,623	–	2,295
Other liabilities	693	349	245	578
	12,977	6,962	1,748	11,268
Deferred income lease financing	1,894			2,031
	14,871	6,962	1,748	13,299

The liabilities from sales financing serve to refinance leased products and receivables from financing.

Liabilities due in one to five years total DM4,267 million.

Deferred income from lease financing relates to amounts received on lease contracts not yet due.

	31.12.1996 DM million	31.12.1995 DM million
Guarantees	131	509
Discounted bills of exchange	38	-

## Contingent liabilities

DM11 million thereof relate to contingent liabilities to subsidiaries (1995: DM8 million).

Joint and several liability also exists in the case of investments in general partnerships.

According to current maturities, the net present value of future payment obligations under rental and leasing agreements amounting to DM1,453 millions is as follows:

## Other financial obligations

	31.12.1996 DM million
1997	277
1998-2001	624
after 2001	552

DM93 million thereof relate to obligations to subsidiaries.

Purchasing commitments for capital investment projects amount to DM3,067 million.

Further financial obligations amount to DM5 million.



**Notes**  
Consolidated Income Statement

**Net sales  
(21)**

	1996 DM million	1995 DM million
Automobiles	37,966	33,547
Motorcycles	744	731
Leasing	6,054	5,044
Other sales	7,501	6,822
	<b>52,265</b>	<b>46,144</b>
Federal Republic of Germany	14,621	13,862
United Kingdom	8,930	8,242
Rest of Europe	12,218	10,088
North America	8,228	6,177
Asia	5,574	5,291
Other markets	2,694	2,484
	<b>52,265</b>	<b>46,144</b>

Other sales relate principally to the sale of spare parts and accessories.

**Increase in product  
inventories and own  
work capitalised  
(22)**

	1996 DM million	1995 DM million
Increase in product inventories	585	1,092
Own work capitalised	111	97
	<b>696</b>	<b>1,189</b>

Besides changes in work in progress and finished goods, the increase in product inventories includes changes in leased products.

**Other operating  
income  
(23)**

Other operating income comprises primarily income from the release of provisions and accruals, foreign exchange gains, grants and incentives and releases of write-downs on receivables.

	1996 DM million	1995 DM million
Cost of raw materials, supplies and merchandise	30,214	26,828
Cost of purchased services	843	569
	<b>31,057</b>	<b>27,397</b>

**Material costs  
(24)**

The cost of raw materials, supplies and merchandise increased because of significantly increased production.

	1996 DM million	1995 DM million
Wages and salaries	8,202	7,512
Social security, pension and welfare costs	1,642	1,334
of which for pension plans: DM472 million (1995: DM260 million) –		
	<b>9,844</b>	<b>8,846</b>
Average number of employees per year:	1996	1995
Wage earners	71,247	70,569
Salaried employees	37,881	36,375
	<b>109,128</b>	<b>106,944</b>

**Personnel costs  
(25)**

Depreciation on intangible and tangible fixed assets related to scheduled depreciation based on financial reporting principles.

**Depreciation on  
intangible and tangible  
fixed assets  
(26)**

Other operating expenses include, in particular, administration and distribution costs, warranty, advertising, freight out, maintenance and repairs, rentals and leases, commissions, insurance premiums, foreign exchange losses and valuation allowances on receivables.

**Other operating  
expenses  
(27)**

## Notes

### Consolidated Income Statement

#### Net income from investments (28)

	1996 DM million	1995 DM million
Income from investments	2	47
– of which: from subsidiaries:		
DM1 million (1995: DM24 million) –		
Income from profit transfers	–	6
Income from associated companies	73	40
Expenses from loss transfers	1	–
Depreciation on investments in subsidiaries	5	2
	<b>69</b>	<b>91</b>

Income from associated companies includes the Group's share of the results of the subgroup Bavaria Wirtschaftsagentur GmbH, Munich, of EL-MOS Elektronik in MOS-Technologie GmbH, Dortmund, of Rover Finance Holdings Ltd., Redhill, and of UGC Limited, Oxford.

#### Net interest income (29)

	1996 DM million	1995 DM million
Income from other securities and long-term loans	6	5
Other interest and similar income	1,470	1,318
– of which: from subsidiaries:		
DM35 million (1995: DM17 million) –		
Interest and similar expenses	1,270	1,099
– of which: to subsidiaries:		
DM5 million (1995: DM5 million) –		
Write-downs on long-term loans, marketable securities and notes	2	4
	<b>204</b>	<b>220</b>

Interest and similar expenses, together with the interest expense from lease financing, amounted to DM1,771 million (1995: DM1,626 million).

The interest expense from the financing of business in leased products is offset by corresponding gains which are contained in the leasing instalments and shown in net sales.

**Interest expense from  
lease financing  
(30)**

Taxes on income include German corporation and municipal trade income taxes as well as comparable foreign taxes relating to income. Such taxes are determined in accordance with the tax laws applicable to

the individual companies. In addition, taxes on income include the deferred taxes resulting from timing differences derived from consolidation entries.

**Taxes on income  
(31)**

	1996 DM million	1995 DM million
<b>Net income</b>	<b>820</b>	<b>692</b>
<b>Appropriations of net income:</b>		
Minority interest in net income of subsidiaries	7	5
Transfer to revenue reserves	516	420
	523	425
<b>Unappropriated profit available for distribution</b>	<b>297</b>	<b>267</b>

**Net income  
(32)**

## Notes

### Additional Information

#### **Total remuneration of the Supervisory Board and the Board of Management**

Subject to the approval of the proposed dividend at the Annual General Meeting, the remuneration of members of the Board of Management for the 1996 financial year amounts to DM13.8 million (1995: DM11.3 million) and that of former members and their surviving dependents to DM2.6 million (1995: DM2.4 million).

Total remuneration of the Supervisory Board for 1996 amounts to DM1.8 million (1995: DM1.6 million).

The pension commitments to former members of the Board of Management and their surviving dependents are fully covered by an accrual of DM22.7 million (1995: DM21.0 million).

The members of the Supervisory Board and of the Board of Management are listed on pages 48 and 49.

Munich, March 1997

**Bayerische Motoren Werke**  
Aktiengesellschaft

The Board of Management

#### **Auditors' certificate**

The Consolidated Financial Statements, which we have audited in accordance with professional standards, comply with the German legal provisions. The Consolidated Financial Statements present, in compliance with required accounting principles, a true and fair view of the Group's assets, liabilities, financial position and net income. The Group's Economic Review is consistent with the Consolidated Financial Statements.

Munich, March 5th 1997

**KPMG Deutsche Treuhand-Gesellschaft**  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos                      Kilgert  
Wirtschaftsprüfer      Wirtschaftsprüfer  
(independent auditors)

# Balance Sheet and Income Statement of BMW AG

The Financial Statements of BMW AG, of which the Balance Sheet and the Income Statement are presented here, have been provided with the unrestricted confirmatory audit certificate of KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich. They are published in the Federal Gazette and filed with the Commercial Register of the Munich Local Court. These Financial Statements are available from BMW AG, D-80788 Munich.

Balance Sheet of BMW AG  
at December 31st 1996  
(in millions of DM)

Assets	31.12.1996 DM million	31.12.1995 DM million
Intangible assets	98	109
Tangible assets	4,282	4,073
Financial assets	4,809	4,247
<b>Fixed assets</b>	<b>9,189</b>	<b>8,429</b>
Inventories	1,918	1,875
Trade receivables	530	534
Receivables from subsidiaries	4,115	2,878
Other receivables and miscellaneous assets	125	141
Marketable securities and notes	517	686
Liquid funds	774	1,209
<b>Current assets</b>	<b>7,979</b>	<b>7,323</b>
<b>Prepaid expenses</b>	<b>3</b>	<b>4</b>
	<b>17,171</b>	<b>15,756</b>
 <b>Shareholders' equity and liabilities</b>	 <b>31.12.1996</b>	 <b>31.12.1995</b>
	<b>DM million</b>	<b>DM million</b>
Subscribed capital	989	987
Capital reserve	1,614	1,593
Revenue reserves	3,696	3,439
Unappropriated profit available for distribution	297	267
<b>Shareholders' equity</b>	<b>6,596</b>	<b>6,286</b>
<b>Registered profit-sharing certificates</b>	<b>77</b>	<b>79</b>
Pension provisions	2,154	1,899
Other provisions and accruals	4,423	3,905
<b>Provisions and accruals</b>	<b>6,577</b>	<b>5,804</b>
Liabilities to banks	63	96
Trade payables	1,198	1,056
Liabilities to subsidiaries	1,236	1,325
Other liabilities	1,424	1,110
<b>Liabilities</b>	<b>3,921</b>	<b>3,587</b>
	<b>17,171</b>	<b>15,756</b>

**Income Statement of BMW AG**  
for the financial year ended December 31st 1996  
(in millions of DM)

	1996 DM million	1995 DM million
<b>Net sales</b>	<b>32,429</b>	<b>28,561</b>
Increase in product inventories and own work capitalised	92	175
<b>Total value of production</b>	<b>32,521</b>	<b>28,736</b>
Other operating income	1,033	811
Material costs	20,591	17,680
Personnel costs	6,149	5,588
Depreciation on intangible and tangible fixed assets	1,503	1,517
Other operating expenses	4,290	3,859
Net income from investments	- 245	- 234
Net interest income	153	174
Result from ordinary business activities	929	843
Taxes on income	331	236
Other taxes	44	72
<b>Net income</b>	<b>554</b>	<b>535</b>
Transfer to revenue reserves	257	268
<b>Net income available for distribution</b>	<b>297</b>	<b>267</b>



## Subsidiaries of BMW AG

### Major subsidiaries of BMW AG at December 31st 1996

	Shareholders' <sup>1)</sup> equity DM million	Income <sup>1)</sup> DM million	Capital investment in %
<b>Domestic</b>			
BMW Ingenieur-Zentrum GmbH + Co., Munich	548	0	100
BMW Rolls-Royce GmbH, Oberursel <sup>3)</sup>	261	0	50.5
BMW Bank GmbH, Munich	245	19	100
BMW Finanz Verwaltungs GmbH, Munich	149	30	100
BMW Maschinenfabrik Spandau GmbH, Berlin	112	4	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	63	1	100
Kontron Elektronik GmbH, Eching <sup>3)</sup>	42	0	100
BMW Maschinenfabrik Spandau GmbH + Co. Anlagen und Betriebs oHG, Berlin	39	39	100
BMW Leasing GmbH, Munich <sup>4)</sup>	31	0	100
Rover Deutschland GmbH, Neuss <sup>3)</sup>	14	0	100
BMW Fahrzeugtechnik GmbH, Eisenach <sup>4)</sup>	2)	0	100
BMW INTEC Beteiligungs GmbH, Munich <sup>4)</sup>	2)	0	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich <sup>4)</sup>	2)	0	100
<b>Foreign</b>			
BMW Coordination Center N.V., Bornem	668	63	100
BMW (South Africa) (Pty.) Ltd., Pretoria	244	19	100
BMW Finance N.V., The Hague	199	29	100
BMW Overseas Enterprises N.V., Willemstad	97	2	100
BMW Österreich Holding GmbH, Steyr	976	54	100
BMW Motoren AG, Steyr	387	97	100
BMW Austria Gesellschaft m.b.H., Salzburg	107	5	100
BMW Holding B.V., The Hague	1,461	48	100
BMW (US) Holding Corporation, Wilmington, DE <sup>5)</sup>	1,014	281	100
BMW France S.A., Bois d'Arcy	295	73	100
BMW Japan Corp., Tokyo	291	27	100
BMW Italia S.p.A., Palazzolo di Sona (Verona)	126	27	100
BMW Australia Ltd., Melbourne, Victoria	124	20	100
BMW Belgium S.A./N.V., Bornem	92	26	100
BMW Canada Inc., Whitby	69	14	100
BMW (Schweiz) AG, Dielsdorf	62	13	100
BMW Nederland B.V., The Hague	46	15	100
BMW Ibérica S.A., Madrid	30	15	100
BMW (UK) Holdings Ltd., Warwick	4,569	- 214	100
Rover Group Ltd., Warwick	3,025	- 199	100
BMW (GB) Ltd., Bracknell	188	31	100
BMW (UK) Capital plc., Bracknell	66	2)	100
Rover Italia S.p.A., Rome	35	18	100
Rover France S.A., Argenteuil	22	2)	100
Rover Japan Ltd., Tokyo	19	5	100
Rover España S.A., Madrid	17	9	100
Rover Portugal Veiculos e Pecas Limitada, Lisbon	2	1	100

<sup>1)</sup> The values correspond with the individual financial statements, prepared in accordance with the respective country's regulations, and do not show the companies' contribution to the consolidated financial statements. Equity and income of companies outside the Federal Republic of Germany are converted using the exchange rate on the balance sheet date.

<sup>2)</sup> Less than DM500,000.

<sup>3)</sup> Profit and loss transfer agreement with a subsidiary of BMW AG.

<sup>4)</sup> Profit and loss transfer agreement with BMW AG.

<sup>5)</sup> Consolidated including BMW's operative US companies.

## Report of the Supervisory Board

The Supervisory Board regularly reviewed the Company's business throughout the financial year. At joint meetings and on the basis of the Board of Management's written and verbal reports, the Supervisory Board studied closely the Company's situation, the course of business and the intended business policy, and discussed these matters with the Board of Management. In addition to the regular meetings, the Supervisory Board was informed about the main business transactions in discussions with the Chairman of the Board of Management.

The Supervisory Board and the Board of Management have carried out measures to strengthen the Company's earning power.

As a Company of the highest technical standards, BMW constantly enhances and innovates its products. Therefore, in 1996, important investments were discussed and the necessary decisions made.

The long-term development of all fields of business was discussed in detail.

The new 5 Series BMW was introduced successfully. The new Spartanburg plant for the manufacture of cars of BMW quality has reached its scheduled capacity. This new plant has anchored BMW in the American business community and has had a positive effect on the Company's image in the United States.

Joint discussions focused on important investment decisions, such as the development and production of 4-cylinder petrol engines. The engines for BMW and Rover cars are to be manufactured in a new engine plant in England. In South America, a plant will be constructed in cooperation with Chrysler for the production of a new series of engines for future small Rover cars.

The BR710 aero engine received its licenses, on schedule, in Europe and the United States; an important milestone in the aero engine business. It is the first German aero engine for civilian aircraft to be licensed worldwide.

The Supervisory Board was also interested in the growing importance of financial services and the motorcycle business.

The Annual Financial Statements for the 1996 Financial Year, the Books of Account and the Economic Review have been examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich,

which has provided its unrestricted confirmatory audit certificate. The Supervisory Board agrees to the result of this audit.

At its meeting on March 20th 1997, the Supervisory Board examined and approved the Annual Financial Statements and the Economic Review, prepared by the Board of Management. The Annual Financial Statements are thereby adopted. The proposal of the Board of Management for the allocation of profits has been examined by the Supervisory Board which supports the proposal.

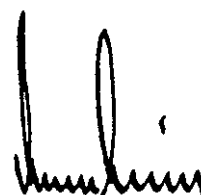
According to the final result of the Supervisory Board's review, there are no objections to be raised.

The Consolidated Financial Statements and the Economic Review of the BMW Group included in the Economic Review, which have been provided with the unrestricted confirmatory audit certificate of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, as well as the report of the auditor of the Consolidated Financial Statements, have been duly submitted to the Supervisory Board.

In its meeting on July 4th 1996, the Supervisory Board appointed Dr. Helmut Panke to the Board of Management and, from September 1st 1996, as Industrial Relations Director. After 27 years at BMW, Mr. Helmut Niederhofer retired from the Company on August 31st 1996. The Supervisory Board expressed its thanks to Mr. Niederhofer for his services to the Company.

Mr. Werner Schreiber retired from the Supervisory Board on September 30th 1996. The Supervisory Board thanked Mr. Schreiber for his services on the Supervisory Board. Dr. Karin Benz-Overhage, Executive Member of the Board of Management of IG Metall, was appointed Member of the Supervisory Board by decision of the Munich Local Court on January 24th 1997.

Munich, March 20th 1997



The Supervisory Board  
Eberhard v. Kuenheim  
Chairman

## Supervisory Board

Dr.-Ing. E.h. Dr.-Ing. E.h. Eberhard v. Kuenheim Munich, Chairman Former Chairman of the Board of Management of BMW AG	Arthur L. Kelly Chicago, Illinois Managing Partner of KEL Enterprises Ltd.
Manfred Schoch* Munich, Deputy Chairman Chairman of the Works Council	Prof. Dr.-Ing. E.h. Berthold Leibinger Ditzingen Managing Partner of TRUMPF GmbH + Co. Maschinenfabrik Stuttgart
Hans Graf von der Goltz Bad Homburg v.d.H., Deputy Chairman Businessman	Dr. h.c. André Leysen Mortsel, Belgium Chairman of the Supervisory Board of Gevaert N.V.
Johann Vilsmeier* Dingolfing, Deputy Chairman Chairman of the Works Council Dingolfing plant	Rudolf Lukes* Munich Trade union secretary
Johanna Quandt Bad Homburg v.d.H., Deputy Chairwoman	Prof. Dr. Dr. h.c. Hubert Markl Munich President of Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V.
Reinhold Bauer* Landshut Deputy Chairman of the Works Council Landshut plant	Hans-Günther Niklas* Regensburg Chairman of the Works Council. Regensburg plant
Helmuth Baumgärtner* Dingolfing Member of the Works Council Dingolfing plant	Dr. Wolfgang Röller Frankfurt/Main Chairman of the Supervisory Board of Dresdner Bank AG
Dr. Karin Benz-Overhage* Frankfurt/Main Executive Member of the Board of Management of IG Metall (from January 24th 1997)	Werner Schreiber* Frankfurt/Main Former Executive Member of the Board of Management of IG Metall (until September 30th 1996)
Klaus Bernhardt* Frankfurt/Main Trade union secretary	Dr.-Ing. Dieter Soltmann Munich Member of the Managing Board of Gabriel Sedlmayr Spaten-Franziskaner-Bräu KGaA
Hans Glas* Munich Director 7 and 5 Series	Lodewijk C. van Wachem The Hague, Netherlands Chairman of the Supervisory Board of Royal Dutch-Petroleum Company/Shell
Gerhard Gutmiedl* Munich Deputy Chairman of the Works Council Munich plant	

\* employees' representative

## Board of Management

Bernd Pischetsrieder  
Chairman

Volker Doppelfeld

Dr. Walter Hasselkus

Prof. Dr.-Ing. Dr. h.c.  
Joachim Milberg

Helmut Niederhofer  
(until August 31st 1996)

Dr. Helmut Panke  
(from July 4th 1996)

Dr.-Ing. Wolfgang Reitzle

Dr. h.c. Horst Teltschik

Executive Director:

Dr. Hagen Lüderitz

General Counsel:

Dr. Dieter Löchelt

Sales	DM million
Change	%
Production – automobiles	
Group	units
BMW	units
Rover Group	units
Sales – automobiles	
Group	units
BMW	units
Rover Group	units
Production – motorcycles <sup>3)</sup>	units
Sales – motorcycles	units
Workforce at end of year	
Investment	DM million
as % of sales	%
Depreciation	DM million
Cash flow	DM million
as % of investment	%
Fixed assets	DM million
Assets from sales financing	DM million
as % of balance sheet total	%
Other current assets and prepaid expenses	DM million
Subscribed capital	DM million
Reserves	DM million
Capital reserve	DM million
Revenue reserve	DM million
Shareholders' equity	DM million
as % of balance sheet total	%
as % of fixed assets	%
Debt/equity ratio	
Industrial business	%
Sales financing	%
Long-term borrowings	DM million
Long-term capital	DM million
as % of fixed assets	%
Liabilities from sales financing	DM million
Balance sheet total	DM million
Total value of production	DM million
per employee	DM
Material costs	DM million
Personnel costs	DM million
per employee	DM
Results from ordinary business activities	DM million
as % of total value of production	%
Taxes	DM million
Net income	DM million
Net income of BMW AG available for distribution	DM million

<sup>1)</sup> Incl. Rover Group from March 18th 1994<sup>2)</sup> Whole of 1994: 487,298<sup>3)</sup> Whole of 1994: 466,661<sup>4)</sup> Incl. F 650 assembly at Aprilia S.p.A. from 1993

1992	1993	1994 <sup>1)</sup>	1995	1996
31,241	29,016	42,125	46,144	52,265
+ 4.7	- 7.1	+45.2	+ 9.5	+ 13.3
598,145	532,960	948,683	1,098,582	1,143,558
598,145	532,960	573,083	595,056	639,433
-	-	375,600 <sup>2)</sup>	503,526	504,125
594,895	535,492	960,433	1,092,497	1,172,374
594,895	535,492	568,733	592,838	638,337
-	-	391,700 <sup>3)</sup>	499,659	534,037
35,910	36,990	44,435	52,653	48,950
35,675	35,031	44,203	50,842	49,238
73,562	71,034	109,362	115,763	116,112
1,975	2,214	3,543	3,477	3,830
6.3	7.6	8.4	7.5	7.3
1,827	1,836	2,567	2,877	3,002
2,880	2,567	3,569	3,755	4,092
145.8	115.9	100.7	108.0	106.8
6,834	7,151	11,748	11,905	13,429
9,764	11,766	13,300	15,008	16,798
35.5	38.8	34.4	36.7	37.0
10,906	11,378	13,645	13,934	15,115
899	902	985	987	989
5,502	5,787	6,538	6,820	7,657
817	834	1,574	1,593	1,614
4,685	4,953	4,964	5,227	6,043
6,718	7,025	7,922	8,200	9,067
24.4	23.2	20.5	20.1	20.0
98.3	98.2	67.4	68.9	67.5
30.7	30.3	24.8	25.1	25.0
13.0	12.0	12.2	11.4	11.5
6,672	7,956	9,012	10,780	11,764
13,390	14,981	16,934	18,980	20,831
195.9	209.5	144.1	159.4	155.1
8,497	10,353	11,672	13,299	14,871
27,504	30,295	38,693	40,847	45,342
32,671	30,932	43,287	47,333	52,961
472,766	467,244	428,924	442,596	485,311
18,542	17,368	24,696	27,397	31,057
6,387	6,245	8,425	8,846	9,844
92,423	94,334	83,482	82,716	90,206
1,477	832	1,357	1,367	1,660
4.5	2.7	3.1	2.9	3.1
751	316	660	675	840
726	516	697	692	820
226	226	277	267	297