

QUARTERLY REPORT

31 March 2017



**BMW
GROUP**

THE NEXT
100 YEARS



Rolls-Royce
Motor Cars Limited

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BMW GROUP IN FIGURES

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BMW GROUP IN FIGURES

Key performance indicators reported during the year

→ 01

		1st quarter 2017	1st quarter 2016	Change in %
GROUP				
Profit before tax	€ million	3,005	2,368	26.9
Workforce ¹ (at 31 March 2017/31 December 2016)		126,317	124,729	1.3
AUTOMOTIVE SEGMENT				
Sales volume ²	units	587,237	557,605	5.3
Revenues	€ million	20,692	18,814	10.0
EBIT margin ³	% (change in %pts)	9.0	9.4	-0.4
MOTORCYCLES SEGMENT				
Sales volume	units	35,636	33,788	5.5
EBIT margin ³	% (change in %pts)	20.1	16.2	3.9

¹ Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.

² Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 90,172 units, 2016: 81,900 units).

³ Profit before financial result as percentage of segment revenues.

Further performance figures

→ 02

		1st quarter 2017	1st quarter 2016	Change in %
AUTOMOTIVE SEGMENT				
Sales volume				
BMW ¹	units	503,445	478,743	5.2
MINI	units	83,059	78,311	6.1
Rolls-Royce	units	733	551	33.0
Total¹		587,237	557,605	5.3
Production volume				
BMW ²	units	549,175	490,549	12.0
MINI	units	97,899	89,057	9.9
Rolls-Royce	units	855	701	22.0
Total²		647,929	580,307	11.7
MOTORCYCLES SEGMENT				
Production volume	units	54,466	40,280	35.2
FINANCIAL SERVICES SEGMENT				
New contracts with retail customers		465,634	413,372	12.6
Operating cash flow Automotive segment	€ million	2,626	1,219	–
Revenues	€ million	23,448	20,853	12.4
Automotive	€ million	20,692	18,814	10.0
Motorcycles	€ million	623	582	7.0
Financial Services	€ million	7,046	6,032	16.8
Other Entities	€ million	2	1	–
Eliminations	€ million	–4,915	–4,576	–7.4
Profit before financial result (EBIT)	€ million	2,646	2,457	7.7
Automotive	€ million	1,871	1,763	6.1
Motorcycles	€ million	125	94	33.0
Financial Services	€ million	604	591	2.2
Other Entities	€ million	4	11	–63.6
Eliminations	€ million	42	–2	–
Profit before tax	€ million	3,005	2,368	26.9
Automotive	€ million	2,279	1,734	31.4
Motorcycles	€ million	125	94	33.0
Financial Services	€ million	595	570	4.4
Other Entities	€ million	–4	–2	–
Eliminations	€ million	10	–28	–
Income taxes	€ million	–856	–727	–17.7
Net profit	€ million	2,149	1,641	31.0
Earnings per share³	€	3.26 / 3.26	2.48 / 2.48	31.5 / 31.5

¹ Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 90,172 units, 2016: 81,900 units).

² Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 98,715 units, 2016: 57,111 units).

³ Common / preferred stock. In computing earnings per share of preferred stock, earnings to cover the additional dividend of €0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

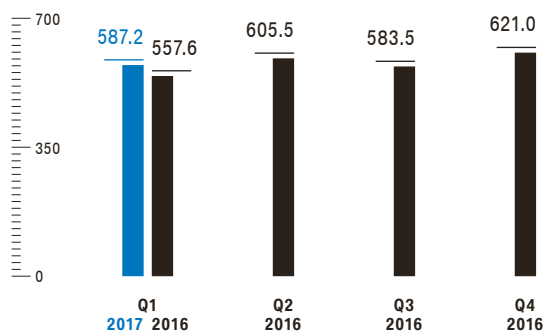
Positive start to year for sales volumes

The BMW Group recorded a new first-quarter all-time high for automobile sales in the first three months of 2017, with 587,237* BMW, MINI and Rolls-Royce brand vehicles sold worldwide (2016: 557,605* units; +5.3 %).

BMW Group sales volume of automobiles*

→ 03

in 1,000 units



* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 90,172 units, 2016: 81,900 units).

The Motorcycles segment also achieved its best-ever first-quarter sales figure, despite difficult market conditions. Worldwide, motorcycles sales rose by a solid 5.5 % to 35,636 units (2016: 33,788 units).

During the first quarter of 2017, the Financial Services segment continued its successful performance of the past year, concluding a total of 465,634 new lease and credit financing contracts with retail customers (2016: 413,372 contracts; +12.6 %).

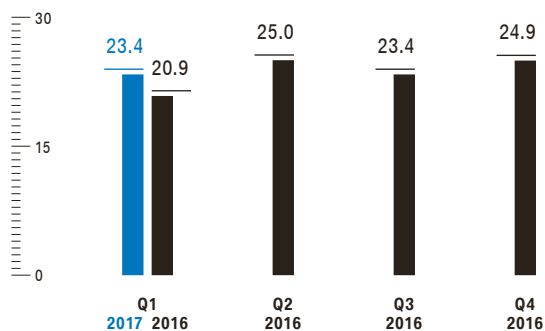
Revenues and earnings both up on previous year

First-quarter Group revenues grew significantly by 12.4 % to €23,448 million (2016: €20,853 million), mainly driven by the sales volume increase.

BMW Group revenues

→ 04

in € billion

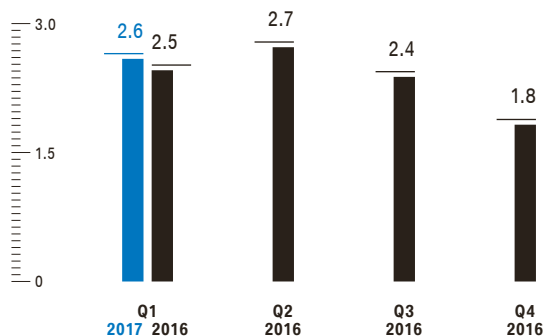


At €2,646 million, Group EBIT was 7.7 % up on the previous year (2016: €2,457 million).

BMW Group profit before financial result (EBIT)

→ 05

in € billion

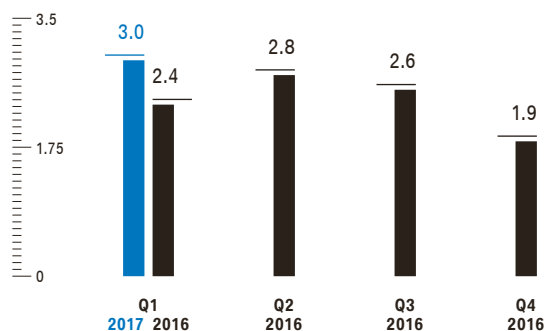


Higher expenses and investment for research and development, personnel and IT had an adverse effect on the development. However, pre-tax profit increased by more than a quarter to €3,005 million (2016: €2,368 million; +26.9%).

BMW Group profit before tax

→ 06

in € billion



The improvement was mainly driven by valuation effects in the result from equity accounted investments and in other financial result. Further information is provided in the “Automotive segment” section.

Slight increase in workforce size

The BMW Group employed a workforce of 126,317 worldwide at the end of the first quarter 2017 (31 December 2016: 124,729; +1.3%). The company’s need for skilled workers and IT specialists in future-oriented areas, such as digitalisation and autonomous driving, remains high.

INTERIM GROUP MANAGEMENT REPORT

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2

REPORT ON ECONOMIC POSITION

Best first quarter to date for automobile and motorcycles sales volumes

**For the first time,
over 500,000 BMW brand vehicles
delivered in a first quarter**

€ 3,005 million

↗ +26.9 %

**Profit before tax driven
by positive valuation
effects in financial result**

GENERAL ECONOMIC ENVIRONMENT

Automobile markets in the first quarter 2017

The pace of growth on international automobile markets slowed down somewhat at the beginning of the year, with registrations rising by only 1.7 % overall. The slight increase recorded in the first quarter was largely due to positive developments in Europe and Japan. By contrast, new registrations in the USA, China and a number of emerging economies were down.

The positive trend in Europe continued with a further 8.1 % increase in registrations during the first three months of 2017. Almost all of the region's automobile markets recorded growth. Germany (+ 6.7 %), France (+ 5.1 %) and the UK (+ 6.2 %) reported a robust increase in demand. Particularly significant was the increase in Italy (+11.6 %) and Spain (+7.9 %) during the first quarter.

After six years of strong expansion, the US market has seen a phase of consolidation since 2016, which continued at the beginning of 2017 and is reflected in a 1.5 % drop in registrations.

The automobile market in China saw a slow start to the year, with new registrations broadly in line with the previous year (– 0.3 %).

Despite sluggish economic growth, new registrations in Japan grew at a robust pace (+7.3 %) during the first three months of 2017.

New registrations in Brazil and Russia continued to fall, albeit at a slightly slower rate than in previous years. The Brazilian automobile market contracted year-on-year (– 2.8 %). The downward trend in Russia slowed significantly (– 0.9 %).

Motorcycle markets in the first quarter 2017

Motorcycle markets in the 250 cc plus class were generally slower at the beginning of the year, reflected in a 3.3 % drop in motorcycle registrations worldwide. The European market was on a par with the previous year (+0.3 %). The German market, however, decreased by 1.2 %. Other major motorcycle markets in Europe also fell short of the previous year's mark. Italy saw only a slight decrease (−0.5 %), while the Spanish market contracted by 3.9 %. The only major market in Europe with an increase was France, where registrations rose by 5.4 % in the first quarter. Following a weak previous year, the US market saw a further decrease in motorcycle sales (−5.2 %).

Financial services markets in the first quarter 2017

The European Central Bank (ECB) continued its expansionary policies, despite improving growth rates, positive signals from the job market and a sharp rise in inflation during the first quarter.

The picture for the UK economy was somewhat mixed during this period. While growth figures remained stable and unemployment low, the rate of inflation rose strongly due to the ongoing weakness of the British pound. The Bank of England adopted a cautious approach and continued to pursue a policy of monetary expansion.

In the USA, the Federal Reserve decided to raise its benchmark interest rate by 25 basis points on the back of strong job market data, stable economic growth and an inflation rate close to the target level of 2 % in March.

China's economy benefited from substantial investment in infrastructure during the first quarter and therefore started the year on a more dynamic footing. However, high debt ratios and the risk of greater trade barriers with the USA dampened market sentiment. The Chinese central bank undertook measures to counteract capital flight and further currency devaluation by raising short-term money market rates and implementing currency measures.

Boosted by a strong export performance, the Japanese economy remained on course for recovery at the beginning of the year. The Japanese central bank nevertheless continued its expansionary monetary policy.

Selling prices of premium segment pre-owned vehicles on international markets developed in line with expectations during the first quarter of 2017. Prices of pre-owned vehicles fell slightly in Europe due to seasonal factors, but remained stable in Asia. In North America, the slight downward trend recorded during the previous year continued into the first quarter of 2017.

Automotive Segment

New record for automobile sales in first quarter

The BMW Group sold 587,237¹ BMW, MINI and Rolls-Royce brand vehicles during the first quarter (2016: 557,605¹ units; +5.3%), registering a new first-quarter sales volume record for the seventh year in succession. The performance was driven by all brands. BMW exceeded the 500,000-unit threshold for the first time in a first quarter (503,445¹ units; 2016: 478,743¹ units; +5.2%). MINI delivered 83,059 vehicles

to customers worldwide (2016: 78,311 units; +6.1%). Rolls-Royce Motor Cars increased sales by approximately one third to 733 units (2016: 551 units; +33.0%).

Double-digit sales volume growth in China

First-quarter sales of BMW, MINI and Rolls-Royce brand vehicles in Asia grew by a solid 9.2% to 200,140¹ units (2016: 183,204¹ units). Sales volume growth in China was particularly dynamic, with deliveries up by 12.4% year-on-year (142,958¹ units; 2016: 127,167¹ units).

Automotive Segment sales volume of vehicles by region and market

→ 07

in units	1st quarter 2017	1st quarter 2016	Change in %
Europe	267,996	257,120	4.2
thereof Germany	67,432	66,649	1.2
thereof UK	63,004	59,169	6.5
Americas	102,238	100,245	2.0
thereof USA	82,169	81,601	0.7
Asia ¹	200,140	183,204	9.2
thereof China ¹	142,958	127,167	12.4
Other markets	16,863	17,036	-1.0
Total¹	587,237	557,605	5.3

The BMW Group sold a total of 267,996 automobiles (2016: 257,120 units; +4.2%) in Europe during the first three months of 2017. The number of vehicles sold in Germany was slightly higher than one year earlier at 67,432 units (2016: 66,649 units; +1.2%). Despite the uncertainty caused by Brexit, sales of the Group's three brands in the UK rose by a solid 6.5% to 63,004 units (2016: 59,169 units).

On the American continent, the BMW Group sold 102,238 BMW, MINI and Rolls-Royce brand vehicles during the first three months (2016: 100,245 units; +2.0%). In the USA, sales volumes were at the level of the previous year with 82,169 units sold (2016: 81,601 units; +0.7%).

Automotive Segment at a glance

→ 08

		1st quarter 2017	1st quarter 2016	Change in %
Sales volume ^{1,2}	units	587,237	557,605	5.3
Production ³	units	647,929	580,307	11.7
Revenues ²	€ million	20,692	18,814	10.0
Profit before financial result (EBIT)	€ million	1,871	1,763	6.1
Profit before tax	€ million	2,279	1,734	31.4
EBIT margin ²	% (change in %pts)	9.0	9.4	-0.4
Workforce (at 31 March 2017/31 December 2016)		114,265	112,869	1.2

¹ Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 90,172 units, 2016: 81,900 units).

² Key performance indicators reported on during the year.

³ Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 98,715 units, 2016: 57,111 units).

For the first time, over 500,000 BMW brand vehicles delivered in a first quarter*

With 503,445 vehicles sold, BMW exceeded the 500,000-delivery mark for the first time in a first quarter (2016: 478,743 units; +5.2%). This was mainly driven by sales of BMW X family models as well as the new BMW 5 and 7 Series Sedans. Diesel vehicles also saw favourable demand.

At 42,036 units, sales volumes for the BMW 1 Series from January to March 2017 were on a par with the previous year (2016: 41,859 units; +0.4%). Sales of the 2 Series fell slightly to 42,817 units (2016: 43,657 units; -1.9%). Customers took delivery of a total of 100,265 units of the BMW 3 Series (2016: 103,225 units; -2.9%). The new BMW 5 Series Sedan has been available since mid-February 2017 and had already recorded sales volume of 16,745 units by the

end of the reporting period. Overall, first-quarter sales of the 5 Series were 1.6% up on the previous year at 83,459 units (2016: 82,171 units). The follow-up model to the highly successful 5 Series extended-wheelbase version will become available in China in June 2017. The BMW 7 Series proved extremely popular, exceeding the previous year's first-quarter figures by around one half (15,898 units; 2016: 10,588 units; +50.2%).

Demand for BMW X vehicles grew significantly, with deliveries up 14.3% in the first three months of 2017 to 176,836 units (2016: 154,746 units). Sales of the BMW X1 increased by more than a quarter to 66,063 units (2016: 51,002 units; +29.5%) during the same period. The BMW X3 recorded solid growth (41,742 units; 2016: 38,719 units; +7.8%), while the X5 saw a significant rise in sales volume to 45,892 units, exceeding the previous year's high figure (2016: 39,007 units; +17.7%).

Automotive Segment sales volume of BMW vehicles by model series*

→ 09

in units	1st quarter 2017	1st quarter 2016	Change in %
BMW 1 Series	42,036	41,859	0.4
BMW 2 Series	42,817	43,657	-1.9
BMW 3 Series	100,265	103,225	-2.9
BMW 4 Series	30,745	32,729	-6.1
BMW 5 Series	83,459	82,171	1.6
BMW 6 Series	2,522	3,292	-23.4
BMW 7 Series	15,898	10,588	50.2
BMW X1	66,063	51,002	29.5
BMW X3	41,742	38,719	7.8
BMW X4	12,960	14,975	-13.5
BMW X5	45,892	39,007	17.7
BMW X6	10,179	11,043	-7.8
BMW Z4	769	1,348	-43.0
BMW i	8,098	5,128	57.9
BMW total	503,445	478,743	5.2

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 90,172 units, 2016: 81,900 units).

MINI achieves new sales volume record

Sales of 83,059 vehicles during the period from January to March 2017 also represented a new first-quarter sales volume record for the MINI brand (2016: 78,311 units; +6.1 %). With 47,530 units sold, the MINI 3- and 5-door models matched their previous year's performance ↗

(2016: 47,396 units; +0.3 %). The new MINI Clubman saw significant sales volume growth to 14,830 units (2016: 12,173 units; +21.8 %). First-quarter sales of the new MINI Convertible tripled to 7,705 units (2016: 2,553 units).

Automotive Segment sales volume of MINI vehicles by model variant

→ 10

in units	1st quarter 2017	1st quarter 2016	Change in %
MINI Hatch (3- and 5-door)	47,530	47,396	0.3
MINI Convertible	7,705	2,553	–
MINI Clubman	14,830	12,173	21.8
MINI Countryman / Paceman	12,994	16,189	–19.7
MINI total	83,059	78,311	6.1

Strong first quarter for Rolls-Royce

Rolls-Royce Motor Cars delivered 733 vehicles to customers during the period under report (2016: 551 units; +33.0 %). First-quarter sales of the Rolls-Royce Ghost ↗

rose to 243 units (2016: 206 units; +18.0 %). Sales of the Rolls-Royce Wraith and Dawn models in the three-month period grew by more than one half (434 units; 2016: 286 units; +51.7 %).

Automotive Segment sales volume of Rolls-Royce vehicles by model variant

→ 11

in units	1st quarter 2017	1st quarter 2016	Change in %
Phantom	56	59	–5.1
Ghost	243	206	18.0
Wraith / Dawn	434	286	51.7
Rolls-Royce total	733	551	33.0

Electrified vehicles see successful start to the year

BMW i and iPerformance models are making a clear contribution to brand success. Sales of electrified vehicles doubled in the first three months of 2017 (19,400 units; 2016: 9,648 units; +101.1 %). The BMW i3 ↗

was also in high demand in the first quarter, with deliveries increasing by over two-thirds to 7,431 units (2016: 4,441 units; +67.3 %). A significant proportion of electrified vehicle sales (11,302 units) related to BMW plug-in hybrid models sold under the "iPerformance" brand name (2016: 4,520 units).

Automotive Segment sales volume of electrified models

→ 12

in units	1st quarter 2017	1st quarter 2016	Change in %
BMW i	8,098	5,128	57.9
BMW iPerformance	11,302	4,520	–
Total	19,400	9,648	101.1

Significant increase in automobile production

Strong demand and the introduction of new models resulted in a significant increase in production volume in the first quarter of 2017. In total, 647,929* BMW, MINI and Rolls-Royce brand vehicles rolled off assembly lines of the BMW Group production network during the reporting period (2016: 580,307* units; +11.7%), comprising 549,175* BMW (2016: 490,549* units; +12.0%), 97,899 MINI (2016: 89,057 units; +9.9%) and 855 Rolls-Royce vehicles (2016: 701 units; +22.0%).

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 98,715 units, 2016: 57,111 units).

Automotive segment workforce increases

At 31 March 2017, the BMW Group employed a workforce of 114,265 in the Automotive segment (31 December 2016: 112,869 employees), an increase of 1.2%.

Revenues and earnings increase – profitability within target range

Automotive segment revenues for the period from January to March 2017 increased significantly, surpassing the €20 billion mark for the first time in an initial three-month period (€20,692 million; 2016: €18,814 million; +10.0%). The positive development was mainly driven by the increase in sales volume.

Despite a challenging competitive environment and higher costs and investment in research and development, personnel and IT, EBIT rose by €108 million to €1,871 million (2016: €1,763 million; +6.1%). At 9.0%, the EBIT margin was within the target range of between 8 and 10% (2016: 9.4%; –0.4 percentage points).

First-quarter segment profit before tax increased by 31.4% to €2,279 million (2016: €1,734 million). This was mainly due to the significantly improved result from equity accounted investments. This includes a positive valuation effect of €183 million in conjunction with the participation of new investors in the HERE mapping service. Further disclosures relating to the transaction are provided in → note 2. In addition, the earnings contribution for the period from the joint venture BMW Brilliance Automotive Ltd., Shenyang, was higher than in the previous year. Moreover, other financial result reported by the segment improved by €100 million.

→ see
note 2

Motorcycles Segment

Solid rise in Motorcycles segment sales volume

BMW Motorrad also had a successful start to the year. The segment sold 35,636 motorcycles worldwide during the three-month period under report, achieving a record first-quarter sales volume performance for the sixth year in succession (2016: 33,788 units; +5.5%). In Europe, sales rose significantly by 10.3% to 22,991 units (2016: 20,849 units), despite difficult market conditions. Sales in Germany grew by 2.8% to 5,824 units (2016: 5,668 units). Business also developed positively in Italy, where BMW Motorrad recorded first-quarter sales of 3,463 units (2016: 3,125 units; +10.8%). First-quarter sales in France improved significantly by 14.4% to 3,696 units (2016: 3,230 units). By contrast, sales volume in the USA dropped moderately to 2,866 units (2016: 3,022 unit; -5.2%).

Significant increase in motorcycle production

A total of 54,466 motorcycles rolled off the production lines during the first three months of 2017, 35.2% more than one year earlier (2016: 40,280 units). This significant year-on-year increase was mainly due to initial supply of the latest models to the dealership organisation.



Earnings up by one third

In the first quarter, the Motorcycles segment benefited from sales volume growth and the trend towards higher-value models. The sale of optional equipment also made a significant contribution to earnings. Segment revenues rose by 7.0% to €623 million (2016: €582 million). Both EBIT and profit before tax improved by approximately one third to €125 million (2016: both €94 million; +33.0%). The EBIT margin for the Motorcycles segment came in at 20.1% (2016: 16.2%; +3.9 percentage points).

Workforce up slightly on previous year

The BMW Group employed 3,424 people in the Motorcycles segment at 31 March 2017 (31 December 2016: 3,351 employees; +2.2%).

Motorcycles Segment at a glance

→ 13

		1st quarter 2017	1st quarter 2016	Change in %
Sales volume*	units	35,636	33,788	5.5
Production	units	54,466	40,280	35.2
Revenues	€ million	623	582	7.0
Profit before financial result (EBIT)	€ million	125	94	33.0
Profit before tax	€ million	125	94	33.0
EBIT margin*	% (change in %pts)	20.1	16.2	3.9
Workforce (at 31 March 2017/31 December 2016)		3,424	3,351	2.2

* Key performance indicators reported on during the year.

Financial Services Segment

Further growth

In the first quarter of 2017, the Financial Services segment continued the successful performance of the previous financial year. The segment's contract portfolio under management grew by 2.0 % during the three-month period under report and stood at 5,214,729 contracts at 31 March 2017 (31 December 2016: 5,114,906 contracts). In balance sheet terms, business volume rose slightly to €125,735 million (31 December 2016: €123,394 million; +1.9 %).

Significant growth in new business

Credit financing and leasing business with retail customers is the Financial Services segment's main line of business, with 465,634 new contracts signed during the three-month period under report. Compared to the previous year's first quarter, this performance represented a significant increase of 12.6 % (2016: 413,372 contracts).

While the number of new leasing contracts remained at the level of the previous year (+0.1 %), the number of new credit financing contracts grew by 19.3 %. Overall, leasing accounted for 30.8 % and credit financing for 69.2 % of new business in the period under report. ↗

The number of new credit financing and leasing contracts for pre-owned BMW and MINI brand vehicles also rose significantly, with 102,151 contracts signed during the three-month period (2016: 85,692 contracts; +19.2 %).

The volume of new business concluded in the period from January to March 2017 for all credit financing and leasing contacts with retail customers totalled €14,521 million. This represents a significant increase on the previous year's first quarter (2016: €12,460 million; +16.5 %).

In total, 4,792,708 contracts were in place with retail customers at the end of the reporting period (31 December 2016: 4,703,417 contracts; +1.9 %). The Asia/Pacific region continued to see solid growth, with a 6.1 % increase in the contract portfolio compared to 31 December 2016. The Europe/Middle East/Africa region (+2.1 %) and the EU Bank¹ region (+1.2 %) also recorded growth. The portfolio of contracts with retail customers in the Americas region was broadly in line with the previous financial year (–0.1 %).

In the first quarter of 2017, 49.2 %² of new BMW Group vehicles were either leased or financed by the Financial Services segment (2016: 46.1 %²; +3.1 percentage points).

Financial Services Segment at a glance

→ 14

		1st quarter 2017	1st quarter 2016	Change in %
New contracts with retail customers		465,634	413,372	12.6
Revenues	€ million	7,046	6,032	16.8
Profit before financial result (EBIT)	€ million	604	591	2.2
Profit before tax	€ million	595	570	4.4
Workforce (at 31 March 2017/31 December 2016)		8,513	8,394	1.4
		31. 3. 2017	31. 12. 2016	Change in %
Business volume in balance sheet terms ³	€ million	125,735	123,394	1.9

¹ EU Bank comprises BMW Bank GmbH, its branches in Italy, Spain and Portugal and its subsidiary in France.

² The calculation only includes automobile markets in which the Financial Services segment is represented by a consolidated entity.

³ Calculated on the basis of the lines Leased products and Receivables from sales financing (current and non-current) of the Financial Services segment balance sheet.

Fleet business at previous year's level

Operating under the brand name "Alphabet", the BMW Group is one of the leading leasing and full-service providers of fleet management services in Europe. Alphabet provides leasing and financing arrangements and other specific services to commercial customers. In total, 649,191 contracts were in place at the end of the reporting period (31 December 2016: 644,420 contracts; +0.7%).

Solid increase in new multi-brand financing business

The multi-brand financing line of business operated by the Financial Services segment recorded a solid increase in the number of new contracts signed in the reporting period, with an increase of 7.9% to 42,143 contracts (2016: 39,052 contracts). At 31 March 2017, the total portfolio comprised 483,114 contracts, slightly above the year-end 2016 level (31 December 2016: 466,436 contracts; +3.6%).

Dealership financing slightly up on previous year

The total volume of dealership financing also increased in the first quarter, rising by 1.9% to €18,648 million at the end of the reporting period (31 December 2016: €18,307 million).

Slight increase in deposit business

Deposit taking provides an important source of refinancing for the Financial Services segment. The volume of bank deposits increased slightly to €13,743 million during the first three months of 2017 (31 December 2016: €13,512 million; +1.7%).

Solid growth in new insurance business

The number of insurance contracts signed during the first quarter rose by 7.7% to 318,318 (2016: 295,439 contracts). A total of 3,453,091 brokered insurance contracts was in place at the end of the reporting period (31 December 2016: 3,411,872 contracts; +1.2%).

Higher revenues and earnings

Reflecting the segment's positive business development during the first quarter of 2017, segment revenues grew significantly by 16.8% to €7,046 million (2016: €6,032 million). Profit before taxes for the three-month period amounted to €595 million, slightly higher than one year earlier (2016: €570 million; +4.4%).

Workforce increase

The Financial Services segment's growth is also reflected in the size of its workforce, which comprised 8,513 employees worldwide at the end of the reporting period (31 December 2016: 8,394 employees), a 1.4% increase over the three-month period.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Results of operations

In the first quarter of 2017, the BMW Group once again recorded year-on-year growth in revenues, \nearrow

sales volume and profit before tax. The number of BMW, MINI and Rolls-Royce brand vehicles delivered to customers rose by a solid 5.3 % to 587,237 units. The figure includes 90,172 units (2016: 81,900 units) manufactured by the joint venture BMW Brilliance Automotive Ltd., Shenyang.

At the end of the reporting period, the BMW Group's workforce comprised 126,317 employees worldwide (31 December 2016: 124,729).

BMW Group condensed Income Statement

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in € million	1st quarter 2017	1st quarter 2016	Change in %
Revenues	23,448	20,853	12.4
Cost of sales	-18,637	-16,373	13.8
Gross profit	4,811	4,480	7.4
Selling and administrative expenses	-2,178	-1,988	9.6
Other operating income and expenses	13	-35	-
Profit before financial result	2,646	2,457	7.7
Financial result	359	-89	-
Profit before tax	3,005	2,368	26.9
Income taxes	-856	-727	17.7
Net profit	2,149	1,641	31.0

Profit before tax for the first quarter of 2017 was significantly higher than one year earlier. The pre-tax return on sales – Group profit before tax as a percentage of Group revenues – was 12.8 % (2016: 11.4 %) and therefore slightly up on the previous year's first quarter. Earnings per share amounted to €3.26 for both common and preferred stock (2016: €2.48 common and preferred stock).

BMW Group revenues increased significantly compared to the previous year by €2,595 million to reach €23,448 million for the three-month period. The main drivers of this performance were the higher volume of automobiles and motorcycles sold and the growth of the Financial Services segment's contract portfolio and sales of returned leasing vehicles in the terminations business. Positive currency factors also contributed to the increase in revenues, with most of the impact attributable to changes in the average exchange rates of the Russian rouble, the South African rand and the US dollar against the euro.

The Group's first-quarter cost of sales was significantly higher year-on-year, due to sales volume and portfolio

factors. Cost of sales relating to Financial Services business also rose significantly by €999 million to €5,911 million, reflecting the increased portfolio size. At €1,185 million (2016: €985 million), research and development expenses were also significantly higher year-on-year. As a percentage of revenues, research and development expenses increased from 4.7 % to 5.1 %. Total research and development expenditure – comprising research and development expenses (excluding the associated amortisation), and new expenditure for capitalised development cost, including development prepayments – amounted to €1,317 million in the first quarter 2017 (2016: €974 million). The increase was due primarily to the higher level of development costs capitalised in conjunction with new model launches as compared to the same quarter of the previous year. This resulted in a research and development ratio – calculated as research and non-capitalised development costs divided by Group revenues – of 5.6 % (2016: 4.7 %). The capitalisation rate for this period – calculated as capitalised development costs divided by total research and development expenditure – was 33.1 % (2016: 30.1 %).

Gross profit amounted to €4,811 million, with the solid rise of €331 million reflecting increased vehicles sales and business volumes in the Financial Services segment. The gross profit margin – calculated as gross profit divided by Group revenues – came in at 20.5 % (2016: 21.5 %).

Selling and administrative expenses compared to the previous year's first quarter were €190 million higher at €2,178 million. As a percentage of revenues, the expense ratio was 9.3 % (2016: 9.5 %). The increase in selling and administrative expenses mainly reflects the larger workforce and higher IT expenses.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses at €1,190 million (2016: €1,187 million) was in line with the previous year due to stable levels of investment and capitalised development costs in recent years.

Other operating income and expenses improved significantly to a net positive amount of €13 million (2016: € – 35 million). The improvement was due amongst others to lower expenses, as the previous year's figures included a donation to a BMW foundation.

Profit before financial result (EBIT) for the first quarter amounted to €2,646 million (2016: €2,457 million). The improvement was largely due to the higher gross profit, which was mitigated by a solid increase in sales and administrative expenses.

Compared to the first quarter of 2016, the financial result improved by €448 million to €359 million. The improvement was mainly due to the result from equity-accounted investments, which includes the Group's share of the results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, the DriveNow companies (DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich) and the associated company THERE Holding B.V., Amsterdam. Thanks to a €183 million positive effect following the sale of 15 % of the shares in HERE International B.V., Amsterdam, by THERE Holding B.V., Amsterdam, and a higher earnings contribution from BMW Brilliance Automotive Ltd., Shenyang, due to higher sales volumes, the first-quarter result from equity-accounted investments improved by €280 million to €351 million. In addition, other financial result improved by €122 million to €45 million. This is due to the result on investments which included no impairment losses on other investments (2016: € – 66 million) and positive valuation effects on interest rate derivatives. Furthermore, the net interest result improved by €46 million to € – 37 million, due to higher interest income and lower refinancing costs compared to the previous year.

In addition to higher business volumes, the significantly improved financial result in particular contributed to the increase in profit before tax to €3,005 million (2016: €2,368 million).

Income tax expense amounted to €856 million (2016: €727 million), resulting in an effective tax rate – based on income tax expense as a percentage of Group profit before tax – of 28.5 % (2016: 30.7 %).

The after-tax return on sales – calculated as Group net profit divided by Group revenues – was 9.2 % (2016: 7.9 %).

Results of operations by segment

BMW Group revenues by segment

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in € million	1st quarter 2017	1st quarter 2016	Change in %	Currency adjusted change* in %
Automotive	20,692	18,814	10.0	8.9
Motorcycles	623	582	7.0	5.1
Financial Services	7,046	6,032	16.8	15.4
Other Entities	2	1	–	–
Eliminations	–4,915	–4,576	7.4	–
Group	23,448	20,853	12.4	11.4

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

BMW Group profit / loss before tax by segment

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in € million	1st quarter 2017	1st quarter 2016	Change in %
Automotive	2,279	1,734	31.4
Motorcycles	125	94	33.0
Financial Services	595	570	4.4
Other Entities	–4	–2	–
Eliminations	10	–28	–
Group	3,005	2,368	26.9

Automotive segment

Automotive segment revenues grew significantly due to higher sales volumes. The volume increase at the joint venture BMW Brilliance Automotive Ltd., Shenyang, also contributed to revenue growth. The gross profit margin came in at 17.9 %, broadly in line with the previous year's first quarter (18.4 %).

Selling and administrative expenses compared to the previous year's first quarter were €169 million higher at €1,820 million. The increase in administrative expenses was due amongst others to the larger workforce and higher expenses for new IT projects. As a percentage of revenues, the expense ratio remained at 8.8 %.

The net amount of other operating income and expenses improved by €30 million compared to the first quarter of 2016 (2016: € –48 million). The improvement was mainly due to lower expenses, as the previous year's figures included a donation to a BMW foundation.

As a result, the segment profit before financial result increased to €1,871 million (2016: €1,763 million). The EBIT margin – profit before financial result as a percentage of revenues – came in at 9.0 % (2016: 9.4 %), reflecting increased sales volumes counterbalanced amongst others by higher research and development costs.

Overall, the Automotive segment reported a significant increase in pre-tax profit. This was largely due to the improved financial result for the three-month period, mainly due to positive effects in the result from equity accounted investments – primarily related to the sale of 15 % of the shares in HERE International B.V., Amsterdam, by THERE Holding B.V., Amsterdam – and the other financial result.

Motorcycles segment

The Motorcycles segment recorded solid revenue growth in the first quarter, mainly reflecting a 5.5 % rise in deliveries. Higher sales of optional equipment and improved pricing also contributed. As a result, the segment gross profit margin improved from 26.6 % to 28.7 %.

Cost of sales increased slightly due to the development of new models and higher production costs. Thanks to the improvement in other operating result, first-quarter profit before tax, which reflects seasonal factors, increased significantly. The EBIT margin for the three-month period came in at 20.1 % (2016: 16.2 %).

Financial Services segment

Financial Services segment revenues grew significantly due to a positive business development and the sale of vehicles previously leased to customers. The risk profile also remained favourable during the first quarter 2017.

Selling and administrative expenses within the segment increased by a solid €17 million to €300 million, mainly due to the increased workforce and higher project costs.

Larger credit financing volumes as well as higher other operating income contributed to a slight improvement in the Financial Services segment's first-quarter profit before taxes.

Financial position

The consolidated cash flow statements for the Group and the Automotive and Financial Services segments show the sources and applications of cash flows for the first three months of 2017 and 2016, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow

statements correspond to the amounts disclosed in the balance sheet.

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

BMW Group cash flows

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in € million	1st quarter 2017	1st quarter 2016	Change
Cash inflow/outflow from operating activities	328	–86	414
Cash inflow/outflow from investing activities	–1,111	–449	–662
Cash inflow/outflow from financing activities	–42	578	–620
Effect of exchange rate and changes in composition of Group	88	–10	98
Change in cash and cash equivalents	–737	33	–770

Cash flows from operating activities were influenced in the first quarter of 2017 by the higher net profit, lower increase in working capital, higher liabilities for bonuses and services contracts, liabilities for other taxes and the increase in receivables for sales financing.

Higher cash outflows for investing activities at Group level mainly reflected increased levels of investment in intangible assets and property, plant and equipment and the change in the net amount invested in

marketable securities and investment funds (cash outflow of €308 million).

The change in cash flows from financing activities was mainly due to the net outflow of funds used to settle commercial paper.

Free cash flow for the Automotive segment was as follows:

in € million	1st quarter 2017	1st quarter 2016	Change
Cash inflow/outflow from operating activities	2,626	1,219	1,407
Cash inflow/outflow from investing activities	–1,069	–373	–696
Net investment in marketable securities and investment funds	42	–314	356
Free cash flow Automotive segment	1,599	532	1,067

The higher cash inflow from operating activities was mainly due to the higher net profit, a lower increase in working capital and higher liabilities related to bonuses, services contracts and other taxes.

The higher cash outflow for investing activities mainly reflects increased investments for new vehicle projects and the change in the net investment in marketable securities and investment funds.

Net financial assets of the Automotive segment comprise the following:

in € million	31.3.2017	31.12.2016	Change
Cash and cash equivalents	4,468	4,794	– 326
Marketable securities and investment funds	4,226	4,147	79
Intragroup net financial assets	14,047	12,077	1,970
Financial assets	22,741	21,018	1,723
Less: external financial liabilities*	–1,498	–1,498	–
Net financial assets Automotive segment	21,243	19,520	1,723

* Excluding derivative financial instruments.

Cash flows from operating and investing activities in the Financial Services segment developed as follows:

in € million	1st quarter 2017	1st quarter 2016	Change
Cash inflow/outflow from operating activities	–1,181	–1,615	434
Cash inflow/outflow from investing activities	–43	8	– 51
Net	–1,224	–1,607	383

Cash outflows from operating activities in the Financial Services segment were driven mainly by the increase in leased products and receivables from sales financing.

Refinancing

The BMW Group uses a diversified range of funding sources to finance its operating activities. Funds raised are used almost exclusively to finance the BMW Group's Financial Services business. Further details regarding the principles and objectives of financial management are contained in the Group Financial Statements of BMW AG at 31 December 2016.

During the period from January to March 2017, BMW Group entities issued a euro benchmark bond with a volume of €2.0 billion as well as EMTN private placements in various currencies with a total volume of €0.7 billion. Bonds denominated in Indian rupees and Korean won were issued with a total volume of €0.2 billion. In addition, three ABS transactions with a total volume of €1.5 billion were issued in Japan, Canada and the USA. The regular issue of commercial paper and deposit-taking by the Group's banking subsidiaries are also used to refinance the BMW Group.

Net assets

BMW Group condensed balance sheet

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	Group				
in € million	31.3.2017	31.12.2016	Change in %	Currency adjusted change in %	Proportion of balance sheet total in %
ASSETS					
Intangible assets	8,295	8,157	1.7	0.9	4.3
Property, plant and equipment	17,704	17,960	−1.4	−1.4	9.2
Leased products	37,487	37,789	−0.8	−0.9	19.6
Investments accounted for using the equity method	2,913	2,546	14.4	14.4	1.5
Other investments	462	560	−17.5	−17.5	0.2
Receivables from sales financing	80,891	78,260	3.4	2.9	42.2
Financial assets	9,150	9,770	−6.3	−6.4	4.8
Deferred and current tax	4,339	4,265	1.7	4.5	2.3
Inventories	13,656	11,841	15.3	16.0	7.1
Trade receivables	2,901	2,825	2.7	4.5	1.5
Other assets	6,659	6,682	−0.3	−0.8	3.5
Cash and cash equivalents	7,143	7,880	−9.4	−9.2	3.8
Total assets	191,600	188,535	1.6	1.5	100.0
EQUITY AND LIABILITIES					
Equity	49,581	47,363	4.7	3.5	25.9
Pension provisions	3,954	4,587	−13.8	−13.7	2.1
Other provisions	11,035	10,918	1.1	1.5	5.7
Deferred and current tax	4,193	3,869	8.4	10.2	2.2
Financial liabilities	97,412	97,731	−0.3	−0.3	50.8
Trade payables	8,971	8,512	5.4	5.9	4.7
Other liabilities	16,454	15,555	5.8	6.2	8.6
Total equity and liabilities	191,600	188,535	1.6	1.5	100.0

The balance sheet total of the BMW Group increased slightly compared to 31 December 2016. Currency adjusted changes show the development of balance sheet items after excluding the effect of changes in individual exchange rates.

Investments accounted for using the equity method increased significantly compared to the year end 2016. The increase was mainly due to the sale of 15 % of the shares of HERE International B.V., Amsterdam, by the THERE Holding B.V., Amsterdam, and a positive contribution from the joint venture BMW Brilliance Automotive Ltd., Shenyang.

Business volume growth in the Financial Services segment is mainly reflected in the slightly higher level of receivables from sales financing. A total of 322,086 new credit financing contracts were signed during the quarter, 19.3 % more than one year earlier. As a result, the total credit financing portfolio grew to 3,108,880 contracts, a 2.8 % increase from 31 December 2016. A total of 143,548 new leasing contracts were signed during the first quarter of 2017, in line with the previous year's first-quarter performance (2016: 143,434 contracts). The portfolio of leasing contracts increased by 0.2 % compared to the end of 2016 to 1,683,828 contracts at 31 March 2017. The increase in business volume was held down by the sale of vehicles coming off lease.

Financial assets decreased moderately compared to 31 December 2016, mainly due to changes in currency derivatives.

Inventories were significantly higher than at the end of the financial year 2016. The increase is mainly due to finished goods, reflecting business growth and stocking up in the markets.

Cash and cash equivalents decreased moderately compared to 31 December 2016. Group liquidity nevertheless remained at a solid level.

Group equity rose by €2,218 million to €49,581 million. Equity increased mainly as a result of the net profit attributable to shareholders of BMW AG amounting to €2,139 million and the positive impact of remeasurements of the net defined benefit liability for pension plans amounting to €459 million, mainly due to higher interest rates and lower inflation in Germany and positive investment income on UK plan assets. By contrast, changes in the fair value of derivative financial instruments decreased equity by €527 million.

The equity ratio of the BMW Group – calculated by dividing equity by the balance sheet total – was 25.9 % at the end of the reporting period (31 December 2016: 25.1 %). The equity ratio for the Automotive segment was 41.9 % (31 December 2016: 41.3 %) and for the Financial Services segment 8.4 % (31 December 2016: 8.0 %).

Pension provisions decreased significantly compared to the end of the financial year 2016, mainly due to higher interest rates and lower inflation in Germany and positive investment income on UK plan assets.

The solid increase in other liabilities reflected higher personnel-related liabilities and liabilities for other taxes due to timing factors at the period end.

The increase in trade payables mainly reflects higher production volumes.

Overall, the earnings performance, financial position and net assets position of the BMW Group continued to develop positively during the first quarter.

Related party relationships

Further information on transactions with related parties can be found in → note 32 to the Interim Group Financial Statements.

→ see
note 32

REPORT ON OUTLOOK, RISKS AND OPPORTUNITIES

Further growth to continue

**Profitability within target
range expected**

**Global economy offers
favourable conditions**

OUTLOOK

The report on outlook, risks and opportunities describes the expected development of the BMW Group, including the associated material risks and opportunities, from the perspective of the Group's management. It contains forward-looking assertions and is based on expectations and assessments which are, by their nature, subject to uncertainty. As a result, actual outcomes, including those attributable to political and economic developments, could differ substantially – either positively or negatively – from the expectations described below. Further related information is provided in the Annual Report 2016 (Outlook, pp 82, Risks and Opportunities, pp 88).

Economic outlook

According to the forecast of the International Monetary Fund, the global economy is set to grow by approximately 3.5 % in 2017.

Within the eurozone, elections in France and Germany in 2017 and the official start of exit negotiations between the EU and the UK expose economic developments in the region to significant uncertainty. Nevertheless, estimations point to a continued upturn, with a 1.6 % increase in gross domestic product (GDP). Falling unemployment combined with rising consumption by private households, solid industrial production figures and robust investment activities should provide a broad basis for economic growth in the eurozone.

The ECB is likely to continue its expansive monetary policies, given that the inflation rate in 2017 is only expected to rise to around 1.6 % and therefore below the medium-term target of no more than 2 %. The euro is not expected to depreciate further against the US dollar in the current year.

The economic climate in Germany is expected to remain favourable. Strong domestic consumption, solid levels of investment and a robust export sector are all contributing to the positive development. As a result, GDP is forecast to grow by approximately 1.6 % in 2017.

The French economy is forecast to grow by 1.3 %. Here too, the export sector is performing well. The positive trend in investment activities from the previous year is likely to continue and could also gain momentum. By contrast, the unemployment rate is only falling slowly.

In Italy, the job market is recovering only gradually and is therefore unlikely to generate a significant increase in consumer spending. Overall, the Italian economy is forecast to grow by 0.9 % in 2017.

Spain is expected to contribute to Europe's overall economic growth with an above-average GDP rise of around 2.5 %. The main factors driving this positive development are high investment levels, solid industrial production and a dynamic export sector.

In March 2017, the UK government submitted a formal request to exit the EU, marking the beginning of a two-year phase of negotiations on the future relationship between the EU and the UK. In April, the government announced its intention to hold elections in the UK in June 2017. This could bring additional uncertainty. With some signs of economic slowdown already emerging for the current year, the UK economy is now expected to grow only by around 1.6 %.

GDP in the USA is expected to grow by 2.3 % in 2017. Despite a strong US dollar, exports could increase significantly more than in the previous year. Investments and industrial production could also rise and contribute to improved economic growth. With wages rising, consumer spending is likely to remain the bedrock of the US economy.

The government in China is continuing the transition from an investment-driven to a consumer-driven economy. For this reason, growth rates in the coming years are likely to be lower than in the past. State-driven economic stimulus measures should prevent any abrupt downturn in the economy. In line with the Chinese government's own target, the pace of growth is now forecast to decelerate slightly to 6.5 % in 2017. However, the risk of a possible financial and liquidity crisis in China remains, in view of steep and continuing rises in debt levels, particularly in the corporate sector.

The Japanese economy could pick up slightly and grow by around 1.1 % in 2017. Strong growth in exports and industrial production should provide the domestic economy with fresh momentum. However, consumer spending is likely to grow only moderately year-on-year.

India is improving investment and planning security for investors by creating a favourable, competitive environment. These measures should encourage growth and enable GDP to rise by around 7.3 % in the current year.

The situation in Brazil and Russia is heavily dependent on the price of oil. With the recent increase in oil price, the value of the Russian rouble and the Brazilian real has tended upward, thus making imports cheaper and reducing inflationary pressures. These developments have enabled the central banks in both countries to move away partially from their restrictive monetary policies and stimulate the economy by means of lower interest rates. GDP growth rates over the full year are forecast at around 1.3 % for Russia and 0.6 % for Brazil.

The average price of Brent crude oil during the current year's reporting period has been around 55 US dollars per barrel, mainly due to production cutbacks by OPEC countries and other major oil-producing nations. With inventories of crude oil at historically high levels, however, significant price increases should be limited for the foreseeable future.

Automobile markets in 2017

Automobile markets worldwide are currently forecast to grow by 2.0 % in 2017 compared to the previous year. Key sources of growth are expected from China, individual markets in Europe, and Russia. By contrast, new registrations in the USA are likely to decline slightly.

Continued economic recovery in Europe should provide the basis for stable automobile markets. At present, new registrations in the region in 2017 are expected to be slightly up on the previous year (15.3 million units; +1.2 %). Germany is again expected to make a positive contribution to the development in Europe with forecast growth of 1.4 % to 3.4 million units. With around 2.0 million registrations, France is likely to be slightly up on the previous year (+1.3 %). Markets in Italy (1.95 million units; +5.5 %) and Spain (1.19 million units; +3.7 %) are also expected to see rising registration figures. Uncertainty related to Brexit is likely to have a negative impact on the UK automobile market. The number of new registrations could receive a setback, with 2.56 million (–4.9 %) currently predicted for the full year 2017.

Registrations in the USA, while remaining at a high level, are set to decrease slightly in 2017. Currently, they are forecast to fall by 0.9 % to 17.4 million units.

Slower economic growth in China is likely to be reflected in the country's automobile market. Nonetheless, the number of new registrations is forecast to grow by 5.7 % to 25.5 million units in the course of the current year.

The automobile market in Japan is expected to recover in 2017, with new registrations forecast to rise by around 1.6 % to 4.85 million units.

Russian and Brazilian automobile markets could also benefit from higher GDP growth rates. New registrations in Russia are forecast to increase to around 1.3 million units (+4.0 %), with a more modest rise expected for Brazil (1.7 million units; +2.1 %).

Motorcycle markets in 2017

The world's motorcycle markets in the 250 cc plus class are forecast to grow slightly in 2017. In Europe, the positive trend is likely to continue in the major markets of Germany, France, Italy and Spain. In the USA, the motorcycles market is forecast to remain flat or slightly below the previous year's level.

Financial services markets in 2017

In the eurozone, the ECB is expected to continue its expansive monetary policies over the coming months. In an attempt to address the conflicting issues of rising inflation and weaker growth prospects following the Brexit decision, the Bank of England is expected to continue its cautious approach and leave its monetary policies unchanged. Assuming the US economy continues its positive development, the Federal Reserve is likely to raise its reference interest rate further during the course of the year. The government in China is likely to continue measures aimed at driving the transformation towards a more consumer-orientated economy. The government and central bank are likely to support this process with a combination of economic and monetary measures. The Japanese central bank is likely to retain its expansionary monetary approach.

The BMW Group expects the used car market on continental Europe to stabilise at the previous year's level. In the UK, the situation remains unclear in the wake of the Brexit decision and will depend on the course of the exit negotiations. In North America, a declining trend is expected, while used car prices in the premium segment in Asia are likely to remain stable.

Outlook for the BMW Group

Profit before tax: slight increase expected

Competition on international automobile markets is likely to remain intense throughout the current year. The formal start of exit negotiations between the EU and the UK as well as elections in France, the UK and Germany are also creating uncertainty with respect to future political and economic developments. In the USA, the impact of the new administration's economic policies also remains to be seen. Further information is provided in the Report on Risks and Opportunities in the Annual Report 2016.

Nevertheless, the BMW Group intends to pursue its growth course in 2017. New vehicles such as the BMW 5 Series and MINI Countryman introduced in February and motorcycles such as the new R NineT Pure and R NineT Racer models, as well as a range of attractive services, should contribute to earnings growth. Investments in future-oriented projects, including vehicle electrification, digitalisation and the expansion of the production network, will offset the general positive trend. Overall, Group profit before tax is expected to increase slightly year-on-year (2016: €9,665 million).

Workforce at year-end: slight increase expected

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

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

Automotive segment

Deliveries to customers: slight increase expected

The BMW Group expects positive sales volume growth to continue in 2017 and again aims to occupy a leading position with its brands in the global premium segment. Balanced growth in the major sales regions of Europe, Asia and the Americas will help to compensate for volatilities in individual markets. Assuming economic conditions do not deteriorate, deliveries to customers are forecast to rise slightly to a new high (2016: 2,367,603¹ units).

Important contributions to continued sales volume growth are likely to come primarily from the introduction of new models. The all-new BMW 5 Series Sedan was launched in mid-February 2017, followed by the BMW 5 Series iPerformance and M Performance models in March. The new extended-wheelbase version of the BMW 5 Series Sedan will be available to customers in China starting in June. The new BMW 5 Series Touring will be launched during the same month. The model revisions of the BMW 4 Series and the BMW M4 Coupé and Convertible were launched in March. The second generation of the highly successful MINI Countryman became available in February. Towards mid-year, a John Cooper Works and a plug-in hybrid model will be added to the MINI Countryman range. Further new models are planned for the second half of 2017.

² EU-28 Fleet carbon dioxide emissions²: slight decrease expected

The BMW Group is continuing its efforts to reduce vehicle-fuel consumption and carbon dioxide emissions. According to forecasts, fleet emissions will drop slightly during the outlook period, thus continuing the downward trend seen in previous years (2016: 124 grams CO₂/km).

Revenues: slight increase expected

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

EBIT margin expected within target range

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

**Return on capital employed:
slight decrease expected**

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

Motorcycles segment**Deliveries to customers: significant increase expected**

The BMW Group expects the positive trend in the Motorcycles segment to continue. The new R NineT Pure and R NineT Racer models unveiled at international trade fairs held in autumn 2016 have been available to customers since March 2017. Likewise, the new G 310 R and the updated version of the R 1200 GS have been available since March. The revised S 1000 RR has been in showrooms since January and was joined by the updated versions of the S 1000 R and the K 1600 GT in February. The new K 1600 B, the updated version of the luxury K 1600 GTL and the R NineT Urban G/S will follow in the summer and the G 310 GS in September. The broader product range is designed to appeal to new customer groups and provide further momentum for sales volume growth. Overall, deliveries of BMW motorcycles to customers are forecast to increase significantly year-on-year (2016: 145,032 units).

**EBIT margin expected in target range
between 8 and 10 %**

With effect from the financial year 2017, EBIT margin will serve as an additional key performance indicator for the Motorcycles segment. Accordingly, segment performance will also be managed based on the operating return on sales (EBIT margin) in future. Further information can be found in the description of the Group management system in the section "General Information on the BMW Group" in the Annual Report 2016. In this context, a target range of 8 to 10 % has also been set for the Motorcycles segment. The EBIT margin for the Motorcycles segment is expected to lie within this range in 2017 (2016: 9.0 %).

**Return on capital employed
expected at previous year's level**

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

Financial Services segment

Return on equity: slight decrease expected

According to forecasts, the Financial Services segment should continue its successful performance in 2017. However, it is expected that regulatory requirements for equity capital will be tightened and that the favourable risk situation of the previous year will return to a normal level. The segment RoE is therefore expected to decrease slightly year-on-year (2016: 21.2%). The target of at least 18 % is nevertheless expected to be exceeded again.

Overall assessment by Group management

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

Depending on the political and economic situation and the outcomes of the risks and opportunities described in the Annual Report 2016, actual business performance could, however, differ from current expectations.

BMW Group key performance indicators

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

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

² EU-28.

RISKS AND OPPORTUNITIES

As a globally operating enterprise, the BMW Group is confronted with numerous risks and opportunities. Making full use of opportunities is the basis for the Group's corporate success. The Group also consciously takes risks in order to achieve growth, profitability, efficiency and sustainable business for the future. There have been no material changes to the overall risk profile compared to that described in the Group Management Report 2016. Further information on risks and opportunities, and on the methods employed to manage them, can be found in the "Report on Risks and Opportunities" section of the Annual Report 2016 (pp 88).

BMW AG STOCK AND CAPITAL MARKETS

**DAX finishes positively
in first quarter 2017**

**BMW stock negatively impacted
by external factors**

**Earnings per share up to €3.26
(+31.5 %) per common/preferred share**

BMW AG STOCK AND CAPITAL MARKETS IN THE FIRST QUARTER

Compared to the previous year's first quarter, which was overshadowed by negative signals from the Chinese economy, the world's stock markets performed well during the first quarter of 2017. The results of the parliamentary elections in the Netherlands, signifying that the country will remain in the European Union, were positively received by investors. Moreover, the 0.25 percentage point increase in the interest rate announced by the US Federal Reserve in March 2017 was interpreted as a sign that the US economy is in good health.

The German stock index, DAX, closed at 12,312 points at the end of the first quarter. Compared to the end of the previous year (2016: 11,481 points), the index rose by 7.2%, only 0.6% below its record level from April 2015 (12,390 points).

The Prime Automobile Index also showed a positive development, finishing the first quarter at 1,554 points (+3.2%). Nevertheless, the sector index lagged slightly behind the overall stock market and remained below the development of the DAX, reflecting the negative impact on automobile stocks caused by uncertainties in the sector.

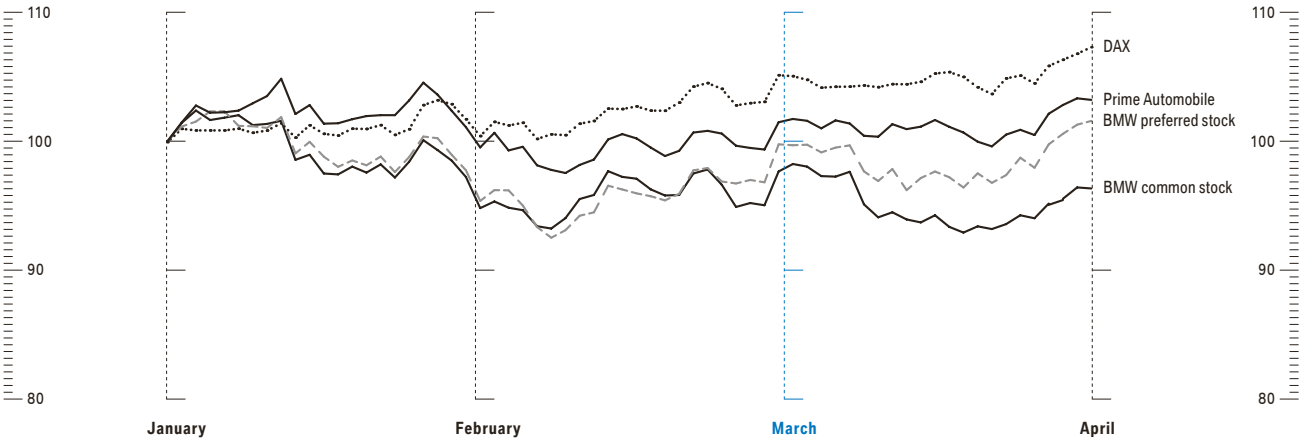
Under the influence of unfavourable sector-related factors, BMW common stock lost ground during the first quarter of 2017, closing at €85.51 at 31 March 2017 (–3.7%). By contrast, BMW preferred stock increased slightly in value during the three-month period and finished the first quarter at €73.82 (+1.5%).

The value of the US dollar fell slightly against the euro during the first quarter. At 1.07 US dollars to the euro at the end of reporting period, it was down 0.9% (31 December 2016: 1.06 US dollars to the euro).

BMW AG development of stock

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(Index: 30. 12. 2016 = 100)



Source: Reuters.

INTERIM GROUP FINANCIAL STATEMENTS

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3

BMW GROUP

INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

Income Statements for Group and Segments for the period from 1 January to 31 March

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in € million	Note	Group		Automotive		Motorcycles	
		1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016
Revenues	5	23,448	20,853	20,692	18,814	623	582
Cost of sales	6	-18,637	-16,373	-16,983	-15,352	-444	-427
Gross profit		4,811	4,480	3,709	3,462	179	155
Selling and administrative expenses	7	-2,178	-1,988	-1,820	-1,651	-53	-55
Other operating income	8	173	213	140	181	-	-
Other operating expenses	8	-160	-248	-158	-229	-1	-6
Profit / loss before financial result		2,646	2,457	1,871	1,763	125	94
Result from equity accounted investments	9	351	71	351	71	-	-
Interest and similar income	10	61	35	94	92	-	-
Interest and similar expenses	10	-98	-118	-122	-177	-	-
Other financial result	11	45	-77	85	-15	-	-
Financial result		359	-89	408	-29	-	-
Profit / loss before tax		3,005	2,368	2,279	1,734	125	94
Income taxes	12	-856	-727	-664	-554	-37	-30
Net profit / loss		2,149	1,641	1,615	1,180	88	64
Attributable to minority interest		10	10	-	-1	-	-
Attributable to shareholders of BMW AG		2,139	1,631	1,615	1,181	88	64
Basic earnings per share of common stock in €	13	3.26	2.48				
Basic earnings per share of preferred stock in €	13	3.26	2.48				
Dilutive effects	13	-	-				
Diluted earnings per share of common stock in €	13	3.26	2.48				
Diluted earnings per share of preferred stock in €	13	3.26	2.48				

Statement of Comprehensive Income for Group for the period from 1 January to 31 March

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in € million	Note	1st quarter 2017	1st quarter 2016
Net profit		2,149	1,641
Remeasurement of the net liability for defined benefit pension plans		459	-1,053
Deferred taxes		-123	331
Items not expected to be reclassified to the income statement in the future		336	-722
Available-for-sale securities		2	48
Financial instruments used for hedging purposes		-527	2,165
Other comprehensive income from equity accounted investments		2	54
Deferred taxes		150	-753
Currency translation foreign operations		51	-445
Items expected to be reclassified to the income statement in the future		-322	1,069
Other comprehensive income for the period after tax	14	14	347
Total comprehensive income		2,163	1,988
Total comprehensive income attributable to minority interest		10	10
Total comprehensive income attributable to shareholders of BMW AG		2,153	1,978

Financial Services		Other Entities		Eliminations		
1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	
7,046	6,032	2	1	-4,915	-4,576	Revenues
-6,154	-5,158	-	-	4,944	4,564	Cost of sales
892	874	2	1	29	-12	Gross profit
-300	-283	-12	-5	7	6	Selling and administrative expenses
31	5	45	43	-43	-16	Other operating income
-19	-5	-31	-28	49	20	Other operating expenses
604	591	4	11	42	-2	Profit / loss before financial result
-	-	-	-	-	-	Result from equity accounted investments
1	1	275	301	-309	-359	Interest and similar income
-2	-1	-251	-273	277	333	Interest and similar expenses
-8	-21	-32	-41	-	-	Other financial result
-9	-21	-8	-13	-32	-26	Financial result
595	570	-4	-2	10	-28	Profit / loss before tax
-153	-154	2	1	-4	10	Income taxes
442	416	-2	-1	6	-18	Net profit / loss
10	11	-	-	-	-	Attributable to minority interest
432	405	-2	-1	6	-18	Attributable to shareholders of BMW AG
						Basic earnings per share of common stock in €
						Basic earnings per share of preferred stock in €
						Dilutive effects
						Diluted earnings per share of common stock in €
						Diluted earnings per share of preferred stock in €

BMW GROUP BALANCE SHEET

→ BMW Group
Balance Sheet

in € million	Note	Group		Automotive		Motorcycles	
		31.3.2017	31.12.2016	31.3.2017	31.12.2016	31.3.2017	31.12.2016
ASSETS							
Intangible assets	15	8,295	8,157	7,803	7,705	45	46
Property, plant and equipment	16	17,704	17,960	17,320	17,566	355	365
Leased products	17	37,487	37,789	–	–	–	–
Investments accounted for using the equity method	18	2,913	2,546	2,913	2,546	–	–
Other investments	18	462	560	5,223	5,195	–	–
Receivables from sales financing	19	49,982	48,032	–	–	–	–
Financial assets	20	2,082	2,705	947	1,287	–	–
Deferred tax	21	2,496	2,327	4,376	4,310	–	–
Other assets	22	1,648	1,595	4,214	4,043	27	28
Non-current assets		123,069	121,671	42,796	42,652	427	439
Inventories	23	13,656	11,841	13,106	11,344	545	492
Trade receivables		2,901	2,825	2,486	2,502	200	144
Receivables from sales financing	19	30,909	30,228	–	–	–	–
Financial assets	20	7,068	7,065	4,912	4,862	–	–
Current tax	21	1,843	1,938	939	1,000	–	–
Other assets	22	5,011	5,087	23,086	21,561	6	2
Cash and cash equivalents		7,143	7,880	4,468	4,794	9	–
Current assets		68,531	66,864	48,997	46,063	760	638
Total assets		191,600	188,535	91,793	88,715	1,187	1,077
EQUITY AND LIABILITIES							
Subscribed capital	24	657	657				
Capital reserves	24	2,047	2,047				
Revenue reserves	24	46,975	44,445				
Accumulated other equity	24	–363	–41				
Equity attributable to shareholders of BMW AG	24	49,316	47,108				
Minority interest	24	265	255				
Equity		49,581	47,363	38,436	36,624	–	
Pension provisions	25	3,954	4,587	2,514	2,911	68	83
Other provisions	26	5,431	5,039	4,978	4,570	106	103
Deferred tax	27	3,307	2,795	1,120	740	–	–
Financial liabilities	28	53,936	55,405	1,925	1,942	–	–
Other liabilities	29	5,510	5,357	6,676	6,530	487	442
Non-current provisions and liabilities		72,138	73,183	17,213	16,693	661	628
Other provisions	26	5,604	5,879	4,883	5,187	96	90
Current tax	27	886	1,074	616	770	–	–
Financial liabilities	28	43,476	42,326	1,578	1,481	–	–
Trade payables		8,971	8,512	7,792	7,483	336	303
Other liabilities	29	10,944	10,198	21,275	20,477	94	56
Current provisions and liabilities		69,881	67,989	36,144	35,398	526	449
Total equity and liabilities		191,600	188,535	91,793	88,715	1,187	1,077

Financial Services		Other Entities		Eliminations		
31.3.2017	31.12.2016	31.3.2017	31.12.2016	31.3.2017	31.12.2016	
ASSETS						
446	405	1	1	–	–	Intangible assets
29	29	–	–	–	–	Property, plant and equipment
44,844	45,134	–	–	–7,357	–7,345	Leased products
–	–	–	–	–	–	Investments accounted for using the equity method
4	3	6,825	6,585	–11,590	–11,223	Other investments
49,982	48,032	–	–	–	–	Receivables from sales financing
179	221	1,415	1,780	–459	–583	Financial assets
454	389	224	263	–2,558	–2,635	Deferred tax
3,166	3,093	27,617	27,120	–33,376	–32,689	Other assets
99,104	97,306	36,082	35,749	–55,340	–54,475	Non-current assets
5	5	–	–	–	–	Inventories
213	178	2	1	–	–	Trade receivables
30,909	30,228	–	–	–	–	Receivables from sales financing
1,538	1,504	1,206	1,329	–588	–630	Financial assets
119	44	785	894	–	–	Current tax
5,498	5,417	44,572	44,782	–68,151	–66,675	Other assets
2,594	3,046	72	40	–	–	Cash and cash equivalents
40,876	40,422	46,637	47,046	–68,739	–67,305	Current assets
139,980	137,728	82,719	82,795	–124,079	–121,780	Total assets
EQUITY AND LIABILITIES						
						Subscribed capital
						Capital reserves
						Revenue reserves
						Accumulated other equity
						Equity attributable to shareholders of BMWAG
						Minority interest
11,738	11,049	16,803	16,744	–17,396	–17,054	Equity
81	77	1,291	1,516	–	–	Pension provisions
347	353	–	13	–	–	Other provisions
6,803	6,755	50	48	–4,666	–4,748	Deferred tax
15,823	17,718	36,647	36,328	–459	–583	Financial liabilities
30,000	29,413	815	601	–32,468	–31,629	Other liabilities
53,054	54,316	38,803	38,506	–37,593	–36,960	Non-current provisions and liabilities
610	599	15	3	–	–	Other provisions
220	255	50	49	–	–	Current tax
29,619	27,368	12,867	14,107	–588	–630	Financial liabilities
819	702	24	24	–	–	Trade payables
43,920	43,439	14,157	13,362	–68,502	–67,136	Other liabilities
75,188	72,363	27,113	27,545	–69,090	–67,766	Current provisions and liabilities
139,980	137,728	82,719	82,795	–124,079	–121,780	Total equity and liabilities

BMW GROUP

CASH FLOW STATEMENT

→ BMW Group
Cash Flow Statement

in € million	Group	
	1st quarter 2017	1st quarter 2016
Net profit	2,149	1,641
Depreciation and amortisation of tangible, intangible and investment assets	1,190	1,256
Change in provisions	-127	-123
Change in leased products and receivables from sales financing	-1,882	-1,029
Change in deferred taxes	413	358
Changes in working capital	-1,366	-1,903
Other	-49	-286
Cash inflow/outflow from operating activities	328	-86
Investment in intangible assets and property, plant and equipment	-1,041	-698
Net investment in marketable securities and investment funds	-72	236
Other	2	13
Cash inflow/outflow from investing activities	-1,111	-449
Cash inflow/outflow from financing activities	-42	578
Effect of exchange rate on cash and cash equivalents	22	-52
Effect of changes in composition of Group on cash and cash equivalents	66	42
Change in cash and cash equivalents	-737	33
Cash and cash equivalents as at 1 January	7,880	6,122
Cash and cash equivalents as at 31 March	7,143	6,155

Automotive		Financial Services		
1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	
1,615	1,180	442	416	Net profit
1,161	1,231	9	7	Depreciation and amortisation of tangible, intangible and investment assets
-8	-4	37	92	Change in provisions
-	-	-1,912	-996	Change in leased products and receivables from sales financing
356	263	54	-9	Change in deferred taxes
-1,540	-1,885	78	10	Changes in working capital
1,042	434	111	-1,135	Other
2,626	1,219	-1,181	-1,615	Cash inflow/outflow from operating activities
-1,030	-692	-2	-1	Investment in intangible assets and property, plant and equipment
-42	314	-41	9	Net investment in marketable securities and investment funds
3	5	-	-	Other
-1,069	-373	-43	8	Cash inflow/outflow from investing activities
-1,884	-179	700	1,639	Cash inflow/outflow from financing activities
1	-18	6	-22	Effect of exchange rate on cash and cash equivalents
-	30	66	12	Effect of changes in composition of Group on cash and cash equivalents
-326	679	-452	22	Change in cash and cash equivalents
4,794	3,952	3,046	1,359	Cash and cash equivalents as at 1 January
4,468	4,631	2,594	1,381	Cash and cash equivalents as at 31 March

BMW GROUP

STATEMENT OF CHANGES IN EQUITY

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2017	24	657	2,047	44,445
Net profit		–	–	2,139
Other comprehensive income for the period after tax		–	–	336
Comprehensive income to 31 March 2017		–	–	2,475
Other changes		–	–	55
31 March 2017	24	657	2,047	46,975

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2016	24	657	2,027	41,027
Net profit		–	–	1,631
Other comprehensive income for the period after tax		–	–	– 722
Comprehensive income to 31 March 2016		–	–	909
Other changes		–	–	–
31 March 2016	24	657	2,027	41,936

Accumulated other equity						
Translation differences	Securities	Derivative financial instruments	Equity attributable to shareholders of BMW AG	Minority interest	Total	
-171	52	78	47,108	255	47,363	1 January 2017
-	-	-	2,139	10	2,149	Net profit
46	-	-368	14	-	14	Other comprehensive income for the period after tax
46	-	-368	2,153	10	2,163	Comprehensive income to 31 March 2017
-	-	-	55	-	55	Other changes
-125	52	-290	49,316	265	49,581	31 March 2017

Accumulated other equity						
Translation differences	Securities	Derivative financial instruments	Equity attributable to shareholders of BMW AG	Minority interest	Total	
132	24	-1,337	42,530	234	42,764	1 January 2016
-	-	-	1,631	10	1,641	Net profit
-520	34	1,555	347	-	347	Other comprehensive income for the period after tax
-520	34	1,555	1,978	10	1,988	Comprehensive income to 31 March 2016
-	-	-	-	-4	-4	Other changes
-388	58	218	44,508	240	44,748	31 March 2016

NOTES TO THE GROUP FINANCIAL STATEMENT

ACCOUNTING PRINCIPLES AND POLICIES

01

Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW AG Group Financial Statements or Group Financial Statements) at 31 December 2016 were drawn up in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and the supplementary requirements of § 315 a (1) of the German Commercial Code (HGB). The Interim Group Financial Statements (Interim Report) at 31 March 2017, which have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting), have been drawn up using, in all material respects, the same accounting methods as those utilised in the 2016 Group Financial Statements. The BMW Group applies the option of publishing condensed interim Group financial statements. All Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) which were mandatory at 31 March 2017 have been applied. The Interim Report also complies with German Accounting Standard No. 16 (GAS 16) – Interim Financial Reporting – issued by the Accounting Standards Committee of Germany (DRSC e.V.).

Further information regarding the Group's accounting principles and policies is contained in the Group Financial Statements of BMW AG at 31 December 2016.

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

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

In order to provide a better insight into the net assets, financial position and performance of the BMW Group beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include balance sheets and income statements for the Automotive, Motorcycles, Financial Services and Other Entities segments. The Group Cash Flow Statement is supplemented by statements of cash flows for the Automotive and Financial Services segments. Inter-segment transactions relate mainly to internal sales of products, the provision of funding for Group companies and the related interest. These items are eliminated in the relevant "Eliminations" column. More detailed information regarding the allocation of activities of the BMW Group to segments and a

description of the segments is provided in the explanatory notes to segment information in the Group Financial Statements of BMW AG for the year ended 31 December 2016.

The Interim Group Financial Statements to 31 March 2017 have been neither audited nor reviewed by the Group auditor.

02

Group reporting entity

The Interim Group Financial Statements to 31 March 2017 consolidate BMW AG and all material subsidiaries over which BMW AG exercises control, either directly or indirectly, including one special purpose securities fund and 41 structured entities. The structured entities are used exclusively in conjunction with the BMW Group's asset-backed financing arrangements. In addition, three joint operations are consolidated proportionately.

The following changes took place in the Group reporting entity during the first three months of 2017:

	Germany	Foreign	Total
Included at 31 December 2016	21	178	199
Included for the first time in 2017	–	4	4
No longer included in 2017	–	2	2
Included at 31 March 2017	21	180	201

Herald International Financial Leasing Co., Ltd., Tianjin, was consolidated for the first time in the first quarter of 2017.

The other changes in the Group reporting entity have no material impact on the results of operations, financial position and net assets of the Group.

In December 2016, THERE Holding B.V., Amsterdam, signed contracts relating to the sale of shares in HERE International B.V., Amsterdam. A 15 % stake was sold to Intel Holdings B.V., Schiphol-Rijk, and 10 % to a consortium comprising NavInfo Co. Ltd., Peking, Tencent Holdings Ltd., Shenzhen, and GIC Private Ltd., Singapore. The transaction with Intel Holdings B.V., Schiphol-Rijk, was completed on 31 January 2017. The transaction with the consortium is expected to be closed during the second quarter of 2017, after receipt of the approval of the relevant regulatory authorities.

The sale resulted in a loss of control, as defined by IFRS 10, at the level of THERE Holding B.V., Amsterdam. Since THERE Holding B.V., Amsterdam, still exerts a significant influence over HERE International B.V., Amsterdam, the latter is now included in the financial statements of THERE Holding B.V., Amsterdam, as an associated company, accounted for using the equity method. The loss of control and the subsequent deconsolidation of HERE International B.V., Amsterdam, and its subsidiaries led to a positive earnings effect at the level of THERE Holding B.V., Amsterdam. The BMW Group portion amounted to €183 million, which was recognised in the result from equity accounted investments.

The sale of shares had no effect on the BMW Group's shareholding in THERE Holding B.V., Amsterdam.

03**Foreign currency translation**

The exchange rates applied for currency translation ^{→1}

purposes in accordance with the modified closing rate method, and which have a material impact on the Group Financial Statements, were as follows:

	Closing rate		Average rate	
	31.3.2017	31.12.2016	1st quarter 2017	1st quarter 2016
US-Dollar	1.07	1.06	1.07	1.10
British Pound	0.86	0.85	0.86	0.77
Chinese Renminbi	7.35	7.34	7.34	7.21
Japanese Yen	119.16	123.34	121.03	126.98
Korean Won	1,194.29	1,274.34	1,227.53	1,325.04

For further information regarding foreign currency translation, please refer to note 3 of the BMW Group Financial Statements for the year ended 31 December 2016.

04**Financial reporting rules**

- (a) No significant new Standards or revised Standards significant for the BMW Group were applied for the first time in the first three months of 2017.
- (b) Financial reporting rules issued by the IASB that are significant for the BMW Group, but have not yet been applied:

During the first quarter of 2017, there have been no significant changes in the assessments of the impact of financial reporting rules that have not yet been applied. For further details, please see the comments in the Group Financial Statements for the year ended 31 December 2016.

NOTES TO THE INCOME STATEMENT

05

Revenues

Revenues by activity comprise the following:

in € million	1st quarter 2017	1st quarter 2016
Sales of products and related goods	16,481	14,871
Income from lease instalments	2,492	2,335
Sales of products previously leased to customers	2,713	2,041
Interest income on loan financing	937	835
Other income	825	771
Revenues	23,448	20,853

An analysis of revenues by business segment is shown in the segment information in → note 34.

→ see
note 34

06

Cost of sales

Cost of sales relate to the following items:

in € million	1st quarter 2017	1st quarter 2016
Manufacturing costs	9,953	8,778
Cost of sales relating to financial services business	5,911	4,912
Research and development expenses	1,185	985
thereof amortisation of capitalised development costs	304	304
Other cost of sales	1,588	1,698
Cost of sales	18,637	16,373

Other cost of sales comprise mainly warranty expenses, service contracts, telemetrics and roadside assistance.

07**Selling and administrative expenses**

in € million	1st quarter 2017	1st quarter 2016
Selling expenses	1,404	1,327
Administrative expenses	774	661
Selling and administrative expenses	2,178	1,988

Selling expenses comprise mainly marketing, advertising and sales personnel costs. Administrative expenses relate mainly to personnel and IT costs.

08**Other operating income and expenses**

These items principally comprise exchange gains and losses, gains and losses on the disposal of assets, impairment losses and reversals and income/expense from the reversal of, and allocation to, provisions. Income from the reversal of provisions includes amounts arising on the termination of legal disputes. ↗

09**Result from equity accounted investments**

Result from equity accounted investments includes the results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, and the associated company THERE Holding B.V., Amsterdam. Information regarding the earnings impact arising from the sale of 15 % of the shares of HERE International B.V., Amsterdam, by THERE Holding B.V., Amsterdam, during the first quarter 2017 is provided in → note 2.

→ see
note 2

10**Net interest result**

in € million	1st quarter 2017	1st quarter 2016
Interest and similar income	61	35
Interest and similar expenses	–98	–118
Net interest result	–37	–83

11**Other financial result**

in € million	1st quarter 2017	1st quarter 2016
Result on investments	–	–66
Sundry other financial result	45	–11
Other financial result	45	–77

Result on investments in the first quarter of the previous year included an impairment loss of €66 million on the investment in SGL Carbon SE, Wiesbaden.

12

Income taxes

Taxes on income comprise the following:

in € million	1st quarter 2017	1st quarter 2016
Current tax expense	444	369
Deferred tax expense	412	358
Income taxes	856	727

The effective tax rate for the three-month-period ended 31 March 2017 was 28.5 % (2016: 30.7 %) and corresponds to the best estimate of the weighted average

annual income tax rate for the full year. This tax rate has been applied to the pre-tax profit for the interim reporting period.

13

Earnings per share

The computation of earnings per share is based on the following figures:

		1st quarter 2017	1st quarter 2016
Profit attributable to shareholders of BMW AG	€ million	2,138.9	1,631.3
Profit attributable to common stock	€ million	1,959.5	1,495.2
Profit attributable to preferred stock	€ million	179.4	136.1
Average number of common stock shares in circulation	number	601,995,196	601,995,196
Average number of preferred stock shares in circulation	number	55,114,404	54,809,404
Basic earnings per share of common stock	€	3.26	2.48
Basic earnings per share of preferred stock	€	3.26	2.48

In computing earnings per share of preferred stock, the additional dividend of €0.02 per share of preferred stock is spread proportionately over the four quarters of the corresponding financial year. Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. As in the previous year, diluted earnings per share correspond to basic earnings per share.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

14

Disclosures relating to the statement of total comprehensive income

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

in € million	1st quarter 2017	1st quarter 2016
Remeasurement of the net defined benefit liability for pension plans	459	–1,053
Deferred taxes	–123	331
Items not expected to be reclassified to the income statement in the future	336	–722
Available-for-sale securities	2	48
thereof gains / losses arising in the period under report	6	55
thereof reclassifications to the income statement	–4	–7
Financial instruments used for hedging purposes	–527	2,165
thereof gains / losses arising in the period under report	–683	1,959
thereof reclassifications to the income statement	156	206
Other comprehensive income from equity accounted investments	2	54
Deferred taxes	150	–753
Currency translation foreign operations	51	–445
Items expected to be reclassified to the income statement in the future	–322	1,069
Other comprehensive income for the period after tax	14	347

Deferred taxes on components of other comprehensive
income for the first quarter were as follows:

in € million	1st quarter 2017			1st quarter 2016		
	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Remeasurement of the net defined benefit liability for pension plans	459	–123	336	–1,053	331	–722
Available-for-sale securities	2	–2	–	48	–14	34
Financial instruments used for hedging purposes	–527	149	–378	2,165	–707	1,458
Other comprehensive income from equity accounted investments	2	3	5	54	–32	22
Currency translation foreign operations	51	–	51	–445	–	–445
Other comprehensive income	–13	27	14	769	–422	347

Other comprehensive income arising from equity
accounted investments is reported in the Statement
of Changes in Equity within currency translation
with an amount of € –5 million (2016: € –75 million)

and within financial instruments used for hedging
purposes with an amount of €10 million (2016:
€97 million).

NOTES TO THE BALANCE SHEET

15

Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects, software and purchased customer lists.

in € million	31.3.2017	31.12.2016
Capitalised development costs	7,353	7,221
Other intangible assets	561	572
Goodwill	381	364
thereof allocated to the Automotive cash-generating unit	33	33
thereof allocated to the Financial Services cash-generating unit	348	331
Intangible assets	8,295	8,157

Other intangible assets include a brand-name right amounting to €42 million (31 December 2016: €42 million), which is allocated to the Automotive segment and is not subject to amortisation since its useful life is deemed to be indefinite.

Intangible assets amounting to €42 million (31 December 2016: €42 million) are subject to restrictions on title.

Intangible assets developed during the first three months of the year as follows:

in € million	1st quarter 2017	1st quarter 2016
Capitalised development costs		
Investments	436	293
Amortisation	304	304
Other intangible assets		
Investments	10	5
Amortisation	49	44

As in the previous year, there was no requirement to recognise or reverse impairment losses on intangible assets during the period under report.

16

Property, plant and equipment

Property, plant and equipment developed during the first three months of the year as follows:

in € million	1st quarter 2017	1st quarter 2016
Investments	595	400
Depreciation	837	839
Disposals	3	5

No impairment losses were recognised during the first quarter of 2017.

Purchase commitments for property, plant and equipment totalled €4,320 million (31 December 2016: €3,141 million).

17**Leased products**

Leased products developed during the first quarter as follows:

in € million	1st quarter 2017	1st quarter 2016
Additions	4,524	3,540
Depreciation	774	1,075
Disposals	3,944	2,311

18**Investments accounted for using the equity method and other investments**

Investments accounted for using the equity method comprise the joint ventures BMW Brilliance Automotive Ltd., Shenyang, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich and the BMW Group's interests in the associated company THERE Holding B.V., Amsterdam.

Other investments relate to investments in non-consolidated subsidiaries, joint ventures, joint operations and associated companies, participations and non-current marketable securities.

19**Receivables from sales financing**

Receivables from sales financing totalling €80,891 million (31 December 2016: €78,260 million) include credit financing for retail customers and dealerships, and finance leases.

20**Financial assets**

Financial assets comprise:

in € million	31.3.2017	31.12.2016
Marketable securities and investment funds	5,404	5,287
Derivative instruments	3,161	3,922
Credit card receivables	269	287
Loans to third parties	157	129
Other	159	145
Financial assets	9,150	9,770

21**Income tax assets**

Income tax assets totalling €1,843 million (31 December 2016: €1,938 million) include €349 million (31 December 2016: €351 million), which is expected to be settled after more than twelve months. Depending on the timing of proceedings, such claims may also be settled at an earlier time.

22**Other assets**

Other assets comprise:

in € million	31.3.2017	31.12.2016
Prepayments	2,014	1,914
Receivables from companies in which an investment is held	1,040	1,217
Other taxes	1,256	1,135
Expected reimbursement claims	802	779
Receivables from subsidiaries	314	422
Collateral receivables	371	387
Sundry other assets	862	828
Other assets	6,659	6,682

23**Inventories**

Inventories comprise the following:

in € million	31.3.2017	31.12.2016
Finished goods and goods for resale	11,357	9,684
Work in progress, unbilled contracts	1,199	1,157
Raw materials and supplies	1,100	1,000
Inventories	13,656	11,841

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Shareholder's equity

The Group Statement of Changes in Equity is shown on → pages 42 and 43.

→ see
pages 42
and 43

Number of shares issued

At 31 March 2017 common stock issued by BMW AG, as at 31 December 2016, amounted 601,995,196 shares with a par value of €1. The number of shares of preferred stock at that date was 55,114,404 shares, as at 31 December 2016, each with a par-value of €1. Unlike the common stock, no voting rights are attached to the preferred stock. All of the Company's stock is issued to bearer. Preferred stock bears an additional dividend of €0.02 per share.

To date, 854,617 shares of preferred stock have been issued to employees. The number of authorised shares and the Authorised Capital of BMW AG amounted to 4.2 million shares and €4.2 million respectively at the end of the reporting period. The Company is authorised until 14 May 2019 to issue 5 million shares of non-voting preferred stock amounting to nominal €5.0 million. The BMW Group did not hold any treasury shares at 31 March 2017.

Capital reserves

Capital reserves include premiums arising from the issue of shares and were unchanged from 31 December 2016 at €2,047 million.

Revenue reserves

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

Accumulated other equity

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

25

Pension provisions

Pension provisions stood at €3,954 million (31 December 2016: €4,587 million). Remeasurements of the net defined benefit liability for pension plans reduced provisions by €459 million in the first three months of 2017, mainly due to lower inflation and higher interest rates in Germany and positive investment income on UK plan assets.

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Other provisions

Other provisions consist of the following:

in € million	31.3.2017	31.12.2016
Obligations for personnel and social expenses	2,538	2,191
Obligations for ongoing operational expenses	6,255	6,527
Other obligations	2,242	2,200
Other provisions	11,035	10,918

Provisions for obligations for ongoing operational expenses include mainly warranty obligations. Also included are expected payments for bonuses, rebates and other price deductions.

27

Income tax liabilities

Income tax liabilities totalling €886 million (31 December 2016: €1,074 million) include €32 million (31 December 2016: €33 million), which is expected to be settled after more than twelve months. Some of the liabilities may be settled earlier than this depending on the timing of proceedings.

Current income tax liabilities comprise €158 million (31 December 2016: €269 million) for taxes payable and €728 million (31 December 2016: €805 million) for tax provisions.

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Financial liabilities

Financial liabilities include all obligations of the BMW Group relating to financing activities. Financial liabilities comprise the following:

in € million	31. 3. 2017	31. 12. 2016
Bonds	44,817	44,421
Asset backed financing transactions	16,339	16,474
Liabilities to banks	15,277	14,892
Liabilities from customer deposits (banking)	13,743	13,512
Commercial paper	2,668	3,852
Derivative instruments	3,420	3,331
Other	1,148	1,249
Financial liabilities	97,412	97,731

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Other liabilities

Other liabilities comprise the following items:

in € million	31. 3. 2017	31. 12. 2016
Deferred income	7,368	7,256
Advance payments from customers	907	977
Deposits received	989	893
Other taxes	1,093	807
Payables to other companies in which an investment is held	785	615
Payables to subsidiaries	78	99
Social security	90	92
Sundry	5,144	4,816
Other liabilities	16,454	15,555

Sundry other liabilities include mainly bonuses for services already performed as well as sales promotions, commission payable and credit balances on customers' accounts.

OTHER DISCLOSURES

30

Contingent liabilities

For disclosures relating to contingent liabilities, please see note 36 to the BMW Group Financial Statements for the year ended 31 December 2016, since there have been no significant changes during the first three months of 2017.

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Financial instruments

A description of the accounting treatment and measurement of derivative financial instruments and allocation of financial instruments to the various measurement levels is provided in notes 4 and 37 of the BMW Group Financial Statements for the year ended 31 December 2016.

Amounts are discounted to 31 March 2017 on the basis of the following interest rates:

in %	ISO Code				
	EUR	USD	GBP	JPY	CNY
Interest rate for six months	-0.23	1.38	0.58	-0.06	3.04
Interest rate for one year	-0.22	1.37	0.53	0.04	4.38
Interest rate for five years	0.19	2.05	0.85	0.11	4.51
Interest rate for ten years	0.79	2.41	1.19	0.27	4.86

Interest rates taken from interest rate curves were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

The following table shows the amounts allocated to each measurement level at the end of the reporting period:

in € million	31.3.2017		
	Level hierarchy in accordance with IFRS 13		
	Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,491	–	–
Other investments – available-for-sale / fair value option	241	–	–
Derivative instruments (assets)			
Interest rate risks	–	1,604	–
Currency risks	–	1,277	–
Raw materials price risks	–	280	–
Derivative instruments (liabilities)			
Interest rate risks	–	1,389	–
Currency risks	–	1,797	–
Raw materials price risks	–	234	–

in € million	31.12.2016		
	Level hierarchy in accordance with IFRS 13		
	Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,387	–	–
Other investments – available-for-sale / fair value option	213	–	–
Derivative instruments (assets)			
Interest rate risks	–	1,933	–
Currency risks	–	1,842	–
Raw materials price risks	–	147	–
Derivative instruments (liabilities)			
Interest rate risks	–	1,402	–
Currency risks	–	1,479	–
Raw materials price risks	–	450	–

As in the 2016 financial year, there were no reclassifications within the level hierarchy during the first three months of 2017.

Where a financial instrument's fair value was required only for disclosure purposes, this was determined using the discounted cash flow method and taking account of the BMW Group's own default risk. For this reason, the fair values calculated can be allocated to Level 2. ⁷¹

For financial instruments held by the BMW Group which are not measured at fair value, the carrying amounts generally correspond to fair values.

The following items are the main exceptions to this general rule:

in € million	31.3.2017		31.12.2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Receivables from sales financing	84,251	80,891	81,621	78,260
Bonds	45,557	44,817	45,140	44,421

Related parties

Transactions of Group entities with related parties arise exclusively in the normal course of the business of each of the parties concerned and are conducted at normal market conditions.



The major part of the BMW Group's transactions with related parties relates to the joint venture BMW Brilliance Automotive Ltd., Shenyang.

in € million	Supplies and services performed		Supplies and services received		Receivables		Payables	
	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	31.3.2017	31.12.2016	31.3.2017	31.12.2016
BMW Brilliance Automotive Ltd.	1,315	1,087	14	8	1,038	1,215	785	615

Business relationships of the BMW Group with other associated companies and joint ventures as well as with non-consolidated subsidiaries are of limited scale.

Stefan Quandt, Germany, is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also the sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v.d.H., which, via its subsidiaries, performed logistic-related services for the BMW Group during the first quarter. In addition, companies of the DELTON Group acquired vehicles from the BMW Group through leasing.

Stefan Quandt, Germany, is also the indirect majority shareholder of SOLARWATT GmbH, Dresden. A cooperation arrangement exists between BMW AG and SOLARWATT GmbH, Dresden, within the field of electric mobility. The focus of this collaboration is on providing complete photovoltaic solutions for rooftop systems and carports to BMW i customers. SOLARWATT GmbH, Dresden, leased vehicles from the BMW Group during the first three months of 2017.

Susanne Klatten, Germany, is a shareholder and member of the Supervisory Board of BMW AG and a shareholder and Deputy Chairman of the Supervisory Board of ALTANA AG, Wesel. ALTANA AG, Wesel, acquired vehicles from the BMW Group in the first quarter of 2017, mainly through leasing.

Susanne Klatten, Germany, is also the sole shareholder and Chairwoman of the Supervisory Board of UnternehmerTUM GmbH, Garching. During the first three months of 2017, the BMW Group bought in services from UnternehmerTUM GmbH, Garching, primarily in the form of consultancy and workshop services.

Apart from vehicle leasing and credit financing contracts concluded at normal conditions, companies of the BMW Group have not entered into any contracts with members of the Board of Management or Supervisory Board of BMW AG. The same applies to close members of the families of those persons.

BMW Trust e.V., Munich, manages assets on a trustee basis for performance of obligations relating to pensions and pre-retirement part-time working arrangements in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity has no assets of its own. It did not have any income or expenses during the period under report. BMW AG bears expenses on an immaterial scale and performs services for BMW Trust e.V., Munich.

Events after the end of the reporting period

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

SEGMENT INFORMATION

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Explanatory notes to segment information

For information on the definition of reportable segments and the management system, please see ⁷¹

the BMW Group Financial Statements for the year ended 31 December 2016. No changes have been made either in the accounting policies applied or in the definition of reportable segments as compared to 31 December 2016.

Segment information by operating segment for the first quarter is as follows:

in € million	Automotive		Motorcycles		Financial Services	
	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016
SEGMENT INFORMATION BY OPERATING SEGMENT						
External revenues	16,179	14,607	621	580	6,648	5,666
Inter-segment revenues	4,513	4,207	2	2	398	366
Total revenues	20,692	18,814	623	582	7,046	6,032
Segment result	1,871	1,763	125	94	595	570
Result from equity accounted investments	351	71	–	–	–	–
Capital expenditure on non-current assets	1,030	692	9	5	6,034	4,759
Depreciation and amortisation on non-current assets	1,161	1,162	20	18	2,322	2,349

in € million	Automotive		Motorcycles		Financial Services	
	31.3.2017	31.12.2016	31.3.2017	31.12.2016	31.3.2017	31.12.2016
Segment assets	9,245	9,411	634	600	11,738	11,049
Investments accounted for using the equity method	2,913	2,546	–	–	–	–

Other Entities		Reconciliation to Group figures		Group		
1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	1st quarter 2017	1st quarter 2016	
						SEGMENT INFORMATION BY OPERATING SEGMENT
–	–	–	–	23,448	20,853	External revenues
2	1	–4,915	–4,576	–	–	Inter-segment revenues
2	1	–4,915	–4,576	23,448	20,853	Total revenues
–4	–2	418	–57	3,005	2,368	Segment result
–	–	–	–	351	71	Result from equity accounted investments
–	–	–1,508	–1,218	5,565	4,238	Capital expenditure on non-current assets
–	–	–1,539	–1,267	1,964	2,262	Depreciation and amortisation on non-current assets
Other Entities		Reconciliation to Group figures		Group		
31.3.2017	31.12.2016	31.3.2017	31.12.2016	31.3.2017	31.12.2016	
75,070	75,363	94,913	92,112	191,600	188,535	Segment assets
–	–	–	–	2,913	2,546	Investments accounted for using the equity method

Segment figures for the first quarter can be reconciled to the corresponding Group figures as follows:

in € million	1st quarter 2017	1st quarter 2016
Reconciliation of segment result		
Total for reportable segments	2,587	2,425
Financial result of Automotive segment and Motorcycles segment	408	– 29
Elimination of inter-segment items	10	– 28
Group profit before tax	3,005	2,368
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	7,073	5,456
Elimination of inter-segment items	– 1,508	– 1,218
Total Group capital expenditure on non-current assets	5,565	4,238
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	3,503	3,529
Elimination of inter-segment items	– 1,539	– 1,267
Total Group depreciation and amortisation on non-current assets	1,964	2,262
in € million	31. 3. 2017	31. 12. 2016
Reconciliation of segment assets		
Total for reportable segments	96,687	96,423
Non-operating assets – Other Entities segment	7,649	7,432
Total liabilities – Financial Services segment	128,242	126,679
Non-operating assets – Automotive and Motorcycles segments	47,139	45,923
Liabilities of Automotive and Motorcycles segments not subject to interest	35,962	33,858
Elimination of inter-segment items	– 124,079	– 121,780
Total Group assets	191,600	188,535

OTHER INFORMATION

→ Page 62 **Financial Calendar**

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