



Annual Report
of the Bayerische
Motoren Werke
Munich
on the
1986 Business Year

BMW AG



BMW

Year to Year Comparison

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

		1986	1985	Change %
BMW Group (worldwide) ¹⁾				
Sales	DM million	17,514.8	18,077.9	- 3.1
Workforce at end of year		58,062	53,925	+ 7.7
Investment in tangible fixed assets	DM million	2,236.9	1,375.6	+ 62.6
BMW AG				
Sales				
Total	DM million	14,994.3	14,246.4	+ 5.2
Domestic	DM million	5,149.6	4,981.8	+ 3.4
Foreign	DM million	9,844.7	9,264.6	+ 6.3
Production				
Automobiles	units	446,438	445,233	+ 0.3
Motorcycles	units	32,054	37,104	- 13.6
Automobile sales				
Total	units	446,109	440,732	+ 1.2
Domestic	units	146,297	148,197	- 1.3
Foreign	units	299,812	292,535	+ 2.5
Motorcycle sales				
Total	units	31,731	36,320	- 12.6
Domestic	units	8,294	9,139	- 9.2
Foreign	units	23,437	27,181	- 13.8
Workforce at end of year		50,719	46,814	+ 8.3
Workforce expenditure	DM million	3,173.7	2,918.5	+ 8.7
Balance sheet total	DM million	7,743.5	6,572.9	+ 17.8
Common stock	DM million	750.0	600.0	+ 25.0
Shareholders' equity	DM million	2,644.0	1,920.3	+ 37.7
Fixed assets and financial assets	DM million	3,419.2	2,592.0	+ 31.9
Investment in tangible fixed assets	DM million	1,735.0	906.5	+ 91.4
Depreciation on tangible fixed assets	DM million	948.9	751.6	+ 26.3
Year's net income	DM million	337.5	300.0	
Dividend	DM million	168.8 ²⁾	150.0	
per old share of DM 50 nominal value	DM	12.50 ²⁾	12.50	
per new share of DM 50 nominal value (entitled to dividend from July 1, 1986)	DM	6.25 ²⁾	-	

¹⁾ The BMW Group (worldwide) comprises BMW AG and the domestic and foreign companies in which it holds direct or indirect interests of more than 50 %

²⁾ proposal of the management

Bayerische
Motoren Werke
Aktiengesellschaft
Munich

Annual Report
on the
1986 Business Year

BMW AG

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Report of the Supervisory Board

The Supervisory Board of Bayerische Motoren Werke AG regularly reviewed the Company's business throughout the business year. At its joint meetings with the Board of Management and on the basis of the latter's written and verbal reports, the Supervisory Board has studied closely the Company's situation, the course of business and the intended business policy, and discussed these matters with the Board of Management.

The Annual Financial Statements for the 1986 Business Year, the Books of Account and the Annual Report have been examined by Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, which has provided its unrestricted confirmatory audit certificate. The Supervisory Board agrees to the result of this audit.

The Supervisory Board has examined and approved the Annual Financial Statements and the Annual Report of Bayerische Motoren Werke AG, prepared by the Board of Management. The Annual Financial Statements are thereby adopted.

The proposal of the Board of Management for the allocation of profits has been examined by the Supervisory Board which supports the proposal. According to the final result of the Supervisory Board's review, there are no objections to be raised.

The Consolidated Financial Statements and the Consolidated Annual Report, which have been provided with the unrestricted confirmatory audit certificate of Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, as well as the report of the auditor of the Consolidated Financial Statements, have been duly submitted to the Supervisory Board.

Dr.-Ing. Hans Hagen retired from the Board of Management on October 31, 1986. The Supervisory Board expressed its thanks to Dr. Hagen for his services to the Company.

Munich, May 1987

The Supervisory Board
Hans Graf von der Goltz
Chairman

The Automobile Industry in General

Further recovery of the world economy

In the Western industrial nations, the economic upturn that began in 1982 continued in the year under review. Inflation rates decreased appreciably in most countries because of the drop in prices for oil and oil products at the beginning of the year. At the same time real earnings rose noticeably and thus private consumption did, too. Low interest rates encouraged capital spending. The number of employed also increased.

The international automobile markets were all influenced by the generally favorable economic development. 33.3 million automobiles were manufactured and sold worldwide, 2% more than in the previous year. Thus, the all-time high of 1985 was passed by about half a million units.

Development in the various economic blocks differed in line with their individual economic situations.

Record demand for automobiles in the United States

In the United States, the economy developed at a more subdued pace. It continued to be supported by private consumption. Employment and real incomes rose; the savings-income ratio fell by the year's end to an unusually low level of 2%. There was an increase in demand for cars towards the end of the year in particular because tax benefits came to an end. Altogether, 11.5 million new cars were registered in the year under review, 4% more than in 1985 and more than ever before in a single year.

Shifts in the structure of demand mostly reflect currency influences but also the international competitiveness of the car-producing countries.

American manufacturers sold nearly 100,000 fewer automobiles in the USA than in 1985 despite intensified buying incentives. Since their exports did not exceed the volume of the previous year, in spite of favorable exchange rates, production decreased for the first time since 1982.

In all, 7.8 million cars were manufactured in the USA in the year under review, 4% fewer than in the previous year. The American share in world production fell from 25% to 23.5%.

In contrast, imports continued to grow. Japanese manufacturers in particular were successful. In spite of the strong appreciation of the Yen, their sales rose to some 2.4 million automobiles, 160,000 more than in the previous year. In addition, some 300,000 cars were actually manufactured in the USA to evade further protectionist requirements. Almost every fourth car sold in the United States was Japanese in the year under review. Japanese makes have trebled their registrations in the USA within ten years.

South Korean cars were new on the American market and met instant success. The sale of some 170,000 units accounted for almost half the growth of the entire market. In 1986, the successful development recorded by German manufacturers over the years flattened off as the dollar fell. The number of registrations was only 5% higher than in the previous year. BMW, however, registered a 10% increase of sales to some 97,000 units.

Massive export efforts by the Japanese automobile industry

In Japan, demand for automobiles stagnated while economic development as a whole was subdued. Reaching three million units, registrations achieved the volume of the last four years.

Some 68,000 cars were imported. Thus, their share of the total market rose for the first time to almost 2%; however, this remained by far the lowest import share of all markets with a domestic automobile industry. BMW sold 15,300 cars, 30% more than in the previous year. It therefore took second place amongst all imported makes.

Japanese exports were made more difficult by the strong appreciation of the Yen. Manufacturers lowered export prices and accepted reduced profits in order to utilize fully their high capacities. They succeeded in increasing exports again by 3% to 4.6 million units. With this new record, Japan strengthened its position as the world's biggest car exporter.

The United States remained the most important foreign market; they again accounted for over half Japanese car exports. Japanese manufacturers tried to offset the competitive disadvantages caused by the exchange rate in the dollar area by an export drive in Europe. They proved particularly successful on markets without a notable automobile industry of their own. In the Federal Republic of Germany, which is freely open to imports because of its liberal trade policy, purchases of Japanese cars rose by more than one-third. In other Western European countries they increased by an average of 13%.

Stable domestic demand and rising exports made it possible to increase production by a further 2% to a total of 7.8 million automobiles. Japanese production has doubled in the last twelve years and Japan's share of world production has risen from 15.4% to 23.5% in the same period.

Upturn in Western Europe as a whole

In contrast to previous years, growing demand in Western Europe provided the main stimulus for the world economy. Demand increased noticeably; this was helped by the drop in oil prices. In addition, the automobile business benefited from special factors in some countries, such as tax reductions for cars with low emission levels.

Registrations rose markedly in nearly all European countries. Altogether, 11.6 million new cars were registered in Western Europe in the year under review, 10% more than in the previous year. This is a new record level.

Despite tough Japanese competition, European manufacturers still met almost nine-tenths of the demand. Exports became increasingly difficult as most currencies appreciated in value against the American dollar. In all, 12.1 million cars were produced in Western Europe, 5% more than in the previous year. Western Europe's share of automobile production worldwide rose from 35.1% to 36.4%.

Favorable economic development in the Federal Republic of Germany

In the Federal Republic of Germany the economic upturn continued in 1986 for the fourth successive year. The real gross national product rose by 2.4%.

Exports came under pressure as the DM appreciated during the course of the year; orders from the OPEC countries also decreased. However, domestic demand increased vigorously.

The drop in the price of oil at the beginning of the year raised the purchasing power of private households. Stable prices also benefited private consumption. At 4% in real terms, this rose more strongly than ever before in the last decade. Demand was also helped by the decline of interest rates and the first phase of tax reductions. Utilization of capacities and fuller employment followed the favorable development. For the first time since 1980 more than 26 million people were gainfully employed in the Federal Republic.

Therefore, the economic climate as a whole provided the right conditions for favorable demand for automobiles. However, this alone does not explain the excellent development on the German market.

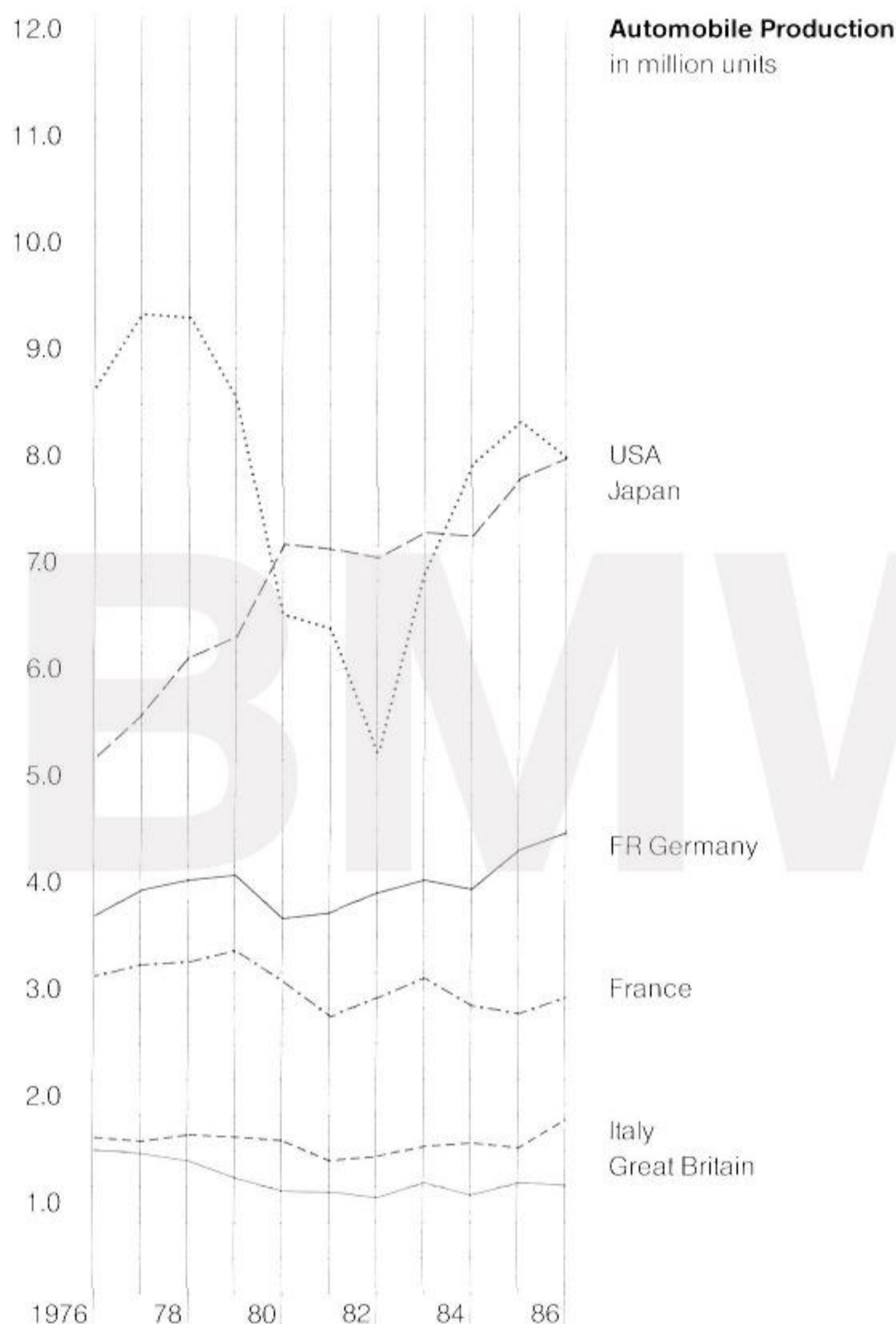
Environmental decisions influence car demand

For the first time, 2.83 million new cars were registered in the Federal Republic of Germany in the year under review, 19% more than in the previous year and 6% more than in the last record year of 1978.

The volume and structure of the new registrations also reflect political influences. The legal provisions for the introduction of cars with low emission levels, and the preceding uncertainty on the part of potential car purchasers affected the market.

The EEC resolution of June 1985 on the limitation of exhaust emissions provides for markedly lower emission levels, differentiated according to three engine sizes. They are to apply uniformly throughout the EEC from 1989 onwards. The Federal German Government has been able to encourage the purchase of cars with low emission levels by road tax benefits and lower taxes on unleaded petrol. This began in the year under review.

Since the necessary legal provisions had been made in the Federal Republic of Germany and, therefore, the market had a definite basis for decision-making, the backlog of demand resolved itself during the course of the year under review. At times there was a veritable boom in registrations because cars with low emission levels only received full tax benefits until the end of 1986. Thus, many customers brought their purchase decisions forward. The result was lower registrations in the first quarter of 1987.



Rising demand for cars with low emission levels

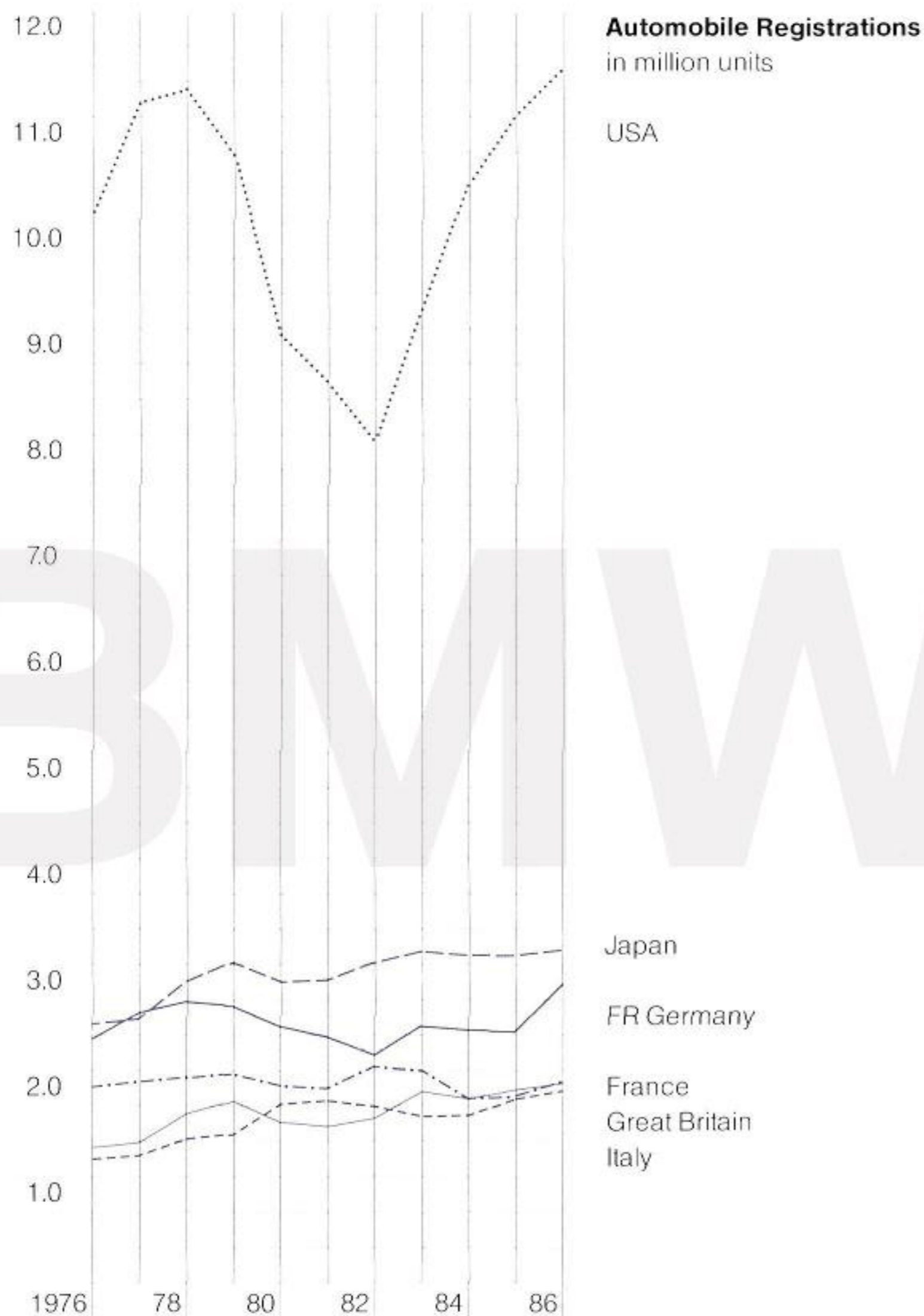
Initially, cars with diesel engines were very much in demand due to the discussion on environmental protection. After the unexpected political decision to grant road tax benefits for these cars, demand shot up. The monthly share of cars with diesel engines fluctuated between 25% and 31% of total registrations. The year's average was around 27%. Thus, it was double that of two years earlier and, for the first time, higher than in Europe's traditional diesel countries.

In all, diesel registrations in the Federal Republic rose by 46% in 1986. The marked drop in demand since the beginning of 1987 is a clear indication that the figures in the year under review were abnormally high as a result of political measures.

In contrast, sales of cars with the most efficient exhaust purification technology, namely the controlled three-way catalytic converter, got off to a slow start. Only in the second half of the year, as the end of the first phase of the highest tax benefits approached, did demand increase noticeably.

Towards the end of the year, the market share of petrol-driven cars with low emission levels came to about 30%; when including cars with diesel engines, more than half of all the newly-registered cars in 1986 were classed as having low, or relatively low, emission levels.

Thus, the German car industry surpassed its 1986 aims of introducing cars with low emission levels. The environment-friendly car has gained ground.



Foreign manufacturers benefit from demand

The legislature has established exhaust emission values for cars with small petrol engines which can be achieved with a minimum of expenditure. Demand for such cars was especially brisk.

Foreign manufacturers benefited because they traditionally offer a wider range of smaller cars owing to the structure of demand on their domestic markets. Their registrations rose twice as strongly as those of German makes. Japanese manufacturers recorded the strongest growth. In 1986, they supplied every second foreign car sold in the Federal Republic, their market share rising from 13.3% to 15%.

The import share of 30% was a new record; when added to German cars produced abroad, it rose to 36%. While supply shortages on the part of German manufacturers may have been decisive to some extent, it cannot be denied that the competitiveness of foreign makes has increased further.

Exports became increasingly difficult in the course of the year as major foreign currencies weakened; from mid-year on, exports stagnated. Altogether, 2.52 million German automobiles were sold abroad. However, this figure fell short of last year's record by only 1.9%, indicating that German automobiles continue to have recognized competitive advantages worldwide. The largest sales market was the United States, followed by Great Britain, France and Italy.

The German automobile industry's influence on the economy was favorable again in 1986

Automobile production rose by 3.5% to a new record of 4.31 million units. 13% of the world's car production is in the Federal Republic. When including 1.3 million German cars manufactured abroad, the share of world production was 16.9% compared with 16.5% in the previous year.

In 1986, the German automobile industry again contributed substantially to overall economic development. Sales of the motor vehicle industry rose by 5% to DM 194 billion; the number of employed increased by 25,000 to 844,000. Gross investments in plant and equipment of DM 11 billion reached a new record, increasing annually by about one-fifth since 1984.

In its entirety, the automobile industry remained one of the most dynamic branches of industry in the Federal Republic of Germany in the year under review.

The number of cars in use rose by 1.1 million to 27.2 million, the steepest increase since 1979. The number of kilometers driven on the entire road network rose by more than 5%; extremely high increases were registered on the particularly efficient German motorways.

As a result of the automobile industry's constant efforts, average fuel consumption continued to fall. Total fuel consumption by cars rose less than the total number of kilometers driven. Its share of total oil consumption in the Federal Republic declined slightly to 49%.

The increasing proportion of cars with low emission levels, as well as drivers' growing awareness of the environment, are reflected in rising demand for unleaded petrol. The oil industry has contributed considerably in this field. The number of petrol stations offering unleaded petrol was doubled during the year and covered about two-thirds of the supply network. The share of unleaded petrol rose from 5% to almost 20% of total sales and is still growing.

The new
BMW 7 Series car



Political background for the German automobile industry

The German manufacturers' ability to adapt was absolutely essential for the welcome market development of automobiles with catalytic converters in the Federal Republic of Germany. The political conditions for "cats" to gain more ground in the EEC, however, are less satisfactory.

Cars with catalytic converters can only continue to make progress when the EEC has finally adopted the exhaust regulations. Market activities still have no legal basis in the EEC.

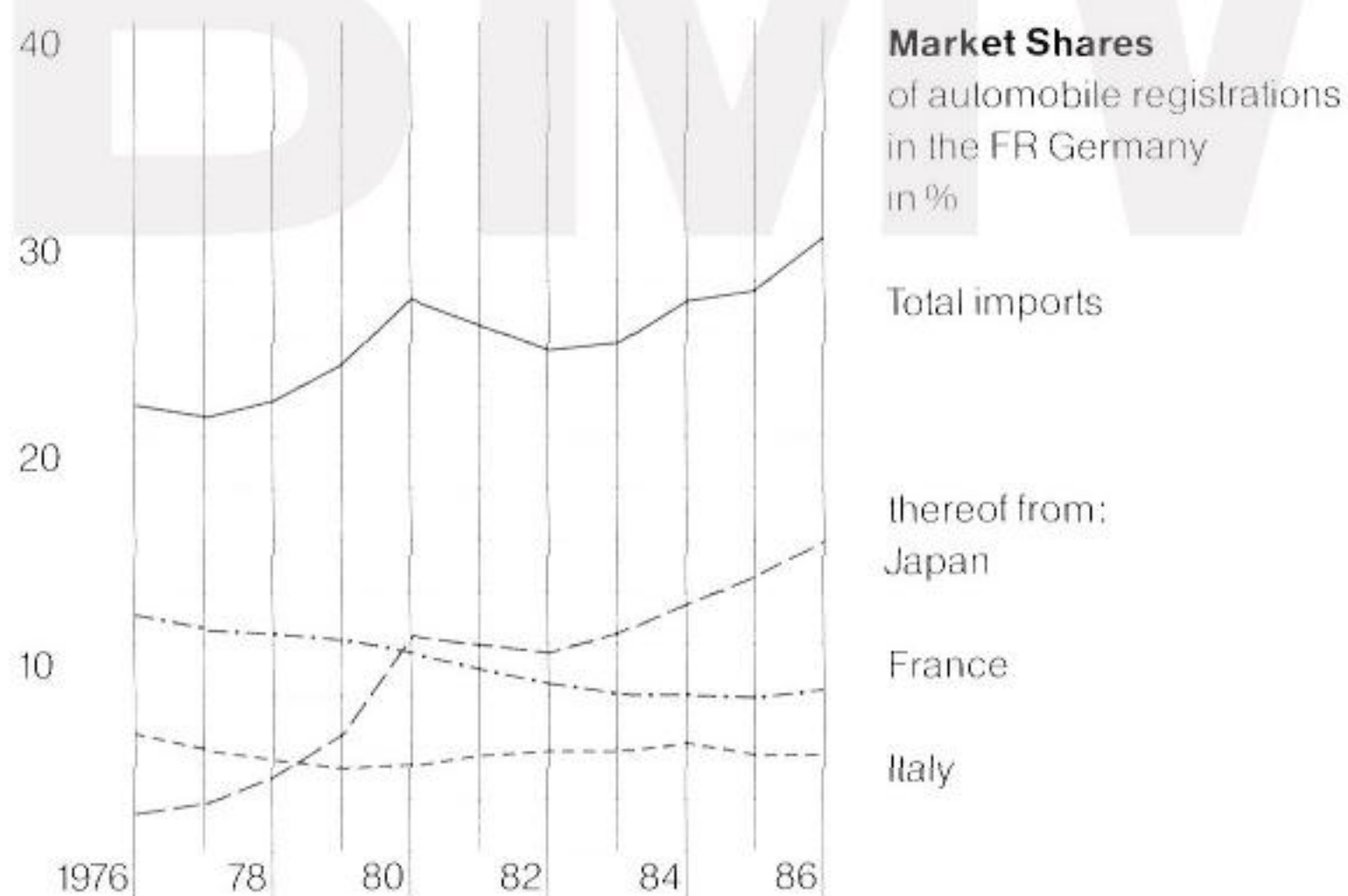
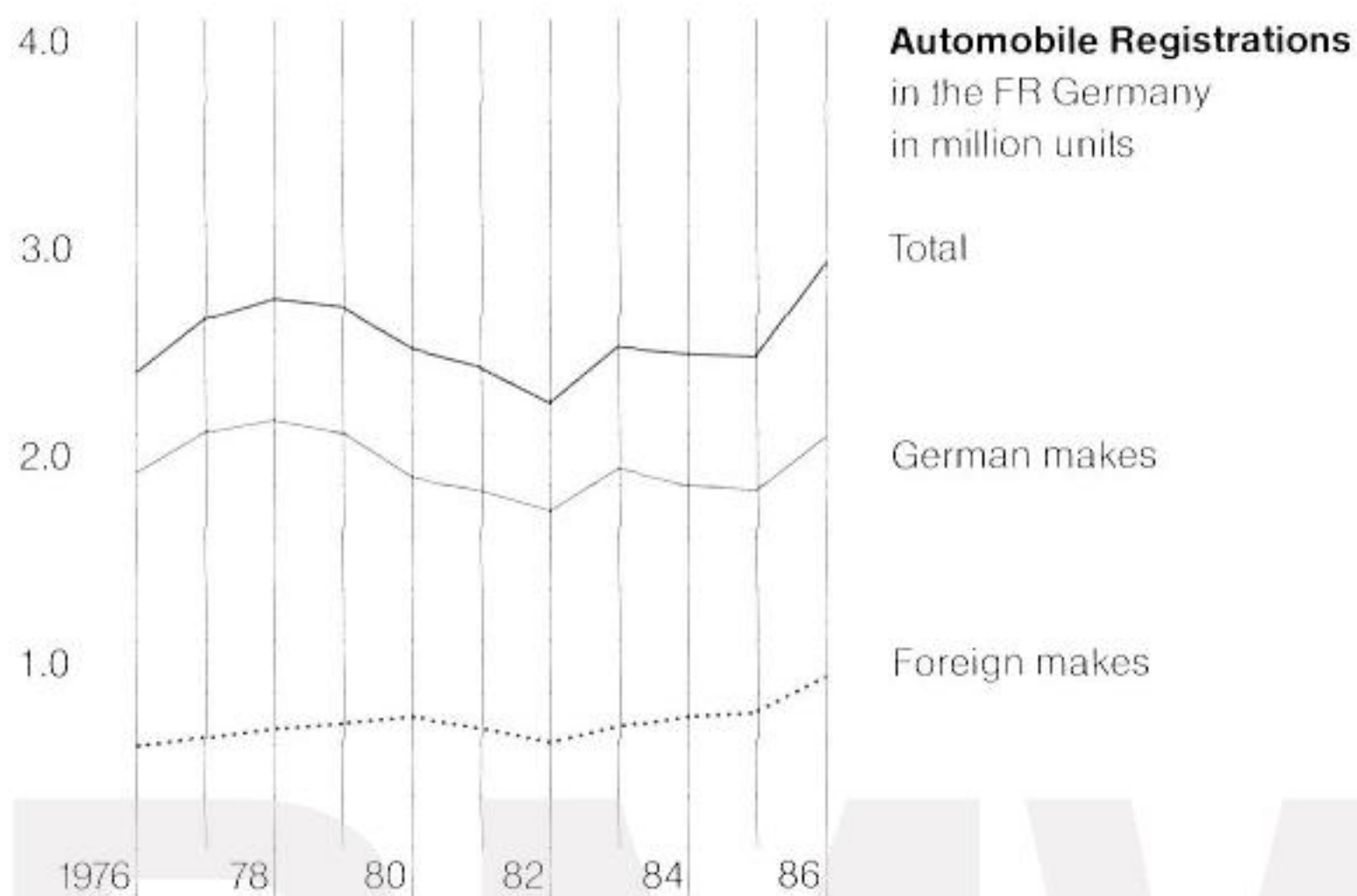
In addition, there are no regulations which make the exhaust emission values compulsory in all countries of the Community. As long as this is the case, manufacturers are forced to offer cars both with progressive and conventional exhaust technology for exports to EEC countries. This duplication increases costs; ultimately, this affects the consumer.

As long as there are no uniform exhaust regulations, the EEC car market remains incomplete. Furthermore, other countries have to be included in these regulations because Europe does not end at the frontiers of the EEC.

The controversial regulations on particle emission values for diesel cars could prove a further obstacle to a European car market.

In spring, discussion about a speed limit in the Federal Republic of Germany appeared to have ended after careful studies by neutral organizations. New attempts by the European Commission and the European Parliament apparently to harmonize traffic regulations are to be assessed critically. These do not contribute effectively to road safety because the differing road quality is not taken into consideration.

The German motorways are the safest roads in the world. The introduction of a speed limit on these motorways would increase the traffic volume on other roads and correspondingly reduce their safety. In addition, it would affect the competitiveness not only of the German but of the entire European automobile industry.



In connection with completing the EEC market, models are being discussed for a common foreign trade policy for automobiles. This includes ideas on countering Japanese imports with common protectionist measures.

BMW warns against the consequences of such a policy. Not only must the EEC market be free of internal trade barriers, but also the EEC's trade with other countries must not be hampered by protectionism. Just as the Federal Republic offers all foreign car manufacturers free access to its market, the German automobile industry needs to be able to export freely to the world's markets. In the long term this would be advantageous for the automobile industry worldwide.

Business Development at BMW

A successful year marked by new projects

BMW continued to develop successfully in 1986. Investments were stepped up considerably in new plants and products. During the course of the year several major projects progressed on schedule; they provide the Company with new scope for the development, production and marketing of automobiles:

- The first stage of construction of the Research and Engineering Center in Munich became operational; it unites all the essential functions for the development and production planning for future cars.
- The new automobile plant in Regensburg further increases the efficiency of the system of linked BMW plants.
- The new 7 Series car takes the lead in the high-performance luxury class, underlining the high technological standard of BMW products.

The business success in the year under review is reflected in the Company's earnings. Automobiles, motorcycles and engines all contributed to this. Possibilities and limitations were influenced by the economic and political environment as well as by the life cycle of the models.

The 3 Series developed particularly favorably as expected. It expanded its premier position amongst compact high-performance European cars.

The orientation of all sectors of the Company towards the future demanded not only increased efforts from employees, but also a larger workforce. At the end of 1986 BMW employed some 58,000 people worldwide, 4,000 more than in the previous year and 16,000 more than at the beginning of the 1980s.

The accomplishments of the past year are the joint success of the workforce, the dealer organization and business partners throughout the world. BMW is indebted to them all. Thanks to their skill, their innovative capacity and their willingness to give their best, the Company is confident that it will master the tasks ahead of it.

Capacity again determined car sales in 1986

In the year under review 446,000 BMW automobiles were sold, 1.2% more than in the previous year. Since total capacity was limited, and had been fully utilized for years, further increases were impossible. Some production facilities could not be used for a time because of the model change in the 7 Series.

With 450,000 registrations of new BMWs worldwide, the previous year's figures were exceeded slightly both in the Federal Republic of Germany and elsewhere. The large number of orders for the 7 Series cars introduced in autumn and for further cars with catalytic converters in the other model series was not reflected in the 1986 figures.

In the Federal Republic of Germany, BMW's largest sales market, 148,000 cars were registered, about 2% more than in the previous year. Business did not develop uniformly. The new 325i models, introduced the previous year with the additional four-wheel drive and convertible versions, as well as the 3 Series diesel model, the 324d, won numerous customers. Demand for some other models declined in line with their life cycles as the year progressed.

There was a definite shift in demand towards cars with low emission levels. In the last few months of the year three out of four buyers in the Federal Republic chose such cars.

For the first time, more than 300,000 BMW cars were newly registered outside Germany, the export share increasing slightly to 67%. An efficient international marketing organization succeeded in offsetting fluctuations in demand on individual markets. BMW's competitive position was improved in foreign markets by the introduction of new models.

High demand in Europe

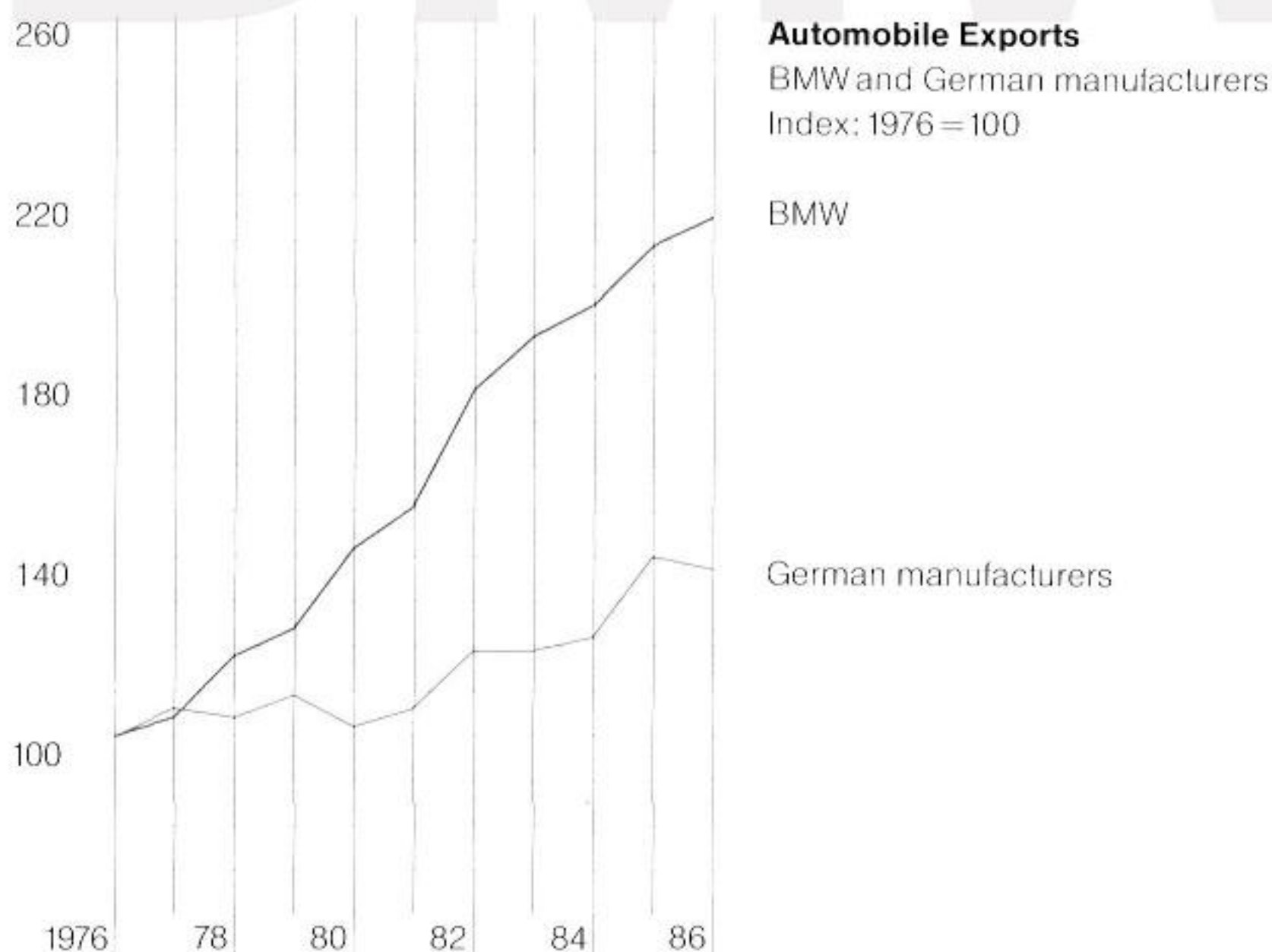
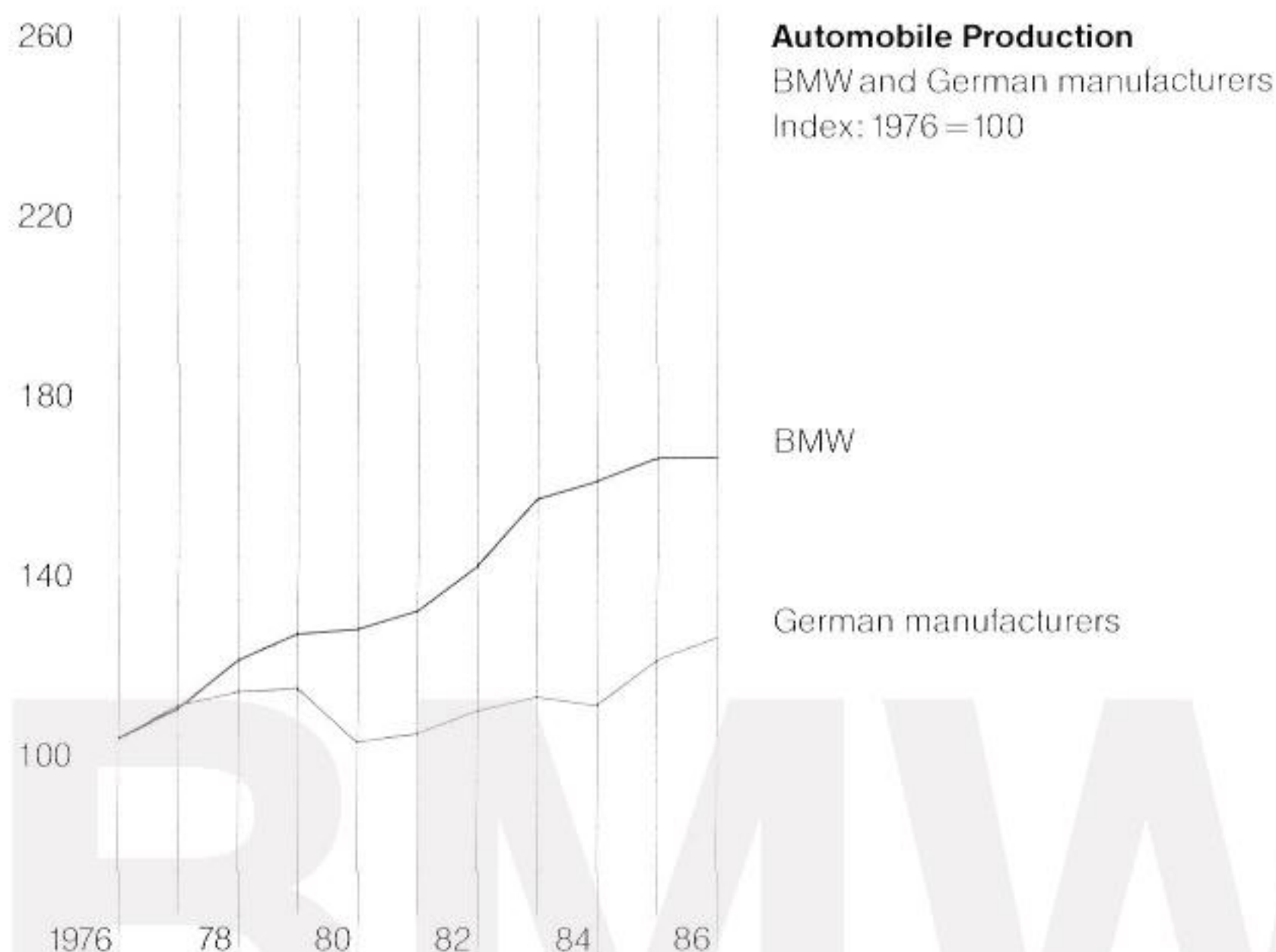
Against a background of generally good business for the automobile industry, BMW registrations in European markets outside the Federal Republic rose by a total of 4%. This development was sustained by the success of the new 3 Series models introduced in 1985. Demand for 7 Series cars remained high until they were phased out, auguring well for the successful introduction of the new models.

In Great Britain, BMW's largest European export market, sales increased by 7%. On this market, therefore, they have risen uninterruptedly since the beginning of the decade. In the year under review this also applied to the 5 and 7 Series cars.

The 324d met with the demand expected on the traditional diesel markets; hence, two-figure growth was recorded for registrations of 3 Series cars. The 325i, the convertible and the four-wheel drive car gained numerous new customers in the high-performance, compact car segment.

In Austria and Switzerland the dates fixed for changing to cars with low emission levels were different from those of the EEC. This led occasionally to a limited range of models being offered on these markets. The additional 3 and 5 Series models with catalytic converters available from the end of the year have already stimulated demand substantially.

A special development was observed on the car market in Spain. After joining the EEC, demand for imported cars soared. BMW registrations were almost 30% higher than in the previous year. On the Northern European markets they also achieved new record levels with a total of more than 15,000 units.



Strong sales overseas

Exports of BMWs overseas again achieved double-figure increases in spite of stagnating demand as a whole in these markets.

Business development in the USA was again outstanding. The economic repercussions of the fall of the American dollar were alleviated by price increases and higher-grade models. BMW registrations rose by a further 10% to some 97,000 units, double that of five years ago.

Sales in Japan also increased by an above-average 30% to 15,300 units. As in the United States, the 5 Series cars also achieved two-figure growth rates again.

In Australia measures to protect the domestic automobile manufacturers increased markedly in 1986. In the last few years a licensing system had restricted foreign cars to 20% of the total market.

The direct quantitative restrictions are gradually being relaxed. However, the decline of the Australian dollar and a multitude of special taxes made the sale of imported cars even more difficult in the year under review. Australia is, thus, impeding free world trade with automobiles.

After years of vigorous growth, BMW registrations dropped by about one-third; this was in line with the development of the entire market segment of imported cars.

More difficult access to many markets

Access to the markets of many countries of the Middle and Far East, as well as of Latin America, is also closed or restricted for cars.

The low prices of raw materials and unfavorable exchange rates were an increasing source of strain on economic development in 1986. This strengthened protectionist pressure and often affected demand for automobiles as a whole and, thus, the course of business of the independent BMW importers.

The Gulf states of the Middle East were particularly affected by the drop in oil prices and the depreciation of the US dollar. Sales of BMW automobiles decreased by 40% to 2,100 units. Nevertheless, in the year under review investments in these markets continued in accordance with long-term planning.

In Southeast Asia falling export earnings also meant higher trade deficits; purchasing power declined. However, with almost 8,000 units, sales of BMW cars surpassed those of the previous year by almost one-tenth. The importers in this region have been supported by BMW's own marketing center in Singapore since the end of 1985.

High taxes, duties and other restrictions make the import of complete vehicles to Thailand, Malaysia and Indonesia difficult. In these countries, BMW cars are assembled by local partners with imported parts kits and with components made in the country. Many other markets of this region are completely closed to imports.

In Latin America such restrictions have applied for years, particularly in the large markets of Brazil, the Argentine and Mexico. In the year under review Colombia also introduced a strict import ban. The export of BMW cars declined by 30% to 2,200 units, corresponding to the development of the entire import segment. Sustained improvement is not expected.

Consolidation of the sales organization

Some 4,400 authorized BMW dealers throughout the world service over four million BMW cars and motorcycles. In 1986 the BMW dealers again invested substantially in buildings and equipment, as well as in the qualifications of their employees.

The introduction of the new 7 Series in 1986 was an especially significant event. Training in the maintenance of sophisticated new technology began many months before series-production actually started. Therefore, the BMW service organization throughout the world was fully prepared for the delivery of the first cars.

With an increasing number of models and different versions for countries with special requirements, substantial investments were again necessary to ensure that all parts are available reliably, quickly and at reasonable prices. The introduction of new control systems for storage, handling and communications continued on schedule in the central parts warehouse in Dingolfing as well as at the dealer premises.

The range of Genuine BMW Parts and accessories rose to more than 80,000 items in the year under review. Thanks to an efficient distribution system, if parts are not available at the local BMW dealer they can be supplied immediately by the central parts warehouse. This service, which demands very special efforts when new models are introduced, is also guaranteed for the new 7 Series.

The needs of the dealer organizations abroad are met by regional parts warehouses. Parts that are rarely required are stored at the central parts warehouse in Dingolfing. They can be supplied generally within 24 hours of receipt of order, even in the USA.

The efficiency of customer service continues to increase. This is shown by the results of workshop tests conducted by neutral organizations, according to which BMW workshops were amongst the leaders, as expected.

Account has been taken of the growing demand for accessories with additional programs.

In the Federal Republic of Germany the regional restructuring of the sales organization continued. This type of structure makes it easier to react more quickly to customer's requirements.

The increased use of personal computers and other data processing systems is of great assistance to the dealer organization. As many as 70% of all these businesses have appropriate installations. Videotext is used by almost all dealers. These channels not only improve internal handling and information, but also offer customers extra services, such as orders at short notice or special financing schemes. From this system potential buyers of used cars can obtain information on the entire range available at German BMW dealers.

As the markets are largely saturated, replacement demand and, thus, the used car business is becoming increasingly significant in the sale of new cars and parts. In the year under review German BMW dealers sold over 120,000 one-owner used cars. A comprehensive service program ensures that these cars are in impeccable condition. The efficiency of this area of the market was increased by close cooperation with the dealer organization.

The BMW emergency service is available around the clock. As more customers learnt of its advantages, the service was increasingly used in the year under review.

Production began at the Regensburg plant at the end of 1986. 3 Series cars are made there. The plant has all the technical potential for trendsetting processes in production and logistics. Assembly work at suspended, swivelling units is not a strain on the operator's posture.



Model innovations and model development

The outstanding event reflecting BMW model policy in 1986 was the introduction of the new 7 Series. This model marks the beginning of the fundamental renewal of the entire range of models and engines during the next few years. With the 730i, 735i and 750i models, BMW has set new standards among high-performance luxury limousines.

In the top model, the 750i, BMW presents the first 12-cylinder engine to be produced in Germany for 50 years. It is also the world's first engine of this type to be developed for operation with a catalytic converter. The BMW 750i, like the 735i, is also available with an extended wheelbase. All models can be fitted with catalytic converters as standard.

The outstanding technical features, as well as the style of the car, met with public approval. Shortly after its introduction, representatives of eleven trade journals from Europe, the USA and Japan conferred on the new 7 Series the "Car Design Award 1987" for elegant, functional and individual design.

Demand worldwide is considerably higher than the comparable figures for the preceding model; it even exceeds BMW's own high expectations.

The range of cars with catalytic converters was supplemented in the other model series in autumn 1986. With few exceptions, BMW cars are classed as having low emission levels. According to the statutory provisions in the Federal Republic they were exempt from motor vehicle tax in the year under review. The share of "cat" models in domestic orders rose from 20% at the beginning of the year under review to 75% in spring 1987; for some models, such as the 520i, it was over 90%.

The BMW 3 Series offers the most comprehensive range in its market segment. Production, domestic registrations and exports all achieved new records with increases of more than 10%. In the Federal Republic of Germany, as in numerous other markets, BMW increased its market share in this category. Alto-

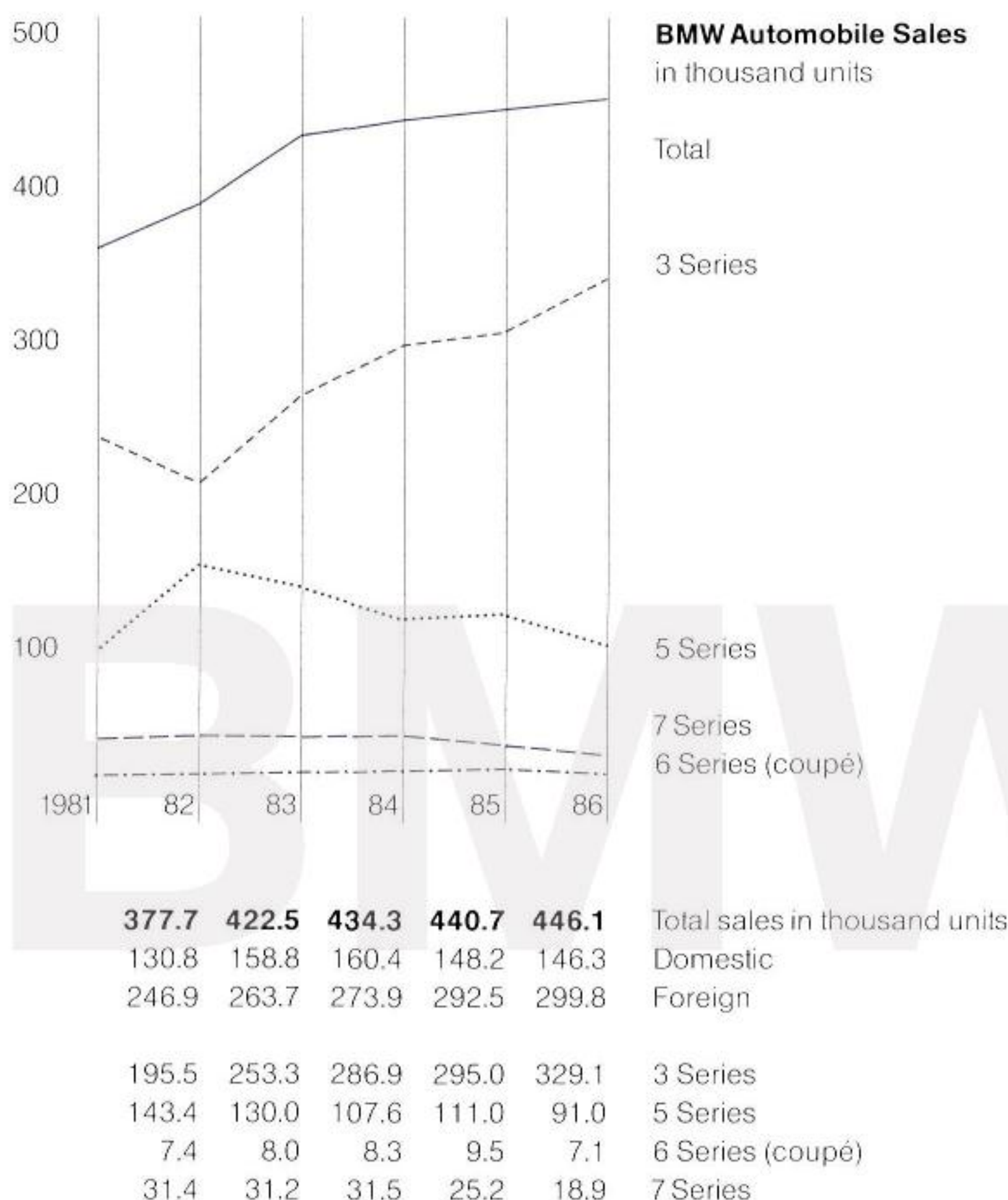
gether, some 330,000 BMW 3 Series cars were produced and sold in 1986, more than ever before of a single BMW model series.

Demand was particularly high for the 325i with its four-wheel drive and convertible versions. These cars feature high performance, balanced handling and successful design. In addition, the quality of these automobiles is emphasized in the market.

With the 324d, BMW took advantage of the high demand for diesel cars in many countries. The range of diesel cars has been extended since spring 1986 with the 524d. Like the 524td, it combines good performance with high economic efficiency and low emission levels. The share of diesel automobiles in total BMW sales was almost 12% in 1986.

The coupés of the 6 Series offer extensive modern automobile technology; new developments are integrated constantly into its specification. The M 635 CSi Cat with 191 kW (260 bhp) and four-valve technology, for example, offers the performance of a sports car with average fuel consumption of less than 12 liters per 100 kilometers (more than 23.5 miles per gallon).

BMW consolidated its position as Europe's largest manufacturer of 6-cylinder engines. By the end of the year three out of four automobiles were fitted with these particularly smooth-running, high-performance engines.



Capacity fully utilized, investments almost doubled

With all plants working to full capacity, 446,400 BMW automobiles were produced in 1986. The high volume of the previous year could only be repeated with additional work, due to preparation for the new 7 Series and the increasing production volume required of other model series.

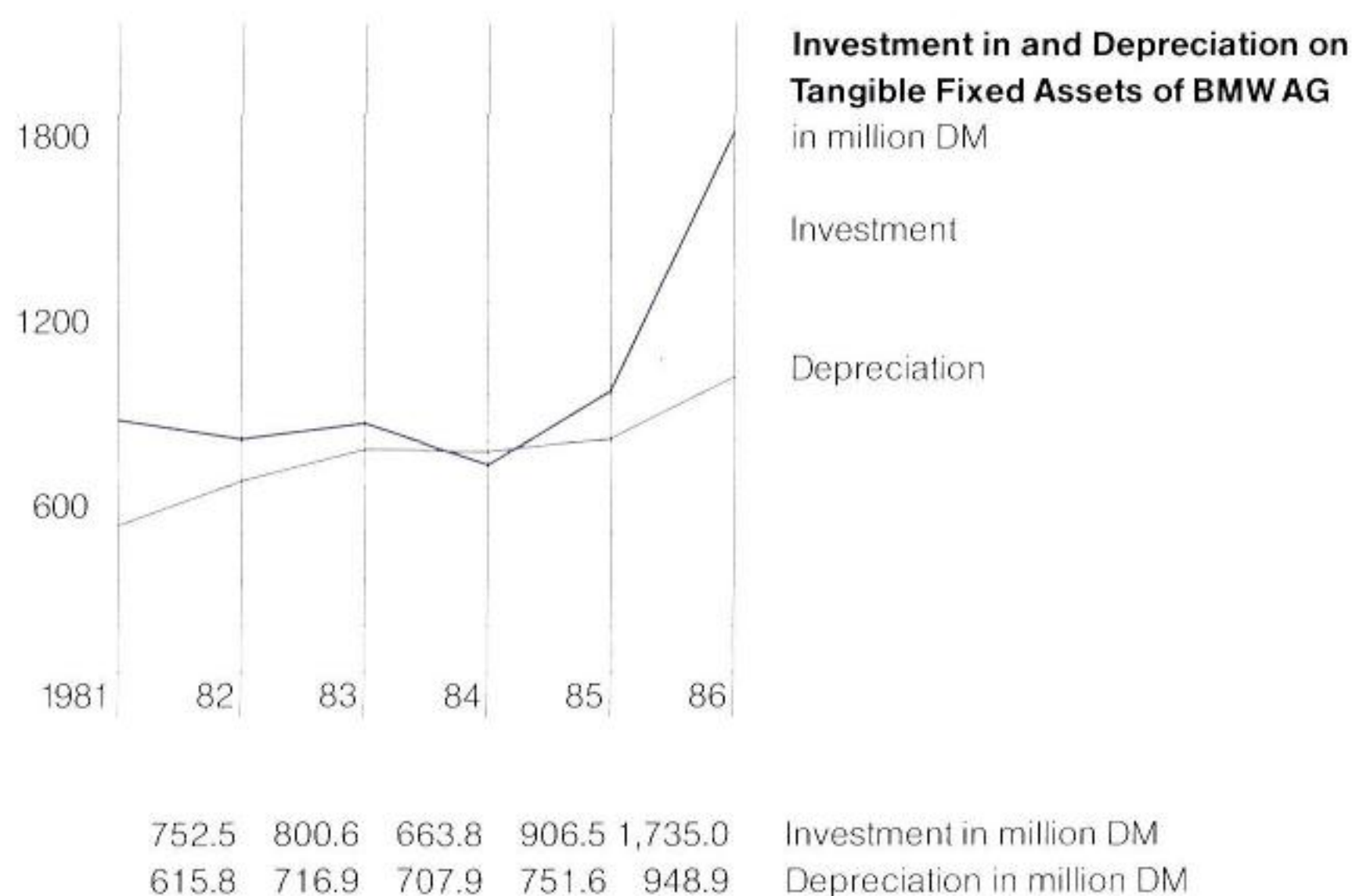
After three years of construction, the new assembly plant in Regensburg began operation at the end of autumn 1986 as planned. A total of DM 800 million was invested in the first building phase. Initially, the plant will relieve the burden on the Munich and Dingolfing car plants; in the long term it will create capacity to meet anticipated demand. The structure of the plant and its building permits extensions without limiting the optimal sequences for production and logistics.

The latest production technology ensures both high product quality and adaptability. The great flexibility of the installations takes account of the changing demands in the marketplace; several models and a large number of different versions can be manufactured simultaneously on a single assembly line. This permits the economic use of high-grade production technology, even when meeting orders with a wide variety of different specifications. Close coordination of the logistic processes with the production structure helps to reduce storage to a minimum. This avoids the tying-up of capital.

Further extensive investments were made in the existing plants in order to ensure a uniform high standard of production technology.

At the Munich plant, a flexible, fully automatic production system for high-performance engines began operation. A master computer controls the structure of operations, machine loading and scheduling according to the type and number of engines to be made.

A total of 36 processing centers completes all stages of work both independently and accurately, including



the changing of workpieces and tools; they are linked by an automatic transport system. An integrated measuring station initiates corrections, if necessary, and thus ensures constant quality.

The system requires several computer hierarchies. It is an important component of a computer-aided, integrated production system at BMW.

For the Dingolfing plant, the year under review was marked by the model change in the 7 Series. High production quality took priority over rapid increases in production figures. The bodywork is manufactured in the new, largely automated hall with a precision not hitherto achieved.

At the Landshut plant, the production of plastic parts was extended and a new paint shop for plastic bumpers began operation. In addition, preliminary work began for the building of a new foundry; this will replace the Munich facilities. In a pilot plant, new methods of casting and methods of increasing automation are being tested for series production.

The production capacity for motorcycles at the Berlin plant was adjusted to the anticipated development of the market. Apart from motorcycles, chassis and engine parts are manufactured for automobile production in the Bavarian plants. At the engine works in Steyr/Upper Austria, investments focused on preparations for the production of a newly developed engine; the warehouse with fully automated rack system was completed.

Progressive production technology

Great attention was again paid to the development and testing of new production technology in the year under review. Fluid cell technology, from the aircraft industry, for the swift and economic production of small numbers of pressed parts, laser technology for cutting sheet metal, as well as water jets to cut plastic parts, reached the production stage. Newly developed sensors opened further fields of operation for industrial robots.

In order to improve further environmental protection in the production sector, BMW engineers, together with suppliers, developed new techniques which aim to avoid pollutants altogether. Thus, expensive filter plants, and special systems for the disposal of undesirable residues, are not required.

Work stations and processes are designed to satisfy ergonomic criteria at BMW; the investments made during the year under review also contributed towards further progress in this field.

The planning of all company operations aims to achieve a universal system of information linking development, design, production planning and series production. BMW has developed its own CIM (computer-integrated manufacture) construction plan and already uses CIM components in some fields, for example in the foundry, in model construction and in the large press plant. CAD/CAM (computer-aided design/computer-aided manufacture) combinations already bring noticeable time and cost advantages in these applications.

As a result of the close cooperation with research institutions and technical universities, the Company also participates in trendsetting developments in the scientific field.

In 1986 BMW AG invested DM 1.7 billion in fixed assets, compared with DM 0.9 billion in the previous year; investments in the BMW Group rose to DM 2.2 billion. The markedly higher volume, compared with previous years, served in particular to prepare for the production of new models, the extension of the new plant in Regensburg and the Research and Engineering Center.

Proven cooperation with the supply industry

The worldwide purchasing volume of BMW AG rose to more than DM 10 billion in 1986. This was due to the greater need for more high-quality parts, the selective reduction of production processes as well as extensive investments. The prices of bought parts remained relatively stable; those of raw materials and energy even decreased on average.

Raw materials, parts and capital goods were supplied without disruptions thanks to the close cooperation with suppliers in more than 30 countries on all five continents. About 90% of the suppliers are medium-sized companies.

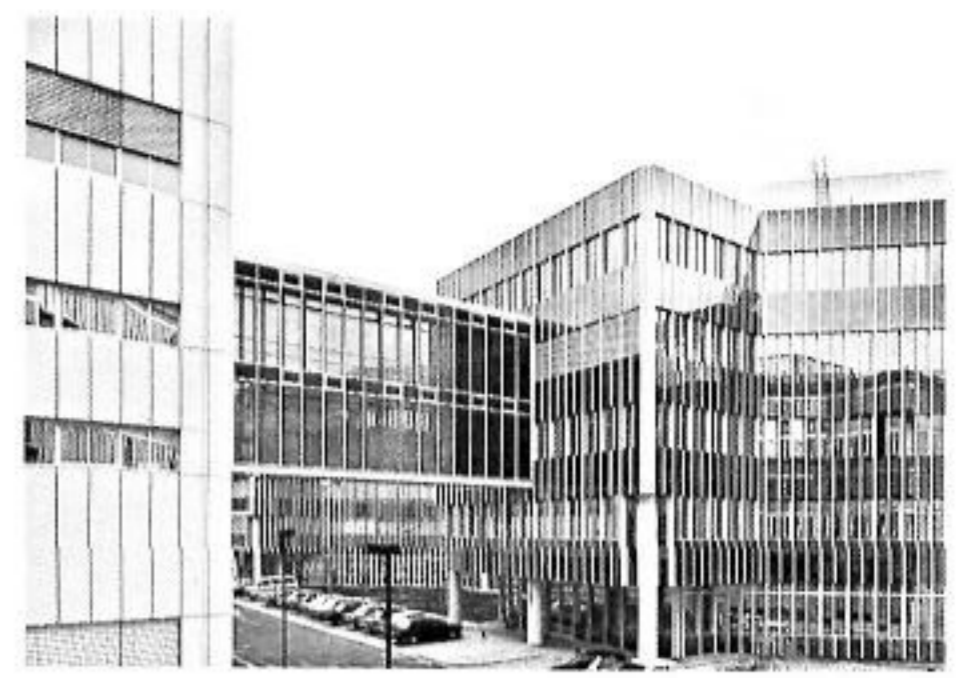
The supply industry played an important role in the development of the new 7 Series. Joint developments ensured top quality and reliability over the entire life cycle of the new models from a very early date.

In the supply industry, some 4,000 engineers work for new BMW products. Innovation and competitive spirit are promoted by a constant exchange of knowledge. This partnership is based on a high degree of mutual trust and recognition.

New logistic systems

The particularly economical system of "just-in-time" deliveries, which has been introduced at BMW in recent years, requires the close cooperation of the suppliers in planning and communications. With an extensive data transmission system, therefore, new ways of directly calling up production materials are being developed. In addition, integration of the systems permits the exchange of CAD/CAM data from development, production and quality control.

The Regensburg plant has been designed in line with progressive logistic concepts in order to be increasingly capable of fulfilling individual customer wishes, even in the context of large-series manufacture. Production and material flow are controlled directly in accordance with incoming orders.



As BMW became more established, as many as 16 suppliers decided to set up their own business near the new plant. This decision is based on the high requirements of the automobile plants in Munich, Dingolfing and Regensburg and reflects the suppliers' confidence in successful long-term cooperation.

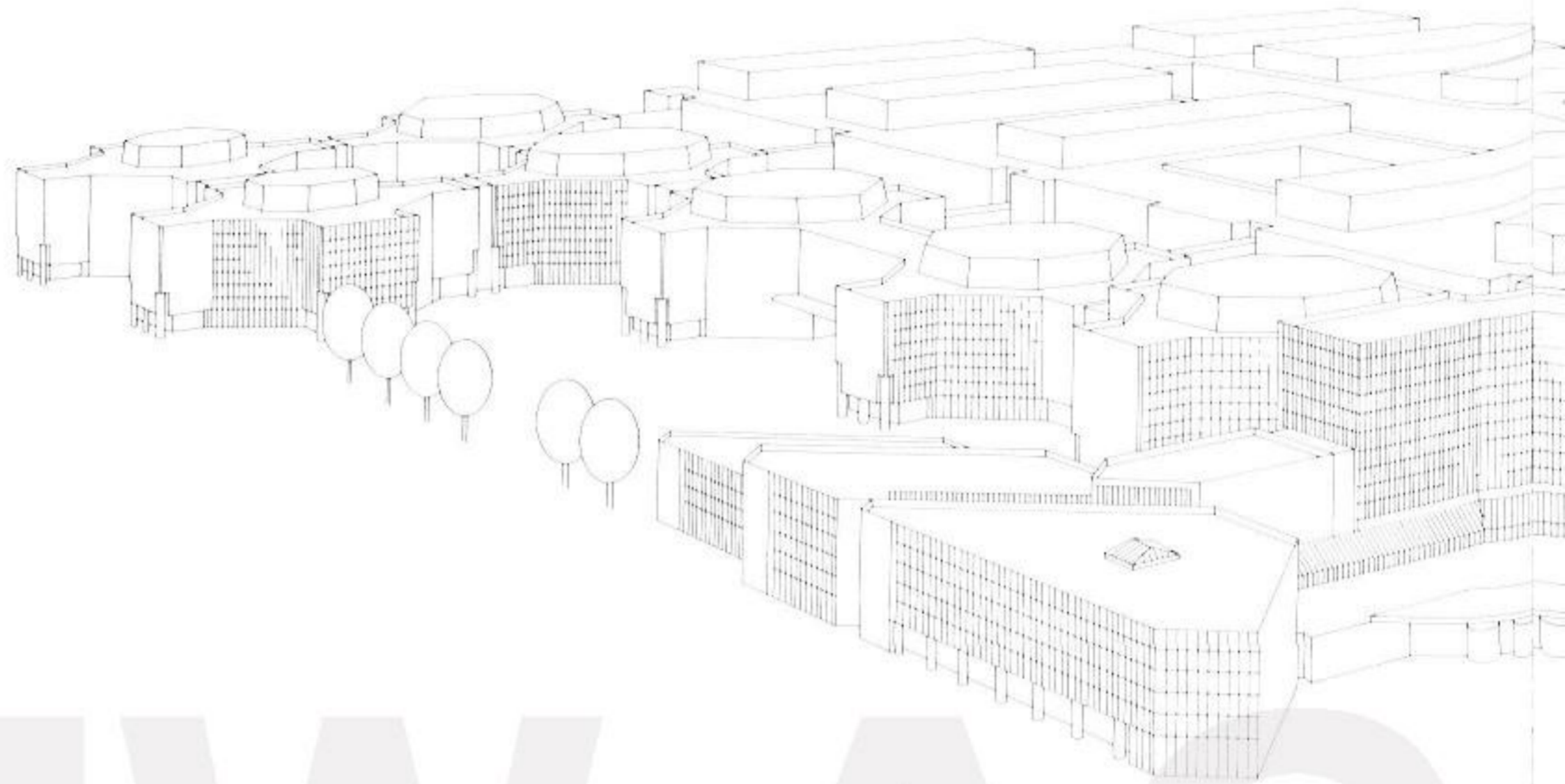
BMW and its suppliers stimulate not only the economy of Bavaria. The Company purchases about four-fifths of its materials and capital goods in the Federal Republic; thus, over 70,000 jobs are safeguarded.

Good business development

The sales of BMW AG rose by 5.2% in 1986 to DM 15.0 billion. This was largely due to the brisk demand for new and more expensive models. Domestic business accounted for DM 5.2 billion and exports for DM 9.8 billion.

Sales of the BMW Group amounted to DM 17.5 billion, 3.1% less than in the previous year. This decline is solely due to major changes in parity and particularly to the weakness of the US dollar and of the pound sterling. If exchange rates had remained as they were, Group sales would have considerably exceeded those of the previous year.

The pre-tax earnings of BMW AG amounts to DM 1036 million. From the increased net income of DM 338 million, DM 169 million were allocated to reserves. The Board of Management and the Supervisory Board propose to the Annual General Meeting that the balance sheet profit of DM 169 million be used to pay out a dividend of DM 12.50 per share with a nominal value of DM 50 on the common stock with full dividend rights (DM 600 million), as well as a dividend of DM 6.25 per share with a nominal value of DM 50 on the common stock with half dividend rights (DM 150 million).

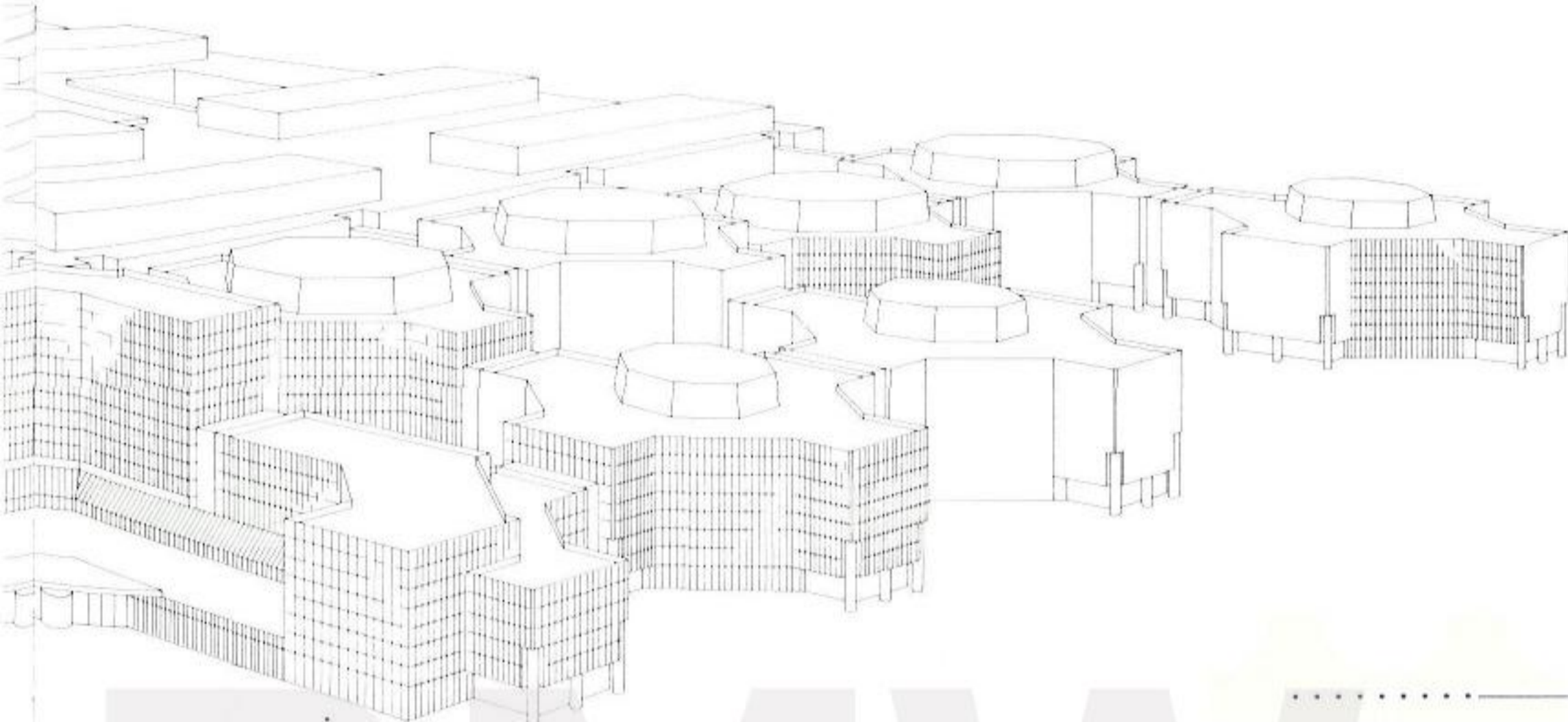


The new
Research and Engineering Center

The new Research and Engineering Center in the north of Munich is to house all departments under one roof concerned with development, production planning and logistics. From the earliest stage of development, all requirements for new cars can be coordinated in the best possible way. The design engineers are next door to the workshops. The most up to date facilities and a highly developed information system are centrally available to all departments.

Just as the physical flow of material has long determined factory design, the "intellectual flow of material" in the development of new automobiles was a major criterion for the design and use of the new buildings. Thus, the project was based on a detailed analysis of development sequences and communications.

This kind of project is new in the automobile industry. By the beginning of the 1990s, more than one billion DM will have been spent simply on the office and workshop buildings without fittings. The Research and Engineering Center will contribute towards further safeguarding and developing the competitiveness of BMW cars.



fully
developed
car

car trials,
test stand

styling,
prototypes,
model construction,
pilot plant

Interdepartmental cooperation
within office levels between
development designers, test
engineers and production
planners

The development process
extends from the design
through model construction to
testing. Office and workshop
functions overlap

Attendant functions of product
control, purchasing and logis-
tics as well as patents

Employees' restaurant and
kitchen

The Model Range

730i

2986 cc 138 kW (188 bhp)

735i

3430 cc 155 kW (211 bhp)

735iL

3430 cc 155 kW (211 bhp)

750i

4988 cc 220 kW (300 bhp)

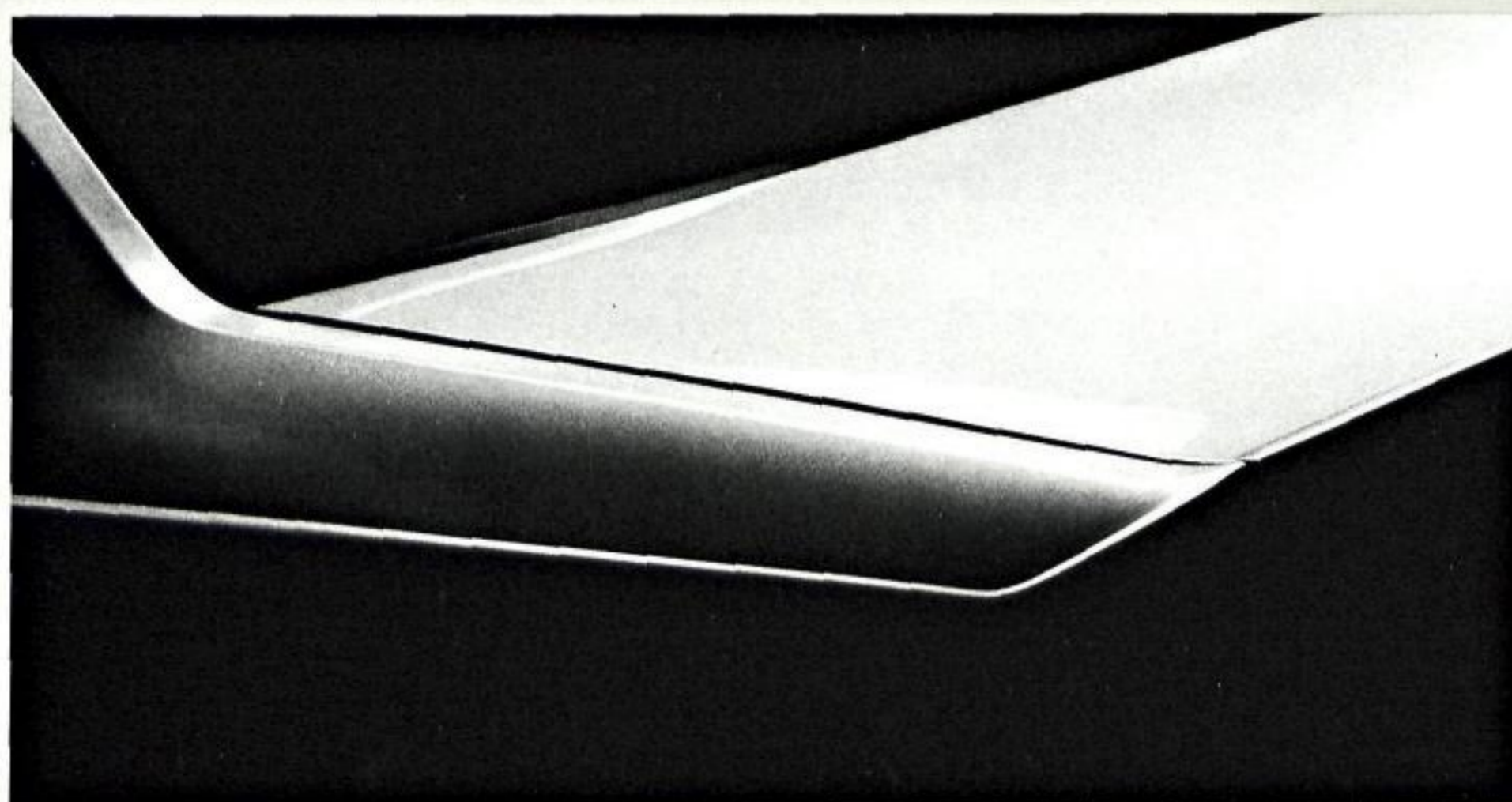
750iL

4988 cc 220 kW (300 bhp)



Elegant lines are typical of BMW design. Ensuring the make's unmistakable identity is a permanent aim. Each detail is an expression of the creative idea like the quality of the workmanship.

The BMW range of cars consists of four series currently with 27 basic models. When including the versions to meet the specifications of individual countries, there is a choice worldwide of some 200 cars and a total of 3,000 special fittings and accessories. In view of this great variety, the 2,000 or so BMWs produced daily are all likely to be different.



316

1766 cc 66 kW (90 bhp)

318i

1766 cc 75 kW (102 bhp)

320i

1990 cc 95 kW (129 bhp)

324d

2443 cc 63 kW (86 bhp)

325e

2693 cc 95 kW (129 bhp)

325i

2494 cc 125 kW (170 bhp)

325iX

2494 cc 125 kW (170 bhp)

325i Convertible

2494 cc 125 kW (170 bhp)

M 3

2302 cc 143 kW (195 bhp)

518i

1766 cc 77 kW (105 bhp)

520i

1990 cc 95 kW (129 bhp)

524d

2443 cc 63 kW (86 bhp)

524td

2443 cc 85 kW (115 bhp)

525e

2693 cc 95 kW (129 bhp)

525i

2494 cc 110 kW (150 bhp)

528i

2788 cc 135 kW (184 bhp)

535i

3430 cc 136 kW (185 bhp)

M 535i

3430 cc 136 kW (185 bhp)

M 5

3453 cc 210 kW (286 bhp)

628 CSi

2788 cc 135 kW (184 bhp)

635 CSi

3430 cc 136 kW (185 bhp)

M 635 CSi

3453 cc 191 kW (260 bhp)

May 1987

R 65

650 cc 20/35 kW (27/48 bhp)

R 80, RT, G/S

798 cc 37 kW (50 bhp)

R 100 RS

980 cc 44 kW (60 bhp)

K 75, C, S

740 cc 55 kW (75 bhp)

K 100, RS, RT, LT

987 cc 66 kW (90 bhp)



BMW motorcycles – like the cars – have a characteristic form. Customers can choose between twelve basic models and over 150 special fittings and accessories. The motorcycles of the R Series have 2-cylinder flat twin engines, those of the K Series 3- and 4-cylinder in-line engines.

Demand for new motorcycles again decreased worldwide in 1986. Some 955,000 units were sold in the most important countries, 14% fewer than in the previous year and 40% fewer than five years ago when demand was highest. The favorable development of the world economy has not yet influenced the motorcycle markets.

However, there were variations. While sales declined in large markets, such as the USA, Japan and Italy, they increased markedly in France and Spain. As a whole, the structure shifted further towards motorcycles over 500 cc, the traditional market segment of BMW.

Registrations of new BMW motorcycles rose worldwide by 3% to a new record level of some 35,000 units. They have increased steadily since the range of models was extended by the K Series in 1983. Thus, in contrast to the market trend, BMW gained new customers.

The previous year's figure was also exceeded slightly in the Federal Republic of Germany. While the market continued to be weak, the BMW share rose to 12.3% compared with 11.8% in the previous year. Every third customer buying a motorcycle above 750 cc decided on a BMW; it continued to lead in this competitive field.

As in previous years, three-quarters of the motorcycles produced were sold abroad. BMW's market share rose worldwide from 3.1% to 3.7%. The largest export markets for BMW motorcycles remained the USA, Italy, Great Britain and France; they accounted for almost 60% of all new registrations abroad in the year under review.

In the United States, the most important sales market for motorcycles, 800,000 motorcycles were sold five years ago. In 1986 demand dropped again by some 20% to 335,000 units. BMW increased sales slightly to 5,800 units; this was particularly due to the success of the K 75 Series.

BMW motorcycles are being used increasingly by authorities because they are reliable and easy to maintain. In the year under review, 3,100 motorcycles were supplied to various authorities in over 40 countries, the highest annual figure for ten years. The range for this segment of the market is aimed to meet the most varied requirements. The proven motorcycles with flat twin engines continued to be particularly in demand; their share amounted to 83% in the year under review.

In the range from 500 to 750 cc BMW offers K 75 motorcycles with 3-cylinder engines and the revised R 65 with a 2-cylinder flat twin engine. These motorcycles were first available for the 1986 sales season; worldwide they achieved a 3% share of the particularly competitive market for medium-sized motorcycles.

Every seventh motorcycle above 750 cc was a BMW; this is the highest world market share in modern BMW motorcycle history. BMW offers large motorcycles with two engine concepts: the 4-cylinder models of the K 100 Series which – like the K 75 – are designed to meet the highest technical demands, and the R 80 to R 100 RS with twin flat engines.

An extensively fitted touring model, the K 100LT, was introduced in the K 100 Series. From autumn 1987, an electronic anti-lock braking system will be available for motorcycles of this series; this system is absolutely new worldwide. The high technical standard of these motorcycles is also evident from the environment-friendly, low-consumption electronic fuel injection with thrust switch-off; this is also used in the K 75 Series. Modern car technology is used for the motorcycle wherever it is expedient and possible.

The production of BMW motorcycles was cut back to 32,000 units in the year

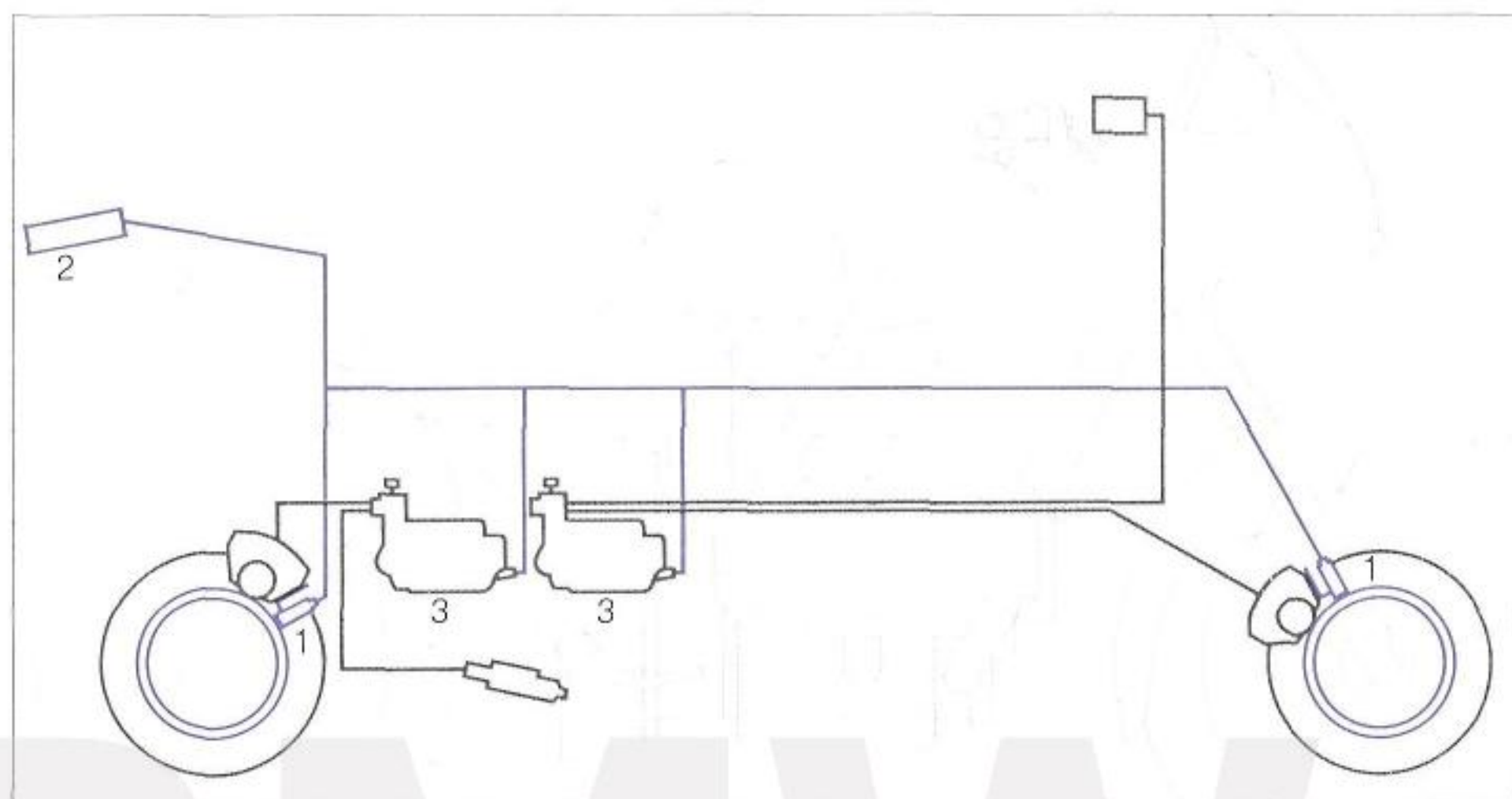
under review in order to take account of the development of the markets. This makes the value of the motorcycles more stable and increases the customers' confidence in the make.

BMW motorcycles, parts and accessories are sold by BMW Motorrad GmbH + Co. with its registered office in Munich. Sales in the motorcycle business were again well over DM 400 million.

Investments of some DM 30 million in the Berlin plant were used to prepare for the manufacture of new model versions and to expand the parts manufacture for car production in the Bavarian plants. At the end of the year 2,100 people were employed in the motorcycle business not only in the Berlin plant but also in the development division and at BMW Motorrad GmbH + Co. in Munich.



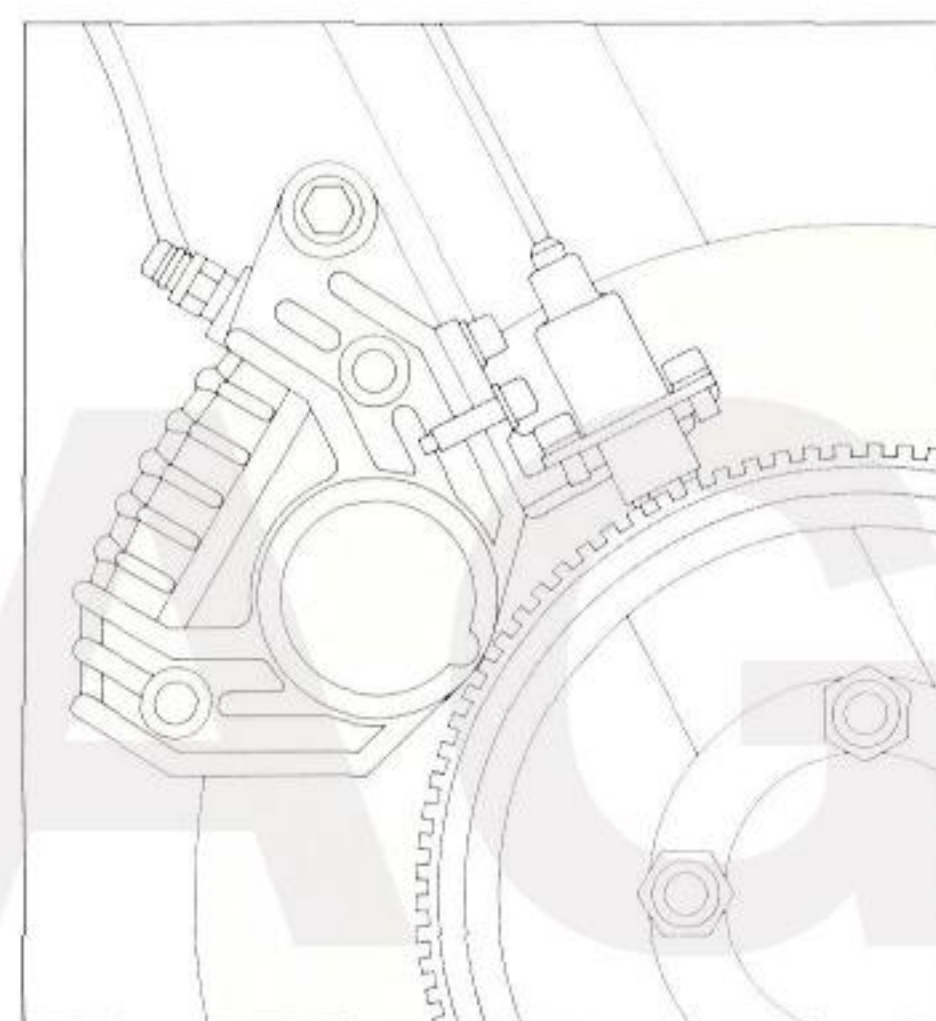
The anti-lock braking system introduced in BMW motorcycles for the first time has decisive advantages for motorcycling safety. With this system the danger of wheels locking, usually resulting in a fall, is excluded. When driving in a straight line, motorcycles fitted with an anti-lock braking system can be braked quickly and safely even on a slippery road surface.



BMW motorcycles again received numerous distinctions in the year under review. The readers of the magazine "MOTORRAD", Europe's largest specialized journal, voted the K 100 RS "Motorcycle of the Year" for the fourth successive year; the R 80 G/S was voted the "Enduro of the Year" for the sixth time. In Japan the K 100 RS was the first foreign motorcycle to be awarded the rare distinction of the "G-Mark" for high product quality by the Ministry for International Trade and Industry (MITI).

The range of models has all the prerequisites for continued success in the market segment of top-quality motorcycles. Interest in motorcycling as a leisure activity continues; this is shown by the high number of motorcycles registered and the demand for used machines. This is three to four times higher than the number of new registrations.

As customers become more aware of costs, and product quality improves, motorcycles both last and are kept longer. In the medium term, however, demand is expected to be stimulated more by the need for replacements.



Sensors (1) report the speeds of the front and rear wheel to the electronic control unit (2). As soon as a wheel threatens to lock, the hydraulic pressure on the brake cylinder is reduced by pressure modulators (3) until the wheel continues revolving. This process is repeated up to seven times per second as long as the rider generates the necessary brake pressure and the motorcycle is traveling faster than 4 km/h (2½ mph).

The sensor detects how quickly the wheel is turning by sensing the pulse generator gear wheel.

The automobile business

Economic development in the Western industrial nations as a whole was not particularly dynamic in the first few months of 1987. In the United States economic growth remained contained; in Japan it slackened markedly because exports to the USA decreased due to changes in parity. Only the Western European countries provided impulses, and here these were due particularly to private consumption. The drop in value of the US dollar as well as the decline of exports to the OPEC and threshold countries, however, checked the recovery process.

Nevertheless, the overall economic climate is still favorable for the automobile business. Inflation rates are low worldwide; oil prices have stabilized. The real incomes of private households are still increasing. At the same time the trend towards lower interest rates has continued. The conditions are right for continued growth of real private consumption and, therefore, of car demand.

World economic development, however, is not entirely free of risks in 1987. The situation in the USA continues to be precarious because of the unsolved deficit problems in the national budget and in the current account. Meanwhile, the dollar is no longer overvalued but a further decline cannot be excluded. This causes additional uncertainty about other countries' export prospects. The high indebtedness of the threshold countries, due to the continuingly low prices of raw materials, will have negative repercussions on the international banking system.

For a highly export-oriented country, such as the Federal Republic, special risks are to be seen in the increasingly protectionist trends in world trade. This applies especially to the German automobile industry with an export share of about 60%.

In view of the sustained growth of real incomes, it is assumed that demand for cars will continue to be high worldwide. The American automobile market will weaken after the boom years, but in Europe registrations are expected to rise further.

In spite of the German automobile industry's good starting position, the chances have decreased of the favorable development continuing. On the one hand, after the immense growth of past years, activity on the large sales markets is expected to subside for cyclical reasons. On the other hand, the abrupt and substantial devaluation of the dollar, as well as the cost increases connected with collective wage agreements, have put the competitiveness of German manufacturers under considerable pressure both at home and abroad.

The previous year's record figures are not likely to be achieved on the German automobile market for some time. Because car purchases were brought forward for tax reasons at the end of 1986, car demand has partly been met in advance. Nevertheless, considering the high starting level, 1987 will be another good year for the automobile. The situation is similar for exports; their development will be slowed, not only by economic factors, but also by currency-related difficulties. Therefore, automobile production in the Federal Republic will fall short of the high volume of the previous year.

Outlook for BMW

In the year under review BMW made preparations to utilize the potential of the markets to greater advantage in years to come and, thus, to safeguard and develop the Company's position on world markets.

The Company aims to continue to be economically successful by concentrating on the upper segments of the market. After years of rapid growth BMW has largely achieved the competitive position it requires. Future activities will, therefore, concentrate on expanding this position qualitatively.

BMW develops and produces automobiles, motorcycles and engines for fastidious customers throughout the world. Since the introduction of the new 7 Series, BMW cars have been increasingly in the forefront of public attention. This applies particularly to the 750i with its

12-cylinder engine, which will be introduced on the world markets in summer 1987. The new 7 Series car sets the pace for luxury limousines.

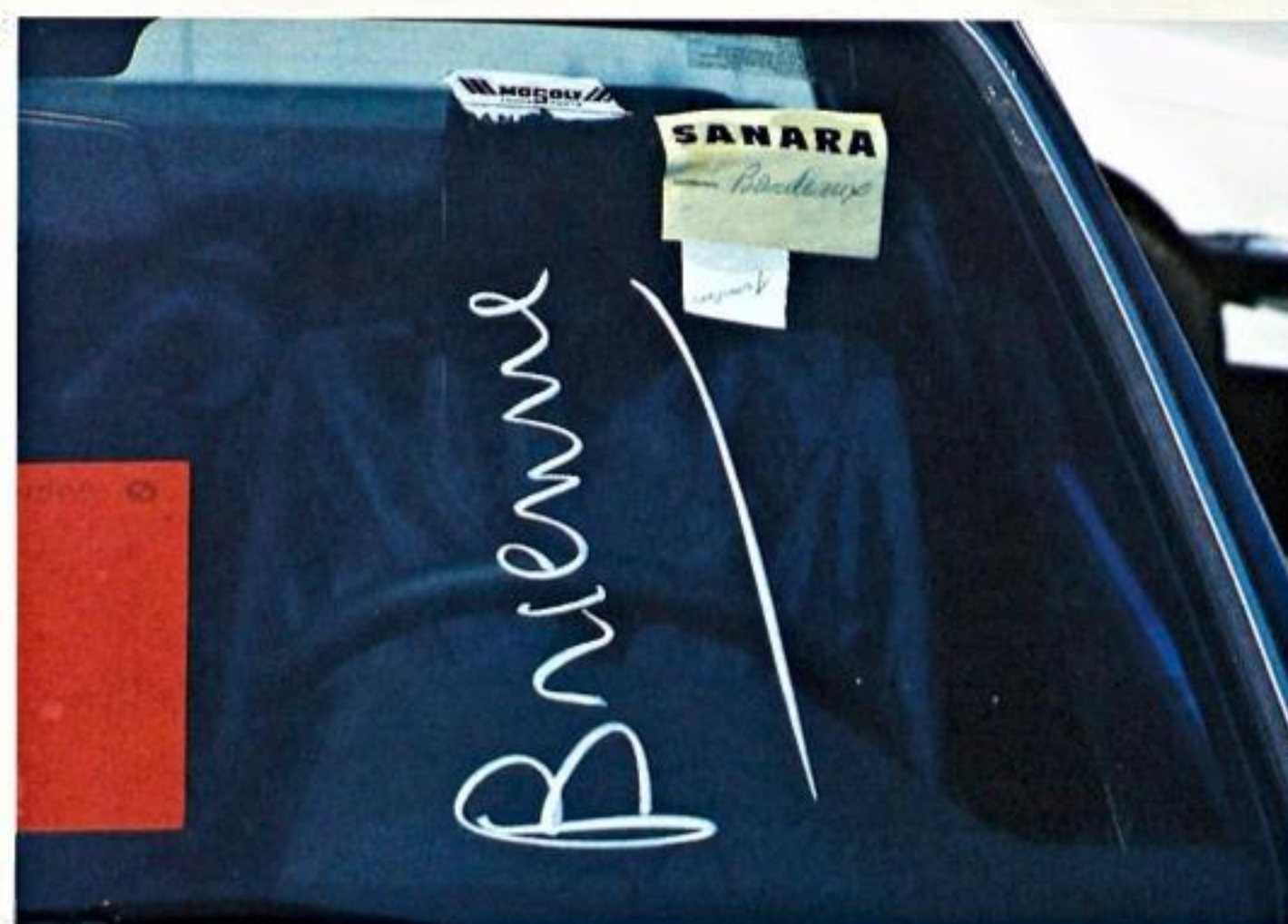
The renewal of the entire range of models and engines in the next few years will contribute to the Company's continued success. As in the past, BMW cars will offer driving pleasure due to excellent performance and individual design. The most exacting demands of quality, safety and environmental compatibility will continue to be met.

The new Research and Engineering Center ensures that BMW will be able to develop and produce cars with trend-setting technology. With the new automobile plant in Regensburg, the Company's development achievements can be turned into market success. This plant will first relieve the workload at the Munich and Dingolfing factories, which have operated beyond capacity for years. Subsequently, it will create the capacity particularly to cope with the increasing demand for higher-grade models.

As in the year under review, the volume of investments will be extremely high during the next few years. Substantial amounts will be used to renew the range of models and engines. The plants are being renovated and altered constantly in keeping with the latest technical standards; great store is set by the further modernization of work stations.

In view of the existing and scheduled structures of the model range, development, production and the marketing organization, there is every reason to be confident that BMW will continue to be successful despite increasing competition. The entire Company is oriented towards this aim.

A BMW Dealer in France



The history of Bayerische Motoren Werke began some 70 years ago. Since then it has grown from a small workshop for aircraft engines to an international automobile group. Apart from the fascination of the actual products, at all times and at all levels of the Company, outstanding personalities have contributed with great enthusiasm to the development of BMW.

They are not only in the management floors, the design engineers' offices, the workshops or the marketing departments of the Company. The local representatives, the dealers, also contribute substantially to the success of the BMW make in more than one hundred countries throughout the world.

The number of these dealers has increased by almost two-thirds in the last 20 years. Production and sales of automobiles, however, have increased six-fold during this period. Group sales grew 23 times from DM 750 million to DM 17.5 billion.

The Company's dynamic nature affects the dealers in a variety of ways. Not only has the number of vehicles to be serviced by these businesses risen considerably in the last few years. Also the customers' wishes, as well as highly sophisticated car technology, make increasing demands on the dealers.

Philippe Dagut is one of them. His firm, "Brienne-Auto" has its headquarters in Bordeaux. "Brienne-Auto" is neither the largest BMW dealer in France nor the smallest. It is not the youngest but certainly not the oldest. Philippe Dagut's "Brienne-Auto" is one of many possible examples that show how entrepreneurial individuality and the identity of an international make can be successfully combined.



The man.
The firm's driving force.

Philippe Dagut grew up with cars. His father dealt in those French cars that made a name for themselves with luxurious suspension comfort and extravagant design. Here, with his training as salesman, Dagut laid the foundations of his present occupation.

For his own firm he opted to represent BMW. When asked the reason, he likes to point to the market opportunities of these cars in the Gironde district with its center at Bordeaux. His deliberations are determined by supply and demand and by value for money: Philippe Dagut is a businessman of the modern school. That is not all. When talking to him it becomes clear that he gains emotionally from being involved with a make with which he can identify himself.

Female BMW drivers, so the statistics tell us, are mostly self-confident and ambitious. This applies to Madame Stéphanie Dagut. At "Brienne-Auto" she is concerned with everything that happens after a car is sold. At the same time she is the boss's dedicated and tactful deputy.

Like her husband, she spends eleven to twelve hours each day in the business. Apart from the weekends, she also keeps Wednesday free for their daughters Valérie and Marie. Both attend a day school in Arcachon, the Dagut's home.



The business.
Many contribute to success.



"Brienne-Auto" began operations in Bordeaux in May 1985. It covers an area of 10,000 sq. m., 2,000 sq. m. of which are under cover. The architecture is purpose-oriented but nevertheless individually and attractively designed. The technical installations are the very latest. The showroom is friendly and elegant.

Several million francs were invested in the business. "We planned everything very carefully", reports Dagut. The crisis that was such a burden on the French car trading branch in the year "Brienne-Auto" was founded involved unforeseen risks for the firm. Nevertheless, the undertaking proved successful. The firm is flourishing and in 1986, its first full business year, more new cars were sold than by the average French BMW dealer.

Dagut's plans go far beyond present achievements although expansion is not his top priority. "BMW drivers expect not only a perfect product but also perfect service", he says with conviction. Therefore, prompted by the rapid growth of the firm, he has increased his staff from 24 to 33 in the last two years.

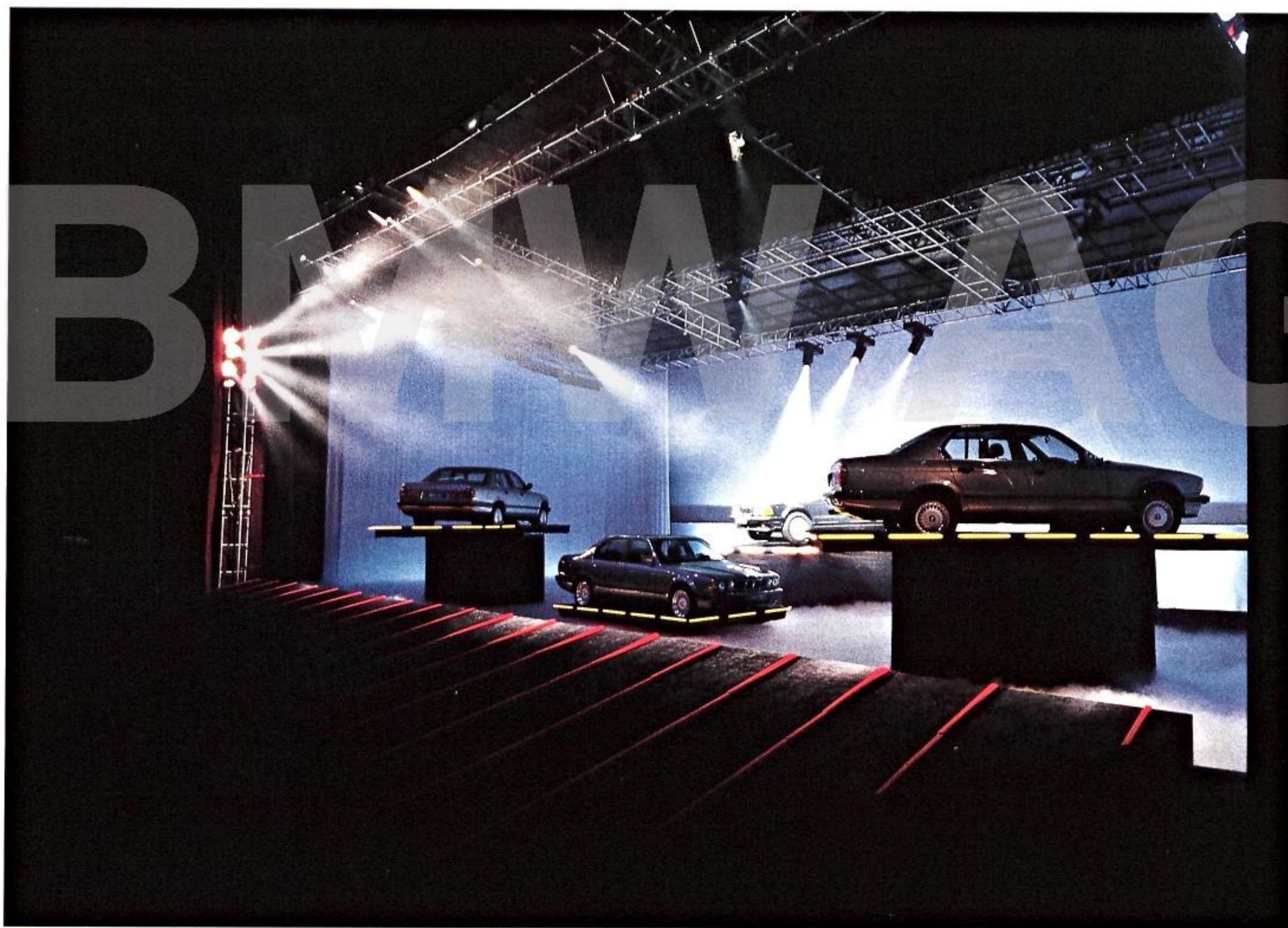
Philippe Dagut is confident his customers appreciate the advantages of the best possible service in the long term and are prepared to pay for it. At "Brienne-Auto" great store is set by "la compétence" which Dagut promises the public in Bordeaux and its surroundings.

Dagut attaches great importance to his staff's willingness to work for the common good. As a mark of his appreciation, for the special efforts required in the firm's early months, he invited them to a skiing holiday in the Pyrenees in March 1986. He sees himself and his staff as a competitive sports team: a flexible hierarchy with efficient cooperation.





The marketing organization.
Efficiency through
close cooperation.



Today's automobile dealers depend on a functional network in order to remain competitive. They require a logistic system which ensures a constant supply, not only of cars and parts, but also of information and professional expertise.

BMW France, one of the BMW Group's fourteen marketing subsidiaries, plays this role for BMW dealers in France. From its headquarters in Bois d'Arcy near Paris it coordinates the marketing of BMW products in France. The company supports the dealers with information, service functions and training. Technology, marketing and economics interlace.

The presentation of a new model is always a special event. In September 1986 the new 7 Series car was introduced in Cannes to more than 4,000 BMW dealers from all over the world. For BMW France, like all other BMW marketing companies, the introduction of new cars always requires extensive preparations. The employees in the dealer organization have to be familiarized with the new technology, the supply of spare parts has to be assured in good time and technical facilities must be extended.

Because of this, in the last quarter of 1986 alone, BMW France invited dealers to thirteen seminars on the new 7 Series car. As head of "Brienne-Auto", Philippe Dagut visited some of these events himself. He sent his sales, customer service and body repairs staff to others. "Brienne-Auto", like the other BMW dealers throughout the world was, therefore, fully prepared for the delivery of the first new cars, as BMW customers would expect.





The customers.
Individuality has
something in common.

Bernard Badets
owns a boatyard.



Jean-Michel Fourquet plays the trombone in the
"Orchestre de Bordeaux-Aquitaine".



Bouldy father and son run a small,
idyllic vineyard.



Gérard Despagne is the mayor of Montagne near St. Emilion.



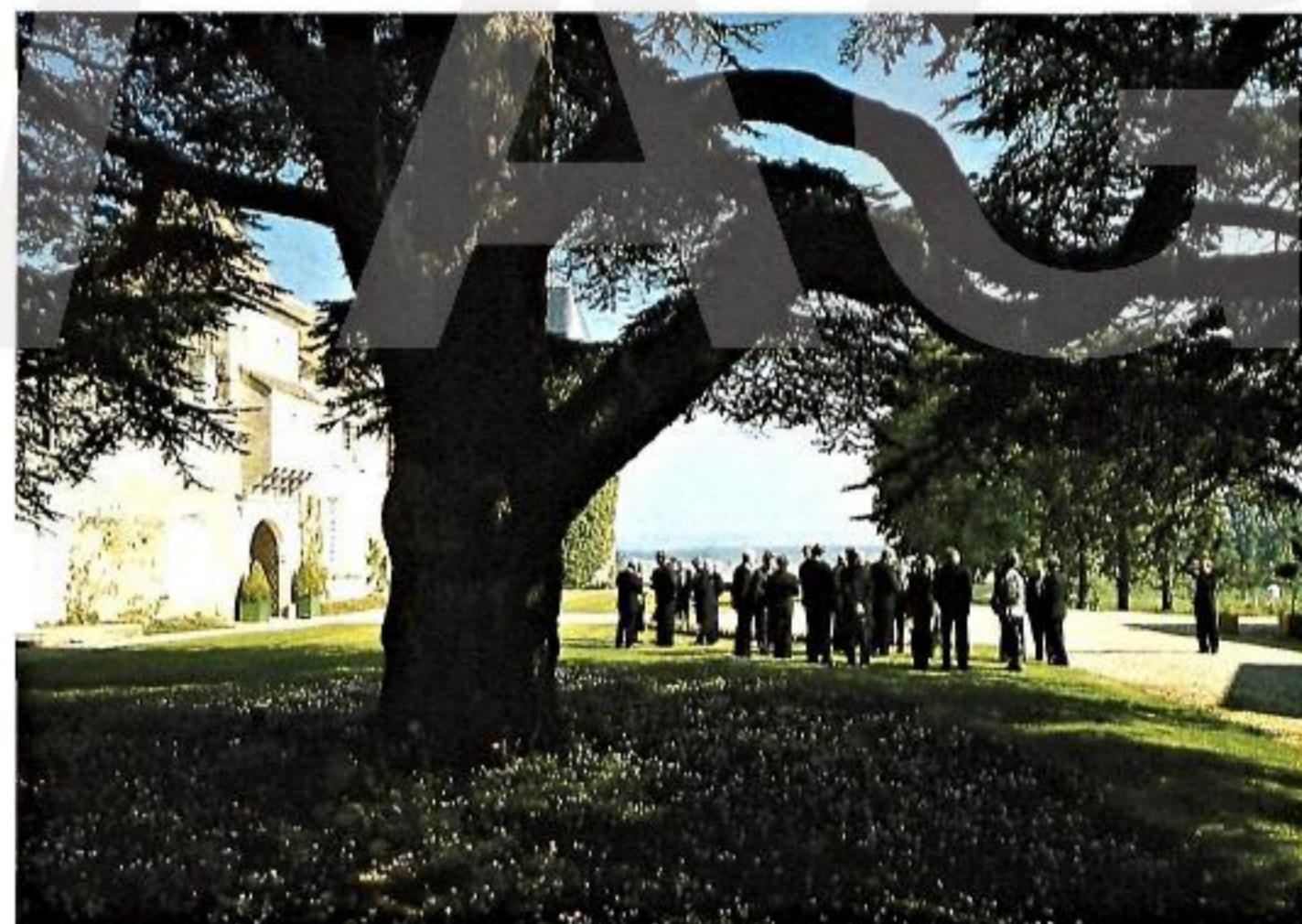
What have the Bouldy father and son who run the small vineyard of "Bellegrove" in common with Jean Layraud, the director of an import and export firm who travels on business in Africa almost as much as in his native Garonne? They drive BMWs and are customers of Philippe Dagut.

Many BMW drivers put their trust in Philippe Dagut for the purchase and maintenance of their cars. They come from every walk of life. For example, Jean-Michel Fourquet, who lives with his family in the romantic old part of Bordeaux, is a professional musician; he is a member of the "Orchestre de Bordeaux-Aquitaine". In contrast, Gérard Despagne is the mayor of Montagne near St. Emilion. Apart from his public office, he is kept busy with his vineyards, whose products are exported to countries in Europe, such as Denmark, the Netherlands and Switzerland, and also to the USA.

Bernard Badets also buys his BMW from "Brienne-Auto". Only a few years ago he made boat varnishes. Today, he owns a boat-building yard. In addition, he has built up other small firms that make sails and boat trailers. Dagut's circle of customers also includes Alexandre Comte de Lur-Saluces. The wines of his "Château Yquem" bear the exclusive ratings "Premier Grand Cru" and "Premier Grand Cru Classé". They are the most famous of the "vins liquoreux" of the Sauternes. The Comte's ancestors had supplied the noblest houses – the Russian Czar's court and American presidents – with select wines.

If there were a typology that could do justice to all Dagut's business partners, it would have to orient itself on the character of the Bordelais and its inhabitants. BMW drivers are generally considered committed and cosmopolitan; they tend to lead full lives. However, having these characteristics in common has nothing to do with uniformity. This is shown by Philippe Dagut's customers.

Wine connoisseurs from all over the world meet at the "Château Yquem" of the Comte de Lur-Saluces.





Philippe Dagut is a BMW dealer whose success is due not only to the product but also to his personal commitment and style. However, his chosen path is not the only one to lead to this goal. He is not the only dealer to make BMW successful in Bordeaux.

In Mérignac, outside the city, Patrick Mercier runs another BMW business. The firm covers an area of 9,500 sq. m. with buildings accounting for 2,700 sq. m.; 40 people are employed there. This firm is also strongly influenced by "le patron" who expresses his personality in quite another way.

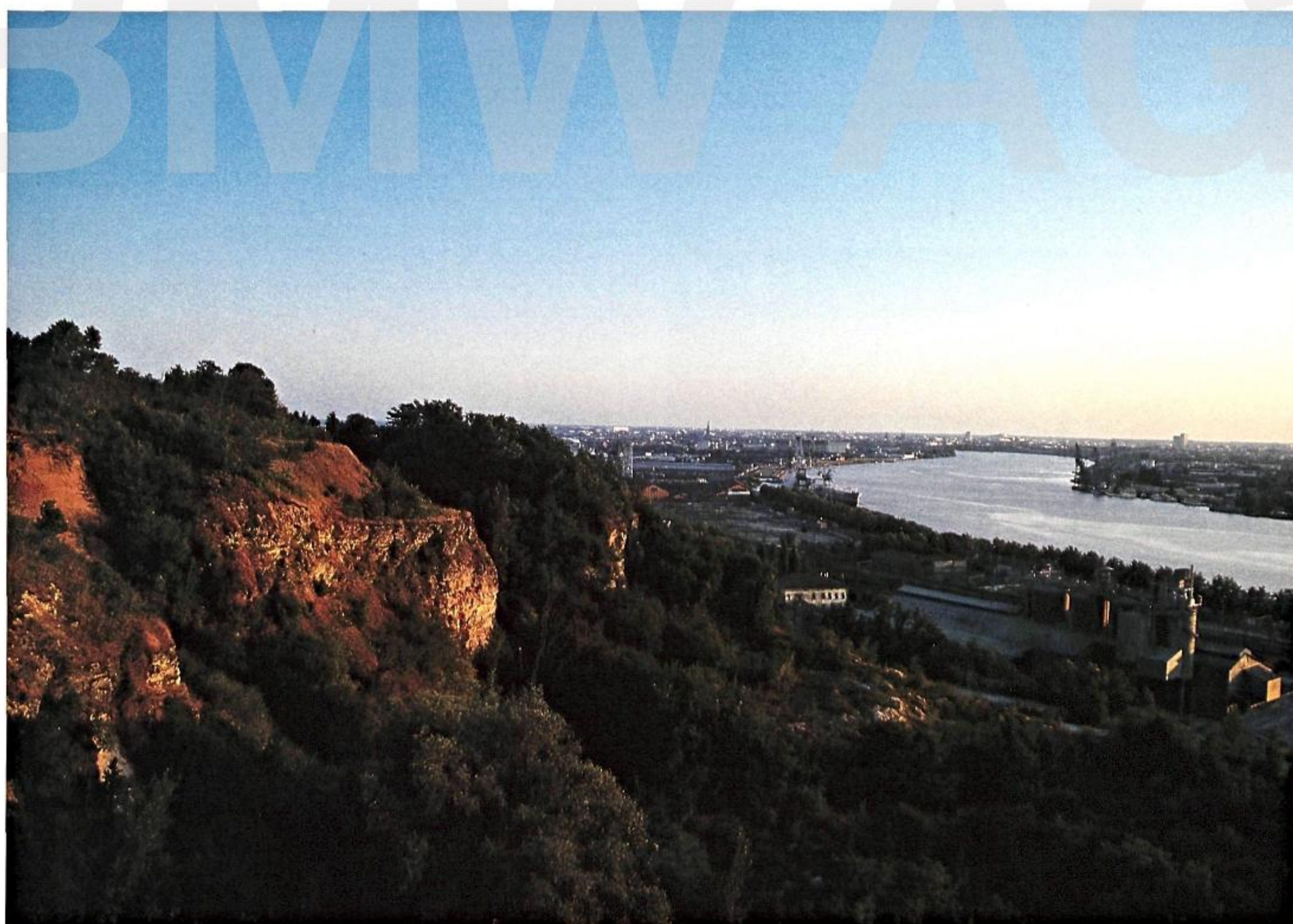
Whereas Dagut supports transparency and spaciousness in architecture, his colleague Mercier prefers the clarity of plain structures. Despite the outward similarity of both dealerships, part of the commitment to BMW, there is still room for individuality. Both men's ideas on management and company aims have their personal touch.

The customers of Bordeaux endorse the path chosen by each dealer. Both Patrick Mercier and Philippe Dagut are successful companies.



Two of many.
Different paths lead
to the same goal.

BMW AG



The dynamic nature of the Group.
Opportunity and challenge
for the dealers.

Some 30,000 new BMW cars and over 2,000 motorcycles each year reach their owners through the dealers in France. Thus, the "Grande Nation" ranks third amongst the Company's export markets. Altogether, 165 dealers represent the make in France. They belong to an organization which, 20 years ago, sold 70,000 BMWs annually through 2,700 businesses worldwide. Today 450,000 cars are sold annually through 4,400 dealers.

The growth of the Company was linked with the extensive widening of the model range. BMW has established itself in the upper segments of the automobile market. While the 1500 and 2000 BMW models represented a narrow market slot in the 1960s, today the BMW 750i, with its 12-cylinder engine, is considered the top product of the international automobile industry.

BMW dealers throughout the world take advantage of the opportunities offered. They show they are fully capable of meeting the challenge involved in the Group's development. The satisfaction of their customers is convincing proof.



Research and Development

BMW automobiles, motorcycles and engines are developed and manufactured by means of progressive, high-quality technology. As the efficiency of the automobile industry increases worldwide, the Company can maintain and develop its competitive edge only by the selective application and universal use of every technical possibility.

Therefore, BMW is bringing all the departments involved in car development, production planning and logistics under one roof in a Research and Engineering Center. Its architecture and facilities will permit new forms of cooperation between the various fields according to the principles of project management.

This large-scale project improves efficiency through close cooperation in every phase of the development process. Development times will be cut, reactions to meet new requirements speeded up, costs reduced and product quality further enhanced.

The first stage of construction was opened at the end of 1986; the second followed in spring 1987. This center is a milestone for automobile development at BMW.

New 7 Series sets standards in essential product features

With the new cars of the 7 Series, introduced in autumn of the year under review, BMW emphasizes its outstanding position in the automobile industry. The cars' special features are singular harmony of form, performance and comfort.

The range consists of three models: the 730i and 735i with high-power 6-cylinder in-line engines; they have been specially designed for operation with catalytic converter. This has involved extensive further development work. The top model, the 750i, is fitted with a completely new 12-cylinder engine. The 735i and 750i models are also available in an extended wheelbase version.

The large number of technical innovations introduced in these cars met with widespread approval in the trade. They will gradually be integrated into other model series; moreover, they provide impulses for the entire range of automobiles at the top end of the market.

Progressive technology, such as CAD and CAM, was used extensively in the development of the new 7 Series. The bodywork was entirely the result of CAD. The development data could, therefore, be processed directly for the production of prototypes and tools.

The car looks elegant and dynamic and has excellent, balanced aerodynamics. The low drag has been achieved without cross wind sensitivity, lift forces, restricted vision or limited door entry.

The bodywork's great rigidity largely prevents vibration; thus, the car has all the essentials for great comfort as well as for the exact coordination of the front and rear axles. The result is an excellent chassis with safe handling characteristics that are outstanding in the top category of cars.

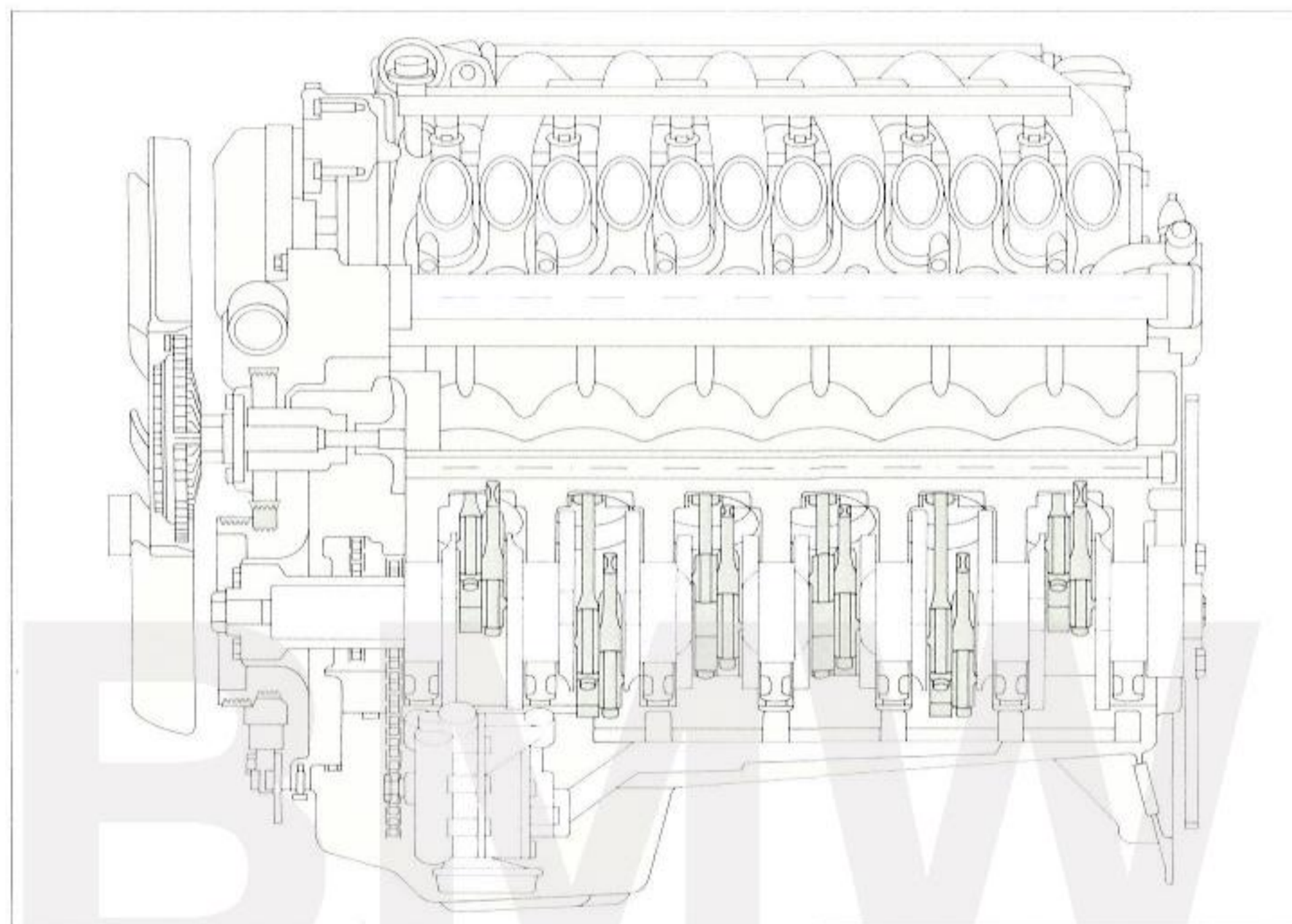
The cars of the 7 Series have extremely low noise levels. This is due to extensive developments to minimize bodywork, drive shaft and chassis noise. While the outer dimensions are compact, the generously dimensioned interior contributes towards travelling comfort.

The large 6-cylinder BMW engines are fitted with improved electronic engine control. The third generation of Motronics also takes account of engine data relating to wear and tear; mixture and ignition adjust independently of the engine speed in the most efficient manner.

Performance, engine power and smooth running have increased as a result of newly designed cylinder heads and combustion chambers. At the same time considerable progress has been made with regard to economic efficiency, reliability and environmental protection.

The 3 liter engine with catalytic converter has an output of 138 kW (188 bhp) and accelerates the car from 0 to 100 km/h (62 mph) in 9.4 sec. In the three-cycle average according to DIN, fuel consumption amounts to 11.1 liters/100 km (25 mpg). Only minimal quantities of pollutants are emitted because controlled catalytic converters are standard fittings in markets with unleaded fuel.

With the 12-cylinder version BMW offers an unusually smooth-running engine with outstanding performance. Its special features include the completely independent systems for fuel mixture and ignition for both rows of cylinders, and the engine's low weight, for its size, of only 240 kg (529 lbs). High reliability is achieved through sophisticated technology and the multiple protection of major functions.



The BMW 12-cylinder engine with large capacity and excellent performance has the advantage of small cylinder units: the forged crankshaft has twelve counterweights and seven bearings. With this design the engine runs with virtually no vibrations.

The engine block is of an aluminium alloy. Using a special caustic process, particularly hard silicon crystals are uncovered in the slideways; thus, cylinder liners are not required. Together with iron-coated pistons, this means decisive advantages for resistance to wear and for weight.

Both rows of cylinders have their own engine electronics. These control systems are linked together. Thus, for the first time in a 12-cylinder engine, both rows of cylinders are fully synchronized. The fuel feed and ignition systems are also duplicated.



The efficiency of electronic controls has been increased by linking individual systems, and also has been used in new areas. With new methods of production, a drastic reduction of components and new plug systems, functional reliability has been markedly increased. Thus, in the year under review BMW once again prepared the way for the increased use of electronics in automobiles.

The fields of application of electronic systems extend from engine and transmission control, through the anti-lock braking system and automatic stability control, which prevents the driving wheels from slipping, to self-diagnosis and the service interval indicator.

For the first time, ellipsoid technology has been applied to dipped headlights and foglights in series-produced cars. The typical BMW form of round twin headlights has been maintained, providing maximum light and precise road illumination.

The front bumper system has not only hydraulic shock absorbers but easily replaceable deformation elements known as impact boxes. They prevent damage to bearing parts up to an impact speed of 15 km/h (9.3 mph).

The newly developed seat belt system contributes considerably to the passive safety of the large BMW limousines. The height of the shoulder belt is adjusted automatically for driver and front passenger, depending on seat position. In the back, a new ergonomic seat belt system guarantees optimum belt operation and easy handling at all times.

An extremely high level of quality was achieved before series-production began. This was due to the close cooperation of all divisions of the Company and of suppliers. Separately assembled and checked components, such as dashboards and doors, not produced on the assembly line, also contribute to this. The cars were tested in extensive series of trials in laboratories, on test stands and on the road; their production was prepared with intensive care.

With its individual form, high quality and reliability, not to mention its excellent performance and handling, the new 7 Series car has been designed to meet the most exacting demands.

Model updating with environmental protection and safety in mind

The other model series were further improved. The comprehensive range of automobiles with low emission levels was supplemented by additional versions. Since late autumn the 320i and 325i models – including the four-wheel drive version and the convertible – as well as the 520i have also been available with catalytic converters. This also applies to the M 3 and M 635 CSi cars with four-valve technology. In spring 1986 the 524d was introduced with a 6-cylinder diesel engine.

BMW automobiles feature high levels of active and passive safety. An electronic anti-lock braking system is among the standard fittings of the 6 and 7 Series as well as of eight models of the other series; the anti-lock braking system can be supplied in all 6-cylinder models. The airbag is available for the entire range.

In the year under review the 325i convertible, and the M 3 which had already been introduced in 1985, went into series production. The 4-cylinder engine of the M 3, derived from the BMW Formula 2 engine, has four valves per cylinder. With a catalytic converter it has an output of 143 kW (195 bhp). Combined with a sporting high-performance chassis, the M 3 provides a suitable basis for use in touring car sports in accordance with Group A regulations.

New BMW test track in Miramas

The high demands on BMW cars make thorough testing and coordination of all components, as well as the entire automobile, indispensable. After testing in laboratories and on test stands, therefore, newly designed models are further tried and developed on a test track where conditions can be largely reproduced.

With the increasing variety of models and the more complex car technology involved, the necessary tests were increasingly exceeding the scope of the test track and measuring facilities near Munich. Thus, BMW bought a second test area. The former track of a French tire manufacturer in Miramas in the South of France covers 312 hectares and has, therefore, an area five times that of the Munich proving ground. It is also suitable for long-term testing and, because of the mild climate, can be used virtually all the year round.

The high-speed track and stretches for testing car handling can be extended; there is room at Miramas for areas for testing dynamics and for special tracks.

BMW research

Apart from the current series development, BMW engineers work intensively on the drive concepts and traffic information systems of the future.

In addition to alternative drive systems, such as the electric motor, the possibilities of using new fuels, particularly hydrogen, are being tested. The combustion of hydrogen produces only steam and negligible quantities of nitrogen monoxide.

In July 1986 a hydrogen-operated BMW 745i was introduced jointly with the Deutsche Forschungs- und Versuchsanstalt für Luft und Raumfahrt (an institution that specializes in air and space research). This is Europe's first experimental car in which hydrogen is stored in liquid form and is injected directly into the combustion chamber according to the principle of internal mixture.

Of all the developments currently known, this concept promises to be the most successful in the long term as

regards tank weight, costs and performance. So far the project studies based on the new 7 Series indicate a range of 400 km (250 miles) with a tank weight of 100 kg (220 lbs) including fuel. However, cars for daily use cannot be expected for some time to come.

Within the framework of the EEC's research initiative "Eureka", BMW is participating in "Prometheus", a joint project of the European automobile industry with the cooperation of independent research organizations. Its aim is to "manage" the traffic of the future with highly developed information technology.

In this project, the very bases of information systems of relevance to road safety are being studied. They concern the reciprocal relationship of driver and vehicle for active safety, as well as comprehensive guidance, information and communications systems for road traffic. The project also focuses on environmental protection, fuel consumption and driving comfort.

In 1986 the project was in the definition phase; this forms the basis of the seven-year implementation phase starting on October 1, 1987.

Workforce and Social Report

At the end of 1986 BMW employed some 58,000 people worldwide. 51,600 were in the Federal Republic, 3,800 more than in the previous year. In Germany alone, more than 12,000 new jobs have been created since the beginning of the 1980s.

Additional employees for new tasks

At the Regensburg plant, which became operational in late autumn 1986, 1,100 new positions were filled. Now some 1,800 people work there. The workforce at the Dingolfing plant increased by almost 1,000. This was the result of new start-ups and an increasing variety of car versions and fittings. The workforce at the Munich plant remained the same as in the previous year.

An additional 750 staff were engaged in the technical divisions at headquarters and in central data processing to advance the development of new products and production techniques and to further rationalize organization. Increased marketing activities also required additional personnel.

A further 1,000 positions were still vacant at the end of the year. This is due to the concentration of high-tech industries in the Munich area. Engineers, computer scientists and measurement technicians, as well as skilled manpower with industrial training, are extremely difficult to find.

Changed structure of the workforce

Research and Development has been expanding intensively for years. Consequently, the proportion of salaried employees with university or technical college qualifications has increased considerably. At the end of 1986 every third employee – a total of some 5,000 – had qualifications of this kind. The level of training has also risen amongst the wage earners. They account for 63% of the workforce; some 23% of all wage earners are of non-German nationality.

The average age of the BMW workforce has fallen by 0.4 of a year to 36.2 years due to the large increase in numbers in the year under review.

Labor turnover remained unchanged compared with the previous year. The sickness rate declined slightly. This also applies to cases of injury as a whole; the number of industrial accidents that had to be reported rose slightly.

Training and further training oriented to future needs

In future, the Company's competitiveness will increasingly be determined by the performance and qualifications of the workforce. As a result of discernible demographic developments, it will become even harder to find qualified manpower in the future; competition will grow between companies. BMW is therefore using new methods to recruit suitable employees and is stepping up schemes to familiarize them with their work and to upgrade their qualifications.

This also applies to initial vocational training. In 1986 the number of places for apprentices was again increased. At the end of the year there were some 2,600 apprentices, trainees and employees undergoing job conversion at BMW AG, 11% more than in the previous year.

More young people than ever before, almost 800, began training in the year under review; 660 passed their final examinations. Most of them are now employed at BMW. The first young people from the Regensburg area have completed several years' training at the

Social Expenditure of BMW AG

in million DM

Legal and Collective Social Expenditure

Social security contributions	416.7	374.4
Sick pay	91.6	85.0
Paid public holidays	96.1	87.3
Collective vacation pay (50%)	115.4	111.6
Capital savings payments	23.9	22.8
Other collective payments	19.5	17.4
Collective part of 13th month wages and salaries	72.1	60.7

1986 1985

835.3 759.2

Operating Social ExpenditureCanteens, travel expenses,
housing subsidies, health care, etc

70.9 63.4

Additional Social ExpenditureOld age pensions and benefits
Christmas bonus (voluntary part),
special payment and profit sharing
Other benefits, such as long-service and loyalty
premiums, time off, financial savings plan,
additional vacation, etc.84.8 121.8
214.9 199.9
39.4 30.1
339.1 351.8**Total**

1,245.3 1,174.4

Workforce Development

BMW Group (worldwide)

1986 1985
58,062 53,925

Foreign subsidiaries

6,479 6,148

Domestic subsidiaries

864 963

BMW AG

50,719 46,814

thereof:

Head office and Munich plant

26,146 24,950

Dingolfing plant

17,476 16,482

Landshut plant

1,334 1,160

Regensburg plant

1,382 234

Motorcycle division

1,974 2,105

BMW regional offices

2,407 1,883

Dingolfing plant and are now part of the dedicated team at the new plant.

Almost 70 full-time and 640 part-time trainers ensured the well-known high level of training. Expenditure on initial training amounted to DM 50 million in 1986, about one-fifth more than in the previous year.

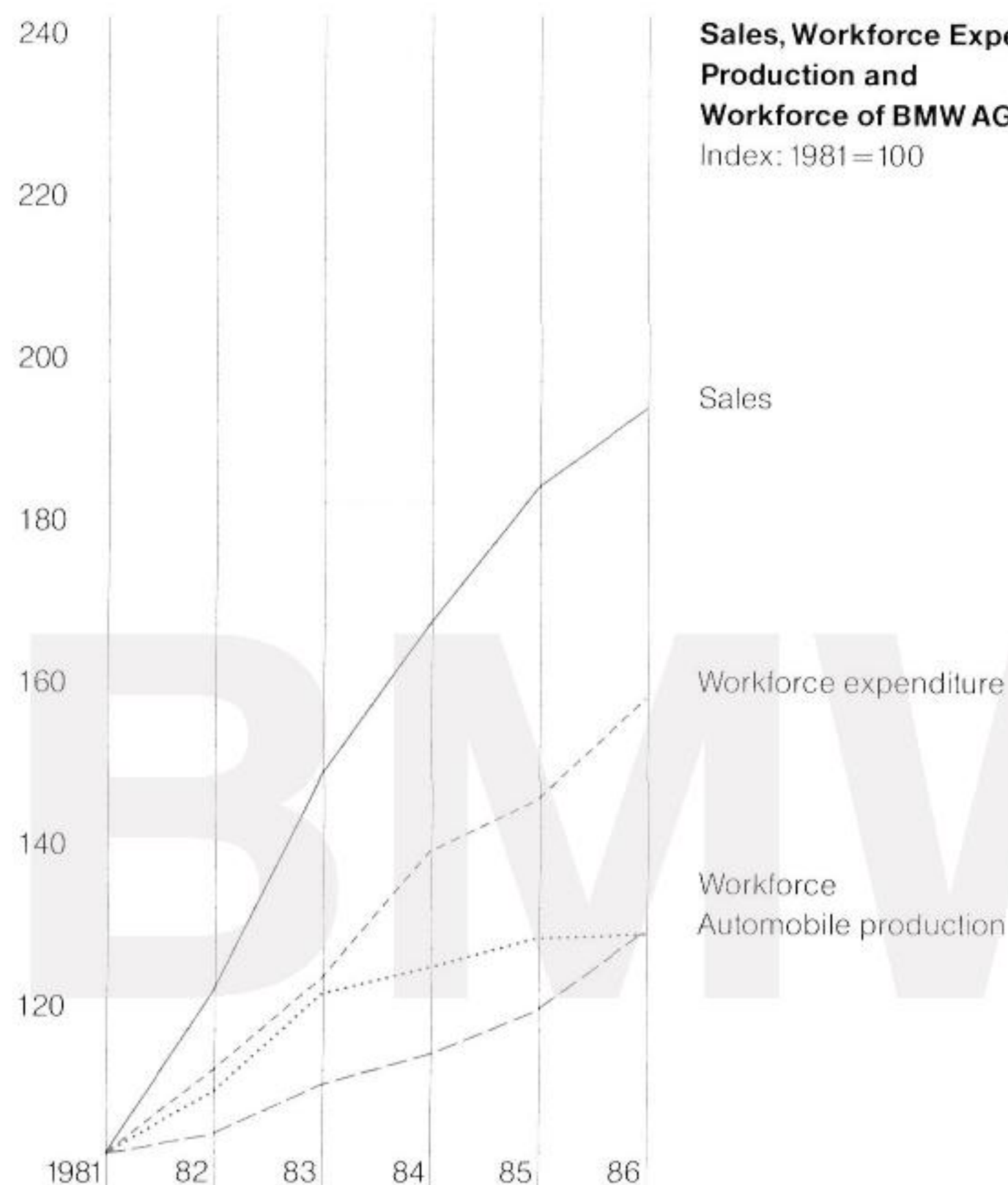
In order to make it easier for young foreigners to obtain job qualifications in the industrial/technical sector, BMW has run a promotion scheme since 1983 which accompanies training. This project, promoted by federal research funds, came to an end in the year under review; the experience gained from it will be integrated into future schemes.

For years labor, management and the legislature have endeavored jointly to reorganize the structure of electrical and metal-working jobs in industry. The preparations were completed in 1986. As a result, an appropriate ordinance was adopted at the beginning of 1987. It takes account of the changed technical, social and organizational requirements that demand flexibility on-the-job and an all-round approach. In an exemplary manner, BMW tried out the new qualified job of production mechanic even before the regulations came into force.

As part of a promotion scheme, young people with final secondary school leaving certificates are trained as CAD technicians in order to staff the design departments of the future. When qualified, they assist the Company's highly specialized design engineers.

A new concept that adapts measures to improve qualifications to meet the Company's future requirements more closely was put into practice in the year under review. It distinguishes between further education of a personal nature and upgrading that is oriented towards requirements and the workplace.

Sales, Workforce Expenditure, Production and Workforce of BMW AG
Index: 1981 = 100



9.37	11.48	12.93	14.25	14.99	Sales in billion DM
2.24	2.47	2.79	2.92	3.17	Workforce expenditure in billion DM
378.8	421.0	432.0	445.2	446.4	Automobile production in thousand units
40,738	43,169	44,692	46,814	50,719	Workforce at end of year

Preparation for the application of the latest technology took priority among further training schemes. There were 5,700 participants in executive training; the main topics were new forms of co-operation and management as a consequence of technical change. Altogether, 35,700 employees took part in some 4,500 training schemes for which BMW invested about DM 29 million, without taking account of the non-productive time involved.

BMW's "Lernstatt" model for solving problems in groups contributed towards increasing the high standard of quality even further and towards ensuring it for new start-ups.

A growing number of employees provided innovative solutions as part of the Company's suggestion scheme. Some 4,400 suggestions were submitted, 9% more than in the previous year. The number of suggestions put into practice also increased. Awards averaged DM 2,000; this is the second highest amount in the German automobile industry.

BMW is aware of its social responsibility and supports employees who are active in social, economic and political groups.

Changed technology demands new work structures

New technology and work structures increase the economic efficiency in all sectors of the Company. By streamlining the flow of work, results are improved at the same time. This usually means that employees are relieved of routine activities while the content of their work increases.

The number of display units, an important indicator of the spread of computer-aided working methods, rose by 30% to 7,700 in 1986, seven times as many as at the beginning of the decade. Their use increased above average at the workplaces of highly qualified staff, for example in the design departments and commercial sections.

Flexible working hours

The increasing amount of capital invested per workplace, and the decreasing number of working hours negotiated by collective agreement, mean that plant operation and personal working hours have to be separated. Only better utilization of capital-intensive plants will enable German industry to continue to be successful in the face of international competition in spite of its high labor costs. More flexible personal working hours make it easier to recruit specialists and skilled manpower.

They also cater for the wishes of the workforce. Account was taken of these in the year under review as long as they were in no way detrimental to the Company's interests. The number of part-time employees rose by over 40% to 900 in 1986 compared with the previous year; they worked an average of 28 hours per week.

In addition, the opportunity of flexi-time was extended wherever feasible. The number of employees who took advantage of this rose by 2,000 to a total of 9,000. The extent to which this widespread form of flexible working hours can be introduced to production-related sectors is currently being studied.

International personnel work was intensified with the aim of having a uniform personnel policy in the Group, while taking account of national factors.

Workforce expenditure and additional benefits

Compared with 1985, total expenditure of BMW AG on the workforce – wages and salaries, social contributions, old age pensions and benefits – rose by 8.7% to DM 3.17 billion. Apart from the growth of the workforce, the 4.4% rise in collectively agreed wages and salaries from April 1, 1986 contributed to this increase.

Wage-related additional costs were almost as high as the actual wage costs. This is one of the reasons why the German automobile industry heads the list in an international comparison of total wage costs.

In addition to the profit share paid out for 1985, employees again received a non-recurring special payment as a sign of appreciation of their cooperation in the year under review. These accounted for expenditure totalling DM 108 million. Expenditure on Christmas bonuses increased by DM 16 million to DM 162 million; DM 72 million of this were collectively negotiated and DM 90 million were voluntary payments by BMW AG. Including collective vacation pay, a total of DM 385 million was paid out. For the employee these payments were the equivalent on average of more than two additional monthly wages or salaries.

A total of DM 20.3 million was paid for Company social benefits to 5,249 retired employees and surviving dependents. This results in an additional average pension provided by the Company of about DM 320 per month. At the end of 1986, due to statutory provisions, 1,245 former employees who had not yet reached the age of retirement had non-lapsable rights to future pension benefits.

The low-interest loan program for the purchase of housing by employees was expanded again in 1986. At the end of the year BMW was helping in the purchase of some 2,000 properties with loans totalling DM 29 million.

BMW spent DM 24 million on capital savings plans for its employees as part of the collectively negotiated payments in accordance with the so-called "936-Mark-Law".

As in the past, the individual establishment of financial savings at Company level was encouraged by the issue of registered dividend right certificates (pursuant to section 221 AktG, Corporation Law) with a face value of DM 50 each and an unlimited term. Since profit shares depend on the dividend paid per share, employees participate directly in the success of the Company. DM 60 million have been approved by the Annual General Meeting for this financial savings concept.

In the year under review, employees were again able to subscribe to as many as 10 registered dividend right certificates, depending on their years of service. A total of 125,000 were subscribed; at 30%, participation of employees was slightly higher than the previous year. At the end of 1986 some 16,000 employees participated in the Company's financial savings program with a total of DM 44.3 million.

25 years ago BMW hired the first foreign workers in Munich to overcome the shortage of manpower during the economic boom.

As a result of rapid growth, the BMW plants' increasing manpower needs could not be met by the domestic labor market in later years. The new employees soon gained a firm foothold, became better qualified and, thus, indispensable.

A fundamental change took place: foreign workers became employees. BMW encouraged this integration process, even outside the factories, with a comprehensive information and assistance program as well as by means of special training courses.

In spite of many efforts and a lot of goodwill on both sides, problems remained. On the one hand they are connected with the demands made on a modern industrial firm and on the other with the special interests of the foreign employees, their mentality and their religion.

BMW feels a responsibility towards its entire workforce. Even today, therefore, the Company concerns itself with the situation of foreigners in the Federal Republic of Germany, for example within the framework of the studies of the so-called "Wuppertaler Kreis", an association of non-profit-making institutions specialized in further training.



Meanwhile the second generation of foreign employees is being trained at BMW. Most of them were born in Germany; their interests and concerns hardly differ from those of young Germans of the same age. Many of them still maintain their traditions.



BMW has about 8,500 foreign employees at its German plants. They come mainly from Greece, Turkey and Yugoslavia; altogether almost forty nationalities are represented. Most of them have worked for the Company for years; some have already celebrated being at BMW for 25 years.



Subsidiaries

Bayerische Motoren Werke
Aktiengesellschaft, Munich
Common stock: DM 750.0 million

Production companies

Marketing companies

Financing companies and other services

Domestic		Foreign
100%*	100%*	100%
BMW Ingenieur-Zentrum Verwaltungs GmbH, Munich DM 0.05 million Industrial company	BMW Motorsport GmbH, Munich DM 0.05 million Participation in motorsport, production and marketing of products for motorsport	BMW Motoren Gesellschaft m.b.H., Steyr, Austria S 1.0 billion Development, production and marketing of engines
99%*	100%*	100%
BMW Ingenieur-Zentrum GmbH + Co., Munich Real estate management company	BMW Technik GmbH, Munich DM 0.05 million Development of new types of products and technologies	BMW Austria Gesellschaft m.b.H., Salzburg, Austria S 50.0 million Marketing of BMW products
100%*	100%*	100%
BMW Leasing GmbH, Munich DM 30.0 million Leasing of automobiles and motorcycles	Bavaria Wirtschafts- agentur GmbH, Munich DM 0.2 million Insurance broker firm	BMW Finance N.V., Den Haag, Netherlands FL 3.5 million Finance company
100%*	51%*	100%
BMW Marine GmbH, Munich DM 6.0 million Production and marketing of marine engines	Bavaria-Lloyd Reisebüro GmbH, Munich DM 0.14 million Travel agency	BMW Overseas Enterprises N.V., Willemstad, Curaçao, N.A. DM 2.0 million Finance company
100%*	45%	100%
BMW Maschinenfabrik Spandau GmbH, Berlin DM 6.0 million Industrial company	BMW Kredit Bank GmbH, Frankfurt/Main DM 24.0 million Finance company	BMW (South Africa) (Pty) Ltd., Pretoria, South Africa R 62.9 million Production and marketing of BMW products
100%*		
BMW Motorrad GmbH, Landshut DM 0.05 million Industrial company		
99%*		
BMW Motorrad GmbH + Co., Munich Marketing of motorcycles		

Major investments in
subsidiaries of BMW AG
in May 1987

* Included in the 1986 con-
solidated financial statements

<p>100% BMW Holding AG, Zurich, Switzerland SFr 10.0 million Holding company</p>	<p>100% BMW Holding B.V., Den Haag, Netherlands FL 3.95 million Holding company</p>	<p>100% BMW (US) Holding Corp., Wilmington, Del., USA US\$ 8.0 million Holding company</p>
<p>100% BMW Belgium S.A./N.V., Bornem, Belgium BFr 66.0 million Marketing of BMW products</p>	<p>100% BMW Canada Inc., Whitby, Ont., Canada C\$ 19.0 million Marketing of BMW products</p>	<p>100% BMW Australia Ltd., Melbourne, Vic., Australia A\$ 0.5 million Marketing of BMW products</p>
<p>60% 40% BMW France S.A., Bois d'Arcy, France FF 18.7 million Marketing of BMW products</p>	<p>100% BMW New Zealand Ltd., Auckland, New Zealand NZ\$ 0.03 million Marketing of BMW products</p>	<p>100% BMW (GB) Ltd., Bracknell, Great Britain £ 5.0 million Marketing of BMW products</p>
<p>100% BMW Ibérica S.A., Madrid, Spain Ptas 963.5 million Marketing of BMW products</p>	<p>100% BMW SEA Pte. Ltd., Singapore Sing\$ 0.1 million Services for the marketing of BMW products in Southeast Asia</p>	<p>100% BMW Japan Corp., Tokyo, Japan ¥ 800.0 million Marketing of BMW products</p>
<p>100% BMW Italia S.p.A., Palazzolo di Sona (Verona), Italy Lit 8.0 billion Marketing of BMW products</p>		<p>100% BMW of North America Inc., Montvale, N.J., USA US\$ 4.0 million Marketing of BMW products</p>
<p>100% BMW Nederland B.V., Den Haag, Netherlands FL 1.0 million Marketing of BMW products</p>		
<p>100% BMW (Schweiz) AG, Dielsdorf, Switzerland SFr 0.5 million Marketing of BMW products</p>		

Development of Subsidiaries

Domestic Subsidiaries

BMW Leasing GmbH, Munich

The leasing market in the Federal Republic of Germany developed well again in 1986. Sales rose by 8% to over 400,000 units to achieve a 14% share of the total market. The leasing companies of the automobile manufacturers participated fully in this growth, their market share remaining at about 60% as in the previous year. The total number of leased cars rose to 870,000 units, 9% more than in 1985.

BMW Leasing GmbH was able to approach new groups of customers because of the broader range of products. Both the number of contracts concluded and the total number of contracts increased markedly. At the end of 1986 as many as 50,000 purchasers of BMW cars and motorcycles had chosen this form of financing.

In close cooperation with the BMW dealers, in 1987 the company will consolidate its market position further.

BMW Marine GmbH, Munich

On the international boat markets the trend of the previous years towards larger, faster and more comfortable yachts continued in 1986. While sales of marine engines stagnated as a whole, demand for large petrol and diesel engines increased. Interest in small diesel engines continued to decline.

BMW Marine GmbH was able to take advantage of this development with the 5- and 6-cylinder turbocharged diesel engines, D530 and D636. In autumn 1986 the B635, a 6-cylinder petrol engine with 150 kW (205 bhp), was successfully introduced. It is derived from the power unit of the new BMW 735i and extends the range of high-power engines available.

The company's range of products meets particularly the requirements of the European market, where preference is given to engines of between 150 and 250 bhp.

BMW Marine GmbH has concluded an agreement on cooperation in development and marketing with the Mercury Marine Division of the Brunswick Corporation.

The BMW M3 cars, used for the first time in the 1987 racing season, continue a long and successful tradition of BMWs in series-related motorsport. In the first leg of the European Touring Car Championship in Donington, Great Britain, they took the first two places.



BMW Motorsport GmbH, Munich

The extension of BMW Motorsport GmbH into a company that develops and produces high-performance engines and cars continued in 1986 as planned.

In Garching near Munich, the company's second location, the second phase of construction became operational. It also includes the production facilities for M5 cars. These have 3.5 liter engines with four valves per cylinder, providing 210 kW (286 bhp). More than 700 cars had been manufactured and sold by the end of 1986.

The M3 also has four-valve technology. This sports model of the 3 Series has been produced at the facilities of BMW AG since mid-1986. These cars are licensed for series-related touring car sports. The racing teams supported by BMW – Schnitzer, Linder and Zakspeed – will participate with the M3 in the World Championship, the European Championship and the International German Touring Car Championship.

Customers are increasingly buying high-quality accessories from the M-technology range for the sporty coordination of the chassis as well as for fitting out body and passenger compartment.

As engine supplier for the Formula 1, the company supported the racing teams of Brabham, Benneton and Arrows in 1986. Several front places demonstrated the BMW engine's excellent performance. In the 1987 season only the Brabham team will be supplied with BMW Formula 1 engines.

BMW cars again won several championships in 1986, such as the driver classification in the European Championship for Group A Touring Cars, the Interseries, two Mountain Championships as well as 22 national championships. In the American IMSA-Series for Group C Cars, BMW March racing cars were well placed on many occasions, including a victory in the 500 mile race of Watkins Glen.

BMW's promotion of junior drivers was remarkably successful in the year under review. The BMW Junior Team will participate in the International German Touring Car Championship in 1987.

To meet the large demand the number of BMW's driver training courses was doubled to 1,000. In 1987 these courses are being extended internationally.

BMW Technik GmbH, Munich

In its second year, BMW Technik GmbH largely completed its start-up phase. It is now operating as an independent company developing products and techniques for the future in the automotive sector. It is working on fundamental technical innovations which complement the scope of development work at BMW AG.

As an important part of the infrastructure, an aerodynamics test stand was completed in 1986; this is available to all the Group's development departments. This test stand has particular advantages in the field of aero-acoustics.

The outstanding event of the year under review was the presentation of the Z1, prototype of a classic roadster with newly developed solutions in styling and design.

At the end of the year the company employed about 80 people.

Bavaria Wirtschaftsagentur GmbH, Munich

The company attends to all the insurance interests of the BMW Group worldwide. It determines insurance needs, takes measures to prevent losses and arranges the necessary insurances for BMW AG and its subsidiaries throughout the world. It also handles claims and recoveries.

In addition, the company offers its advice and insurance services to clients, largely from the industrial sector, not belonging to the BMW Group. BMW employees can also obtain advice on personal insurances.

Business was again pleasing in the year under review. In all fields of business, turnover and profits clearly exceeded those of the previous year.

The Bavaria-Lloyd Reisebüro GmbH, Munich, continued to develop well as regards turnover and profits in 1986. The company primarily provides business travel services for BMW; activities in the hotel sector and the organization of con-

ventions are becoming increasingly important.

Both companies are expecting the volume of business to expand further and profits to develop favorably in 1987.

Foreign Subsidiaries

Overall, business was again pleasing for BMW's foreign subsidiaries in 1986, deliveries to customers rising by 7% to 265,000 automobiles.

Sales of BMW cars were sustained by the new versions of the 3 Series. The new models of the 7 Series introduced in autumn have met excellent acceptance in the markets. In many countries, however, new legislation and declining exchange rates hampered the development of business.

In view of the significance of foreign business for BMW, separate reports have been compiled on the most important companies and their markets.

BMW Australia Ltd., Melbourne, Vic., Australia

After the strong upswing of the previous years, Australia's economy weakened considerably in 1986 as expected. The sharp decline of the Australian dollar and a restrictive economic policy checked development. Car registrations fell 22% compared with the previous year's record level.

During the course of the year, drastic technical regulations and an assortment of taxes came into force that particularly affected imports. From 1986 on, new exhaust emission levels apply, corresponding to the strict American regulations.

The increased purchase tax on automobiles was reflected in a 50% rise in tax for imported cars in the high-performance luxury category. In addition, a tax was introduced for company cars that account for almost half the demand in this segment.

The importers' cost situation also deteriorated because of the weakness of the Australian dollar; it lost about half its value against the DM within two years. With the additional burden of the import tax, this drop in the exchange rate could be offset only by doubling selling prices.

BMW Australia felt the full impact of the extremely unfavorable economic background. Due to the necessary price increases in the year under review, the situation is not expected to improve in 1987. Sales of the 528i and 535i models were comparatively good; they almost reached the level of the previous year.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	392,800	-22
BMW	3,200	-34

BMW Austria Gesellschaft m.b.H., Salzburg, Austria

The recovery of the Austrian economy slowed down again in 1986 due to stagnating exports. In contrast, domestic demand rose again strongly.

This benefited the automobile market. However, the development differed considerably in individual market segments. This was because the new regulations on exhaust emissions were introduced at different times for different engine sizes.

As of 1.1.1987, exhaust emission levels in accordance with the 1983 US standard apply for new petrol-driven cars above 1500 cc in Austria. These regulations do not come into force for smaller cars until October 1987; thus, they were particularly in demand in the year under review.

Purchasers' reluctance to opt for catalytic converter technology, and additional taxation on larger cars that do not meet the new standards, resulted in registrations falling markedly. Only in the last few months of the year did demand for new cars without catalytic converters become slightly brisker.

Demand for diesel-engined cars increased by about a quarter in the year under review; their share of the total market rose from 14% to 16%. Diesel cars generally comply with the exhaust emission values without additional technical expenditure.

In 1986 every second automobile again came from the Federal Republic of Germany. Japanese manufacturers improved their market share slightly to 28%, French makes again accounted for 11% of the new registrations.

The sale of BMW cars slightly exceeded the comparable 1985 figure in keeping with the development of the market segment. After the introduction of the new 6-cylinder models in the 3 Series, registrations increased again in the course of the year. The 325iX with four-wheel drive attracted new categories of buyers. This also applied to the diesel-engined 324d. Altogether, twice as many diesel cars were sold in 1986 as in the preceding year.

Demand shifted from the 5 Series to the 6-cylinder models of the 3 Series. Large numbers of orders were placed for the new 7 Series cars; their registrations already rose by 15% in the year under review.

BMW Austria is planning to open its own branch in Vienna, the headquarters of numerous international organizations. Construction work began in spring 1987.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	262,200	+8
BMW	7,300	+1

BMW Belgium S.A./N.V., Bornem, Belgium

After years of contained growth the Belgian economy recovered noticeably in 1986. For the first time in years private consumption also increased. This had a marked effect on demand for cars. Registrations reached almost 400,000 units, a number previously achieved only at the end of the 1970s.

The registrations of diesel cars rose by about one-fifth and were therefore once again above average; they gained a market share of 26% compared with 24% the previous year. In the competitive field of the 3 Series every third and of the 5 Series every second car was fitted with a diesel engine.

With a market share of 41%, German automobiles maintained their leading position. After substantial increases in the previous year, French manufacturers lost ground again to competitors from Japan and Italy.

BMW registrations rose twice as much as the total market. This success was due in particular to the high demand for the 324d. Of this model alone, 3,300 units were sold in the year under review; that is one-third of total BMW registrations. Some 8,000 new 3 Series cars were registered, almost 50% more than in 1985.

BMW Belgium is starting to build a branch of its own in Brussels in 1987.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	395,000	+10
BMW	10,000	+20

BMW Canada Inc., Whitby, Ont., Canada

At the beginning of 1986 BMW Canada Inc., a wholly-owned BMW subsidiary, began the import and marketing of BMW products in Canada. The company has taken over the functions of the two former importers in Whitby, Ontario, and in Vancouver, British Columbia.

The investments in this market serve to safeguard the major sales potential for BMW in the long term. The dealer and service organization will be further expanded.

About a million new cars are bought in Canada each year. American makes, manufactured in Canada, account for two-thirds of the demand. The import of Japanese cars has been restricted for years; they had a market share of 18% in 1986. South Korean cars have already achieved 6%, while German makes continued to account for 5% of the registrations.

Imported cars were affected by the weakness of the Canadian dollar in 1986; registrations decreased by 4% in line with the overall market.

The range of BMW cars in Canada corresponds to that of the American market. The most successful model in 1986 was the 325e, accounting for 60% of the BMW registrations.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	1,088,700	-4
BMW	4,600	-2

BMW France, S.A., Bois d'Arcy, France

In France the restrictive policy of the previous years led to a gradual revitalization of economic forces. With an inflation rate of only 2%, private consumption rose noticeably.

Greater purchasing power and numerous new models from the French manufacturers stimulated demand on the automobile market. French makes consolidated their market share at 64%.

The registrations of German automobiles rose only slightly; nevertheless, their market share was again above 20%. Japanese cars remained limited to 3% of the total market.

Demand for cars with diesel engines rose by 13% to 300,000 units, a share of 16%. Smaller models were especially in demand. France is one of the largest diesel markets in Europe.

Registrations of new BMWs exceeded those of the previous year by 4%. Demand for the newly introduced 325i was particularly high; with this model BMW developed its leading position amongst sporting automobiles in France. With 1,100 registrations, the 325iX was the most-sold car with permanent four-wheel drive. The M3 was voted sports car of the year. The 324d with diesel engine achieved the anticipated share of about 15% of the 3 Series within a year of being introduced.

Demand moved, due to the new models, towards cars fitted with 6-cylinder engines.

In autumn 1986 the new 7 Series was presented for the first time to the international public at the Salon de l'Auto in Paris. This event also received great attention amongst the French public.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	1,911,500	+8
BMW	30,500	+4

BMW (GB) Ltd., Bracknell, Great Britain

As a whole, the economic upturn in Great Britain continued in 1986; it had slackened occasionally during the course of the year because of sinking oil prices. Private consumption continued to rise; demand for cars surpassed the record level of the previous year.

After years of declining market shares, the domestic manufacturers improved their position. In the year under review 44% of all customers bought British cars. This was particularly to the disadvantage of German manufacturers whose sales prices were affected by changes in parity. During the course of the year the value of the DM rose by more than one-quarter against the pound sterling.

Registrations of German cars decreased by 5%. With a market share of 19%, however, they kept first place amongst imports. Japanese makes accounted for about 11% of the new registrations as in the previous year.

BMW (GB) achieved record registrations for the sixth successive year. Great Britain remained BMW's largest European export market.

Sales of 3 Series cars were 16% higher than the previous year, all models contributing to this success. The sporting, elegant 325i models, including the 325i convertible, provided the strongest impulses.

With 9,300 sales of 5 Series cars, the success of the previous year was continued. In summer 1986 the M5 was introduced to Great Britain.

In the year of the model change as many as 1,700 cars of the 7 Series were sold; the new models were presented at the Motor Show in Birmingham in October 1986. They received considerable attention in this market with its tradition of large limousines.

After investments of over 6 million pounds, the extension of the parts warehouse in Bracknell was completed in summer of the year under review.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	1,882,500	+3
BMW	35,900	+7

BMW Ibérica S.A., Madrid, Spain

A marked economic upturn began in Spain upon joining the European Community at the beginning of 1986. The more favorable assessment of the economic prospects, as well as lower customs duties for imported goods stimulated private consumption. It increased vigorously despite the high level of unemployment.

Sales of imported automobiles shot up by 70% to more than 100,000 units. Smaller cars accounted for the majority of this increase.

The opening of the Spanish market increased competitive pressure. Foreign suppliers thronged the market. Italian and British makes in particular achieved increases. This was because they made substantial price reductions due to lower customs duties without consideration of the high value added tax of 33%. Other manufacturers, especially in the upper market segments, kept the prices of new cars and, thus, the value of the cars in the market more or less stable.

As a whole, car registrations in Spain rose vigorously. In Western Europe, only the Federal Republic recorded a similarly favorable development.

Demand for BMW cars increased. For the first time more than 5,000 units were sold. Registrations of 3 Series cars with 6-cylinder engines rose by two-thirds after the new models were introduced. BMW accounted for about a 5% share of imports in 1986.

BMW Ibérica extended the scope and quality of the dealer and service organization in the year under review.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	646,400	+19
BMW	5,200	+28

BMW Italia S.p.A., Palazzolo di Sona (Verona), Italy

The economic upswing continued in Italy in 1986. While inflation declined, private demand rose vigorously. Car registrations exceeded the record level of the previous year.

The automobile market was influenced by the Italian car industry; it rallied again, offering a variety of new models. It expanded its market share from 60% to 62%. The Italian manufacturers took advantage of the additional demand in the year under review.

At the end of the year a new Italian association of firms was founded with state assistance. The Alfa-Lancia Group, owned by Fiat, already has a share of about half the market segment covered by BMW automobiles.

The structure of imports remained largely unchanged. German manufacturers achieved a market share of 17%, the French manufacturers' share fell slightly to 16%. The import of Japanese cars was limited to some 3,000 units in the year under review.

The BMW segment recorded an above-average increase as a whole; however, this was limited to models of 1600 to 2000 cc among petrol-driven cars and to the turbocharged diesel models of 2000 to 2500 cc. In the class above 2 liters, in which BMW has maintained for years about a 30% share, demand persisted at the very low level of about 7,000 cars. High taxation prevents recovery in this market sector.

Again, every fourth car sold had a diesel engine in the year under review. Diesel fuel is about half the price of petrol in Italy. In the BMW segment 40% of the automobiles have diesel engines.

For BMW Italia the 318iS and 320iS were the special models with sporting accessories that fulfil particularly the Italian customers' wishes. The trend towards powerful but compact cars has again strengthened in Italy. Due to the new model versions, registrations as a whole slightly exceeded those of the previous year.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	1,825,700	+5
BMW	19,800	+2

BMW Japan Corp., Tokyo, Japan

The development of the Japanese economy was restrained in 1986. The strength of the Yen against the US dollar hampered exports. The domestic car market is largely saturated; since the end of the 1970s demand has persisted at about three million units.

Registrations of imported cars increased by 36% compared with the previous year; four-fifths of these were again German. In the world's second-largest car market more foreign automobiles were sold than ever before; however, their market share of 2% remained insignificant.

For BMW, business continued successfully in Japan in 1986 although no new models were introduced. Since the BMW subsidiary was established in 1981, sales have increased more than four-fold. BMW achieved a share of 22% of the registrations of foreign cars. The course of business was sustained by the high demand for automobiles of the 3 and 5 Series.

The expansion of the marketing organization progressed according to plan. The dealer network has been extended to 80 businesses within five years. BMW Japan is represented by six branches of its own in major conurbations; nearly all the dealers exclusively represent BMW.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	3,146,000	+ 1
BMW	15,300	+30

BMW Motoren Gesellschaft m.b.H., Steyr, Austria

BMW Motoren Gesellschaft m.b.H. manufactured some 125,000 engines in 1986 in keeping with the capacity of the first stage of construction. The range includes the diesel engines for the models 324d, 524d and 534td as well as the 6-cylinder petrol engines.

As part of the plant's further extension, a warehouse with a rack system became operational according to plan in the year under review. The flow of material is fully automated from receipt of the goods, through quality control, to storage.

After completion of the second stage of construction in autumn 1987 the Steyr plant will have the capacity to manufacture up to 300,000 engines a year. Since spring 1987 the production of engine components has been extended as part of a third phase of construction. By the end of the 1980s BMW will have invested a total of S 10 billion in Steyr.

Apart from catalytic converter technology, diesel drive systems are considered particularly environment-friendly. With the introduction of new legislation on exhaust emissions, and of tax benefits for cars with low emission levels in some European countries, demand has increased markedly in the last few years. This rise generally came to a standstill during the course of the year under review.

All BMW diesel engines are developed in the company's Research and Development Center. New technology, which aims particularly to increase economic efficiency and compatibility with the environment, will continue to ensure their leading position. BMW engines have particularly low particle emissions.

BMW Motoren Gesellschaft m.b.H. provides the Austrian economy with essential impulses. The company's exports, including the purchases of BMW AG from Austrian suppliers, were four times as high as the value of imported BMW cars in the year under review.

At the end of 1986 the company had a workforce of 1,600, 200 more than in the previous year.

BMW Nederland B.V., Den Haag, Netherlands

Declining earnings from the export of natural gas curbed the recovery of the Dutch economy in 1986. While prices were stable, real incomes rose; private consumption increased markedly, particularly of durable consumer goods.

Demand for automobiles grew again to well above half a million units; this figure was last reached at the end of the 1970s. The structure of demand shifted to the lower market segments in which BMW cars are not represented; they meanwhile cover more than two-thirds of the total market.

Japanese and French makes benefited from this development. The German manufacturers did not follow it fully but their market share nevertheless exceeded 40%. Demand for diesel cars stagnated; their share of the total market decreased slightly to 13%.

In the Netherlands cars with low emission levels are encouraged by direct tax subsidies. The luxury tax on cars and, consequently, the list price was reduced.

Registrations of BMW cars reached the level of the previous year. Sales of the 3 Series rose by 6% to 10,000 units after the 324d was introduced. Demand continued to be highest for the BMW 316.

Building work began on the new import center in Rijswijk near Den Haag.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	560,500	+13
BMW	12,800	0

BMW New Zealand Ltd., Auckland, New Zealand

New Zealand recovered only hesitantly in 1986 from economic recession, the result of the difficult modernization of agriculture and industry.

While demand for cars as a whole declined, the segment of the high-performance luxury cars increased by 80%. This reflects the successful efforts of the New Zealand government to abolish existing controls and to stimulate economic activities. However, car imports are still subject to high duties and taxes.

BMW is the only make of luxury car in New Zealand with its own marketing company. With a share of almost 30%, BMW is clearly the market leader in this segment. During the three years since starting business, sales have increased almost five-fold.

The marketing activities of the company are supported by BMW Australia. The extension of its own marketing network was continued on schedule in the year under review.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	80,100	- 5
BMW	900	+75

BMW of North America Inc., Montvale, N.J., USA

While the growth of the American economy weakened in 1986, at 3.5% private demand again rose more than in most other industrial nations. Imported goods were still very much in demand despite substantial price rises to offset the falling value of the dollar.

Automobile registrations reached a new record level; they were more than 40% above the 1982 value, the last low of the American automobile business. In the second half of the year low interest rates and the phasing out of tax benefits additionally stimulated demand.

For the first time more than three million automobiles were imported, 14% more than in the previous year. Their market share rose to 28%. About three-quarters of all foreign cars came from Japan. Registrations of German makes increased by only 5% in 1986 after two-figure increase rates in previous years.

In the market segment of high-performance luxury cars European makes, traditionally the leaders, achieved new records almost without exception. This is indicative of the American customers' lasting preference for individual, high-quality products. Altogether, some 1.4 million units were sold in this sector of the market.

1986 followed on from a long series of successful years for BMW of North America. Since starting business activities in 1975 registrations of new cars have risen steadily. With some 97,000 units BMW achieved a 7% share of the market for luxury cars.

Demand for the 5 Series was particularly welcome. 25,000 cars were delivered for the first time, a quarter more than in the previous year. The 3 Series improved by a further 15% to more than 60,000 units. The cars of the 7 Series continued to be very much in demand even in the year before the model change; a total of 7,000 units were sold.

In autumn of the year under review BMW opened a gallery in the center of New York. It provides space for presenting both current and historic BMW cars and motorcycles as well as for cultural events.

As part of a five-year plan involving investments of some 100 million US dollars, the infrastructure of the marketing organization has been further improved. Additional regional marketing centers have been established in Dallas, Texas, and in Virginia near Washington, D.C. The company began to construct its new administrative building in northern New Jersey; a new supply center for parts is being built near Los Angeles.

The introduction of the new 7 Series at the beginning of 1987 marks the start of the systematic extension of the range of models in the upper market segments, including particularly high-performance cars. This strengthens the basis for the future successful development of BMW in the American market.

Automobile registrations	1986	Change cf. 1985
	Units	%
Total market	11,452,300	+ 4
BMW	96,800	+10

Breaking new ground has tradition at BMW, whether in the field of technology or in cultural and social events. The BMW Gallery in Manhattan, New York, aims to convey this characteristic feature of the make to the exacting American public.

The premises can be used to present BMW cars and motorcycles or as a forum for changing exhibitions, artistic performances and receptions. Very shortly after it was opened in June 1986 the Gallery was known as the "Glowing White Box".

The Gallery is on Park Avenue, with its many office buildings of international groups, elegant hotels and boutiques of leading couturiers. Park Avenue is considered one of the city's most European streets due to the unusual combination of business, culture and recreation.

Inside, BMW presents itself with all its typical features: progressive car technology and individual design linked with contemporary art and culture.

On March 16, 1987 the third exhibition, "Design-Process-Auto", was opened. It had previously been shown in the Neue Sammlung in Munich. The emergence of modern car and motorcycle design was received with great interest.



BMW (Schweiz) AG, Dielsdorf, Switzerland

The economic upturn in Switzerland lost impetus in 1986; real incomes nevertheless continued to rise due to lower oil prices. This benefited the automobile market in particular; for the first time some 300,000 new cars were registered.

On 1.10.1986 stricter regulations on exhaust and noise emissions came into force in Switzerland; they are the most stringent in Europe. In view of the current state of the art, the new values can be achieved only in larger cars with catalytic converter technology. Since customers expected higher prices and running costs as a result of the new regulations, many purchases were brought forward. The structure of the market segments remained largely unchanged.

Japanese manufacturers achieved above-average growth rates with a market share of 27%; Italian makes accounted for about 10%. Nevertheless, German manufacturers remained in the lead with a share of 43% of the Swiss automobile market.

BMW (Schweiz) at times during the year could offer only a limited choice of cars as the entire range of models was being reoriented to cat versions. High-volume models, such as the 320i, 325i and 520i, were not available with catalytic converters until towards the end of the year. This also applied to the 325iX which was particularly in demand. The high orders are reflected in registrations as of spring 1987.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	300,200	+13
BMW	9,200	-12

BMW (South Africa) (Pty) Ltd., Pretoria, South Africa

South Africa continued to be in the depths of recession in 1986. The concomitant drop in value of the Rand particularly affected companies whose production depends on deliveries from abroad.

The economic situation led to a further marked decline in demand for automobiles. For the first time since 1977 less than 200,000 new cars were registered in South Africa. About half of these were again Japanese.

The business development of BMW (South Africa) consolidated again after a decline in the previous year. BMW was one of only two manufacturers to sell more cars in 1986 than in the previous year. The market share rose from 6.3% to 7.5%.

Demand focused on the 318i and the newly introduced 325i of which 2,000 units were sold. Apart from the BMW 3 Series, as well as the 5 Series whose registrations rose by almost 10% in all, 7 Series models are also made in South Africa.

At the beginning of 1986 the company's new marketing center was opened in Midrand between Johannesburg and Pretoria.

In 1986 BMW (South Africa) had a workforce of 2,100 as in the previous year, some 70% of the employees being black. BMW continues to be in the lead as regards wages and salaries paid in South African industry.

BMW continued to support efforts to reduce rapidly apartheid in South Africa. At the company itself there has been racial integration for years. About half the foremen are now black. Within the last five years some 100 black salaried employees have taken over positions previously held by white people.

The company sets great store by the training and upgrading of its employees. It has its own training center that carries out numerous courses and seminars. The training for apprentices can be compared with the German system. The company's promotion schemes include the joint education of children of different skin

colours, assistance in the purchase of housing, medical care and the establishment of business activities by employees' families.

Automobile registrations	1986	Change
	Units	cf. 1985 %
Total market	174,500	-15
BMW	13,100	+ 1

To mark the hundredth anniversary of the day on which the patent for the automobile was granted, celebrations were held throughout the year in many places in Germany and elsewhere. BMW contributed with several cultural activities, corresponding to its understanding of the Company's sociopolitical role.

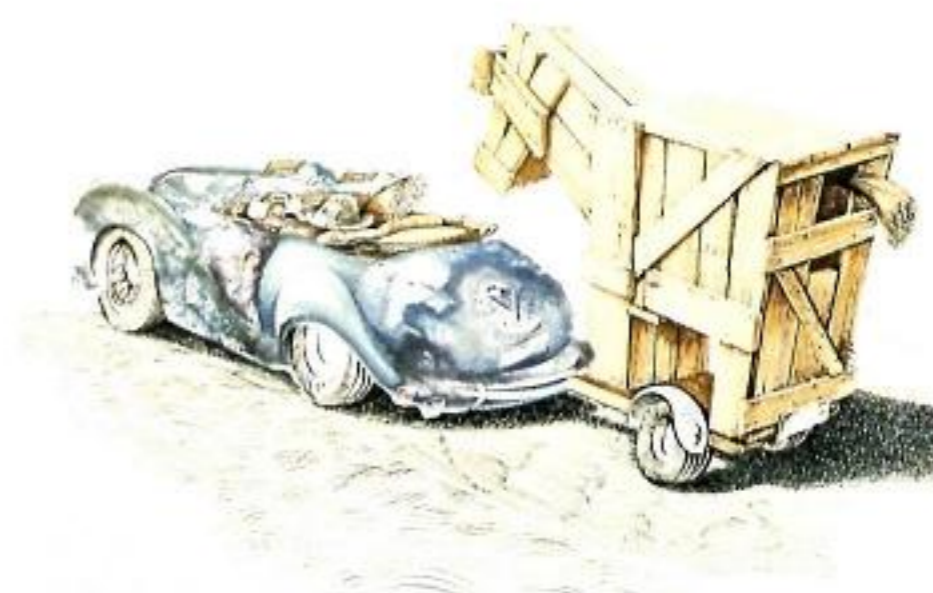
The graphic artist Dieter Olaf Klama created one hundred pictures on the automobile's history, some witty, some sarcastic. They were presented in the BMW Gallery in Munich mid-1986 and published as a book with the title "Homo automobilis".

The second activity was also a critical appreciation of motorization and its consequences. Upon the joint initiative of the Haus der Kunst in Munich and BMW AG, an exhibition was held with the title "The Automobile in Art". Some five hundred paintings and sculptures, drawings and posters, photographs and various objets d'art were brought together from many countries throughout the world.

The exhibition was shown in the Haus der Kunst from August 8 to October 10, 1986 and was also the subject of a comprehensive publication. Some forty thousand visitors came to see it.

In November 1986 the Neue Sammlung, Museum for Applied Art, opened its rooms for an exhibition on the "Design-Process-Auto", using the example of BMW products and particularly of the new 7 Series. In terms of the number of visitors, it was one of this museum's most important exhibitions.

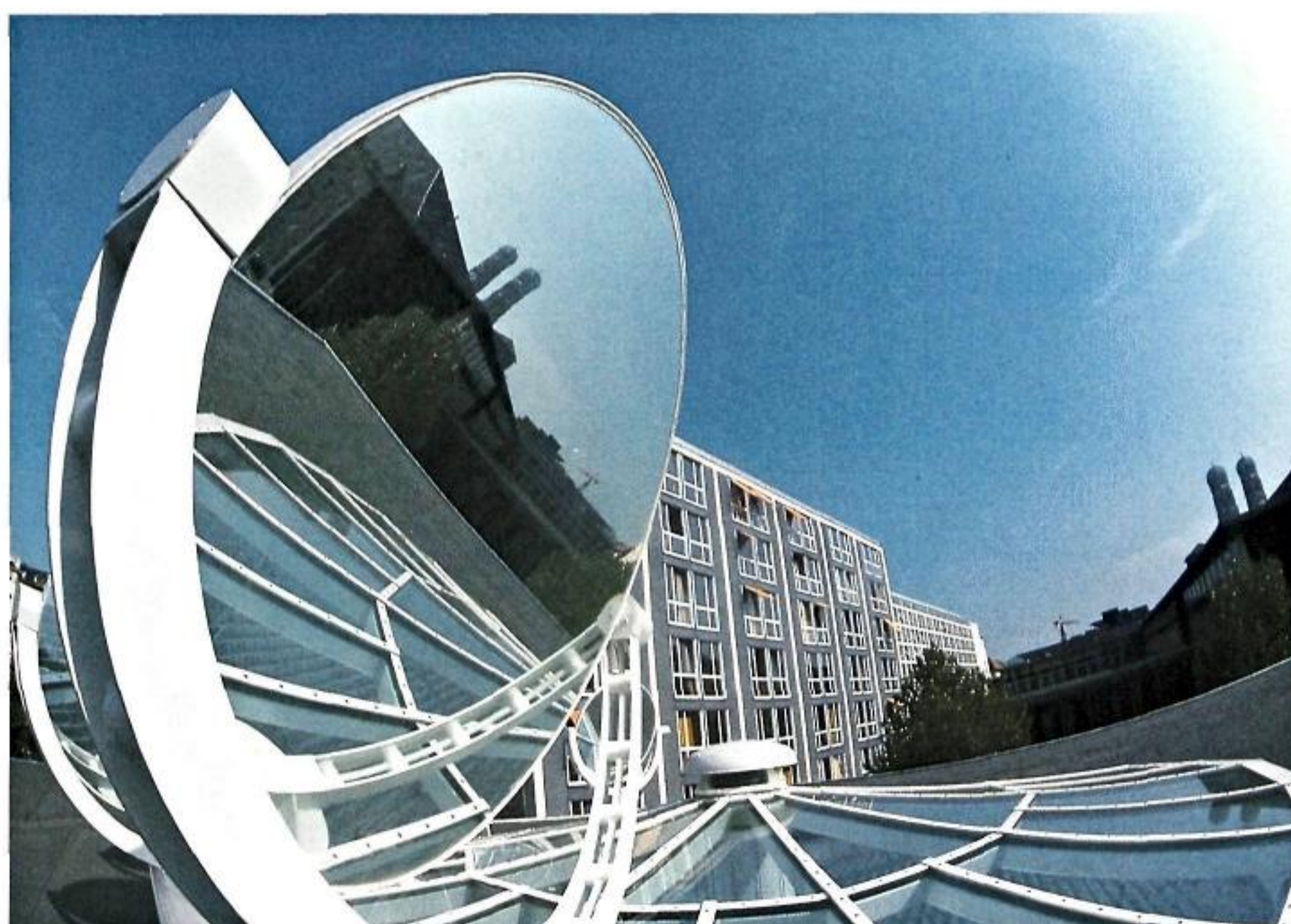
Finally, the BMW Pavilion on Lenbachplatz in Munich, a work by the architect Sep Ruf, was reopened after restoration in autumn 1986. Both the specialized press and the public praised the successful alterations. The activities of the BMW Gallery at BMW head office in the north of Munich can now be continued in the city center.





"Design-Process-Auto"
in the Neue Sammlung in Munich.

Left:
Dieter Olaf Klama, "Homo automobilis"
and
"The Automobile in Art",
an exhibition in the Haus der Kunst in
Munich.
Below right:
The new BMW Pavilion
on Lenbachplatz in Munich.



BMW AG invested DM 1,735 million in tangible fixed assets and DM 87 million in subsidiaries and associated companies in the year under review. To finance these investments, DM 995 million were made available from depreciation and retirement of fixed assets, DM 169 million from transfers to reserves from net income and DM 70 million from the increase in pension fund provisions and liabilities to BMW Benevolent Fund. When taking account of the reduction of special reserves of DM 105 million, investments were covered 62% by internal funds.

The long-term external financing of DM 518 million from the funds of the capital increase and from the increase in liabilities in registered dividend right certificates minus the reduction of long-term liabilities covers investments by 28%.

Liquidity rose by DM 224 million to DM 2,017 million.

Sources and Application of Funds 1986 in million DM

Application of Funds

Investment in tangible fixed assets	1,735.0
Investment in subsidiaries and associated companies	86.8
Reduction of special reserves	104.8
Reduction of long-term liabilities	48.0

Long-term **1,974.6**

Increase in inventories	53.7
Increase in trade receivables ¹⁾	15.2
Increase in liquid funds	223.9
Change in receivables and trade payables to subsidiaries	167.9
Distribution for the previous year	150.0

Short-term **610.7**

2,585.3

Sources of Funds

Capital increase	555.0
Transfer to other reserves from net income	168.8
Increase in liabilities in registered dividend right certificates	10.9
Increase in pension fund provisions and liabilities to BMW Benevolent Fund	69.8
Depreciation and retirement of fixed assets	988.3
Reduction of other financial assets	6.3

Long-term **1,799.1**

Decrease in other assets	53.9
Increase in other provisions	398.6
Increase in trade payables	134.7
Increase in other liabilities	30.2
Net income available for distribution	168.8

Short-term **786.2**

2,585.3

¹⁾ less general allowance for doubtful accounts

The balance sheet total increased by DM 1.2 billion to DM 7.7 billion.

The liabilities went up primarily as a result of the increase in shareholders' equity as well as long- and short-term provisions.

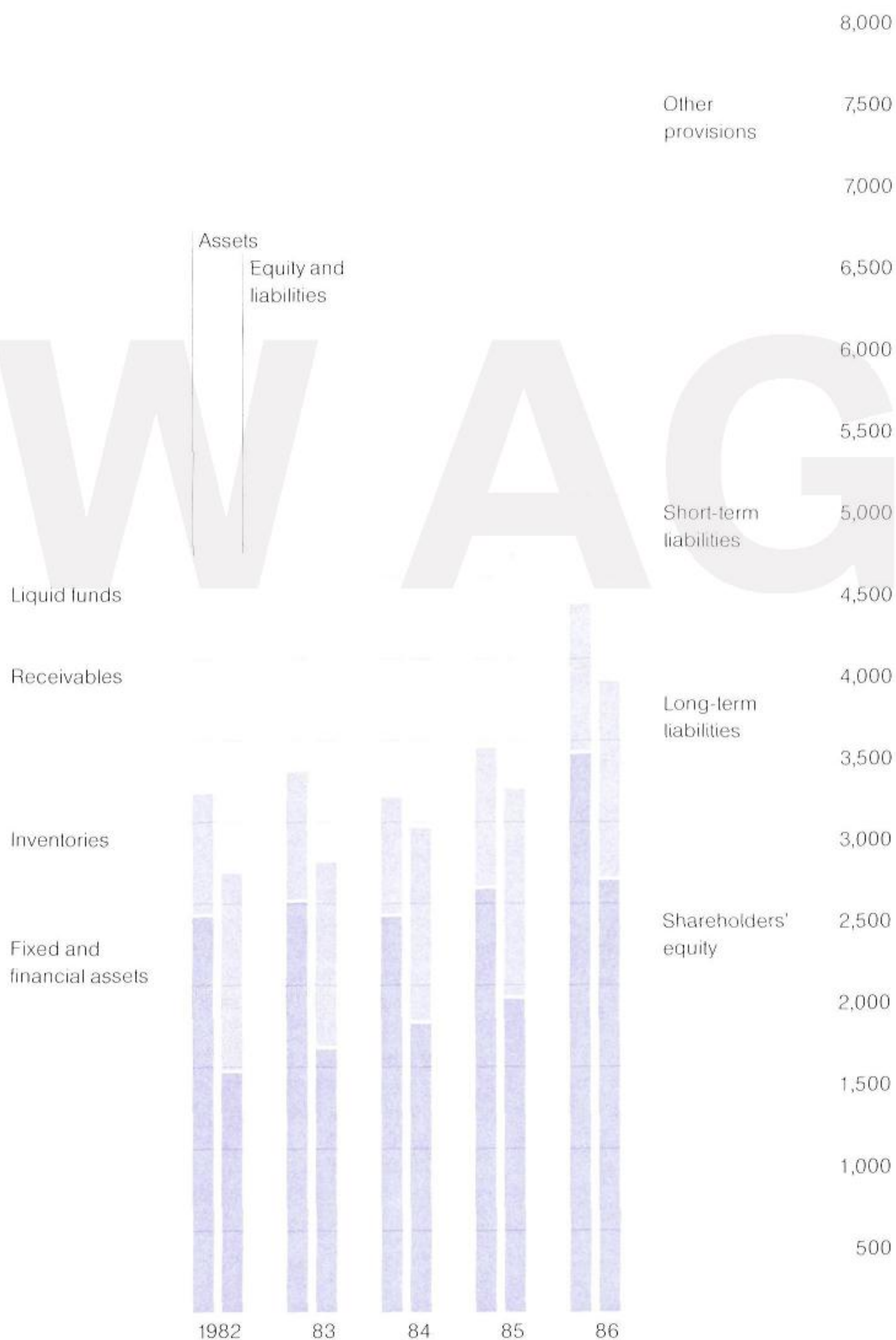
Shareholders' equity increased from 29.2% to 34.1% of the balance sheet total due to the capital increase as well as to the transfer to other reserves from net income.

On the assets side this increase resulted from the fixed assets, the liquid funds and receivables from subsidiaries. Fixed assets rose slightly from 40% to 44% of the balance sheet total.

Fixed assets are covered by long-term funds at a rate of 113% (compared with 124% in the previous year).

Shareholders' equity, special reserves, pension provisions and the liabilities to the Benevolent Fund now account for 92% of the long-term funds (compared with 90% in the previous year).

Development of Balance Sheet Structure of BMW AG in million DM



Notes on the Financial Statements of BMW AG

Balance Sheet

Assets

Fixed Assets

As in the previous year, fixed assets were again valued at their acquisition or manufacturing cost less normal and special depreciation.

Office and factory buildings, and distribution facilities which are part of the buildings, have been depreciated by the declining balance method in as far as special depreciation allowances or shorter useful lives did not apply. Movable assets, with a useful life of more than three years, have been depreciated by the declining balance method using the highest rates permissible under the tax laws. The declining balance is replaced by the straight-line method as soon as this leads to higher depreciation. Additions to assets of minor value were fully written off in the year of acquisition.

Special tools acquired were written down pro rata on the basis of a useful life of five years as a matter of principle.

As in the previous years, full advantage was taken of tax concessions regarding special depreciation charges pursuant to section 14 BerlinFG (Berlin Promotion Law), to section 7d EStG (Income Tax Law) and to section 51u EStG. Exceptional depreciation was applied where a lower valuation was required.

Depreciation was based on the following useful lives:

8–50 years for office and factory buildings, including distribution facilities which are part of the buildings,

5–20 years for facilities connected with real estate,

3–10 years for machinery and equipment, 5–20 years for operational facilities, including plants for the generation of energy and distribution facilities, 2–10 years for fixtures, furniture and office equipment.

For machinery used in multiple-shift operations depreciation rates were increased to take account of the additional utilization.

Land owned by the Company in the Federal Republic of Germany, including that owned by related companies, totaled 4.94 million sq. m. (4.89 million sq. m. in the previous year) on the balance sheet date. Most of this real estate is in Munich, Dingolfing, Landshut, Berlin and Regensburg.

BMW AG has rented its head office building, erected on company land in Munich, under a long-term lease. In 1986 DM 10.7 million was paid in rent. A hereditary building right on the land is registered in favor of the company which owns the building. A lease also exists with the BMW Ingenieur-Zentrum GmbH + Co.

Depreciation Relating to Additions and Transfers in 1986

Real estate without buildings and with office, factory and other buildings (including residential buildings)
Buildings on land not owned
Machinery and equipment
Furniture and fixtures
Construction in progress and advances for fixed assets

Additions and transfers in million DM	Depreciation in million DM
330.3	32.5
18.4	5.1
1,374.5	342.7
170.1	85.8
–158.3	11.2
1,735.0	477.3

Financial assets

Additions to subsidiaries and associated companies amounting to DM 87 million largely related to capital increases at BMW Leasing GmbH, BMW Kredit Bank GmbH, BMW (South Africa) (Pty) Ltd., Pretoria, BMW Holding B.V., Den Haag, BMW Finance N.V., Den Haag, as well as an increase of the capital shares at BMW France S.A., Bois d'Arcy.

The retirements result from the merger of Schorsch Meier GmbH with BMWAG.

There was depreciation on one German subsidiary and on BMW (South Africa) (Pty) Ltd., Pretoria. Depreciation on additions amounted to DM 27.8 million.

Loans with a minimum term of four years are shown at their discounted net present value.

Inventories

Inventories increased due to the expansion of business.

Raw materials, supplies and bought parts were valued as in the previous year by taking account of the lower of cost or market value. Use was made of the allowance for imported goods pursuant to section 80 EStDV (Income Tax Regulations).

Work in progress and finished products are valued at their individual cost of production, plus the proportionate share of manufacturing and materials overheads which was lower than in 1985.

Adequate write-downs were made to cover risks arising from prolonged storage or technical obsolescence of inventories.

Other current assets

Trade receivables comprise 53% domestic and 47% foreign receivables.

Receivables from subsidiaries and associated companies arise mostly from trade and services.

Specific risks identifiable on receivables were provided for by set-offs on the asset side of the balance sheet (in addition to the general allowance for doubtful accounts disclosed on the liabilities side).

The increase in liquidity is explained in the section on finance.

Miscellaneous assets include bonded loans, interest receivable and financing.

Shareholders' equity and liabilities

Common stock

On July 3, 1986 the Annual General Meeting decided to increase the common stock by DM 150 million. In accordance with this decision, shareholders were offered new bearer shares in a ratio of 4:1 at an issue price of DM 185 per share with a nominal value of DM 50. The premium of DM 405 million was transferred to the statutory reserve. The capital increase was completed in August 1986.

Reserves

DM 168.8 million were transferred from net income for the year under review to other reserves. Reserves now amount to DM 1,894 million.

Special reserves

Special reserves have been formed in accordance with the tax regulations laid down in section 3.1 of the Foreign Investment Law and section 74 EStDV (Income Tax Regulations – reserve for price increases).

Registered dividend right certificates

Employees subscribed to DM 11.8 million of certificates in the Company's capital savings plan in the year under review.

General allowance for doubtful accounts

As in the previous year a 2.5% allowance for domestic and a 5.0% allowance for foreign receivables was raised. This allowance serves to cover general risks arising from trade receivables, notes held, advance payments and miscellaneous assets.

Pension fund provisions and liabilities to the BMW Benevolent Fund

The obligations of BMW AG arising from this item were calculated with the going-concern value according to actuarial principles. The interest rate of the calculation remained unchanged at 5%; an interest rate of 3.5% continued to apply for Berlin obligations.

DM 633 million of the pension fund provisions are related to future rights to pension payments and DM 182 to current pensions. The total obligations of the BMW Benevolent Fund decreased slightly as a result of the decline in the number of people entitled to benefits.

Other provisions

In other provisions, the product warranty provision increased in particular because of the growing number of vehicles worldwide. In addition, they include taxation commitments, liabilities to dealers and accrued liabilities to suppliers, risks arising from forward loss contracts, litigation proceedings and guarantees. Provisions have also been made for obligations arising in the personnel sector.

Liabilities with a term exceeding four years

Long-term liabilities from loans against promissory notes, loans from banks and miscellaneous creditors were reduced in the year under review.

Liabilities denominated in a foreign currency were translated using the higher of the exchange rates prevailing at the date of the translation or at the balance sheet date.

Other liabilities

The increase of other liabilities by a total of DM 103 million is due mainly to the expansion of business and the high investments in the year under review.

Statement of Income

As a result of higher sales, the total value of Company production went up by 5.2% to DM 15.1 billion.

Expenditure on raw materials, supplies and purchased goods rose by 9.1% to DM 8.6 billion in the year under review. This increase was due mainly to the expansion of production but also to the larger numbers of engines purchased from the BMW plant in Steyr/Austria.

Interest income exceeded interest expenditure by DM 148 million.

Gains from the reduction of provisions were primarily the result of reduced risks.

Higher gains from the reduction of special reserves resulted in accordance with the regulations laid down in section 3.1 of the Foreign Investment Law and of section 34.3 EStR (Income Tax Guidelines).

Miscellaneous income mainly comprises investment grants and subsidies, income from various services, rents and leases, license fees and exchange profits.

Expenditure on employees rose mainly because of the increase in the workforce by 3072 (year's average), collectively agreed and discretionary wage and salary increases, as well as higher statutory and collectively agreed social security benefits. Expenditure on pension plans and related benefits decreased by DM 37 million. In the previous year higher expenditure had resulted from the reduction of the interest rate to 5% for the calculation of pension fund provisions.

Further details are contained in the Workforce and Social Report.

Structure of Expenditure Relative to Total Value of Production

Total Value of Production

	1982	1983	1984	1985	1986
in million DM	9,467	11,555	12,894	14,322	15,070
in %					
Material expenditure	53.3	53.9	53.6	55.1	57.1
Workforce expenditure	23.7	21.4	21.7	20.4	21.1
Depreciation	6.5	6.2	5.5	5.2	6.3
Other expenditure and income items offset	10.4	10.7	11.3	12.1	8.6
Taxes	4.0	5.3	5.3	5.1	4.6
Net income	2.1	2.5	2.6	2.1	2.3

As a result of the higher volume of investments, depreciation on tangible fixed assets rose by DM 197 million. Depreciation on financial assets relates to the capital increase at BMW (South Africa) (Pty) Ltd. This was a precautionary measure taken because of the political risk in South Africa.

Taxes on income, profits and property of DM 698 million were only slightly below the previous year's level.

Miscellaneous expenses include principally expenditure on administration and distribution, warranties, outgoing freight, maintenance and repairs, advertising, insurance premiums and rents.

The net income amounts to DM 337.5 million compared with DM 300 million in the previous year. DM 168.8 million have been transferred to reserves. The remaining net income available for distribution is to be used to pay a dividend to shareholders.

Subject to the approval of the proposed dividend at the Annual General Meeting, the remuneration of serving members of the Board of Management for the 1986 business year amounted to DM 11,192,688 and that of former members of the Board of Management and their surviving dependents to DM 2,509,420. Total remuneration of the Supervisory Board for 1986 amounted to DM 1,495,000.

Net income available for distribution

The financial statements of the year ending December 31, 1986, drawn up by the Board of Management, approved and accepted by the Supervisory Board, show a surplus available for distribution of DM 168.8 million. In agreement with the Supervisory Board it is proposed that this amount be used to pay a dividend of DM 12.50 per DM 50 share, totalling DM 150 million, on the common stock with full dividend rights for the 1986 business year (DM 600 million), and a dividend of DM 6.25 per DM 50 share, totalling DM 18.8 million, on the common stock with half dividend rights for the 1986 business year (DM 150 million).

Munich, May 1987

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Balance Sheet of BMW AG at December 31, 1986

with comparative figures for the previous year

Assets

	Jan. 1, 1986 DM	Additions DM	Transfers DM	Retire- ments DM	Depre- ciation DM	Dec. 31, 1986 DM	Dec. 31, 1985 DM
I. Fixed and Financial Assets							
Fixed Assets							
Real estate and equivalent rights with office, factory and other buildings	674,863,147	170,755,769	+ 183,924,650	164,285	73,749,576	955,629,705	674,863,147
Real estate with residential buildings	7,207,430	1,004,256	—	118,430	220,972	7,872,284	7,207,430
Real estate without buildings	33,251,185	592,071	— 26,025,543	16,895	—	7,800,818	33,251,185
Buildings on land not owned	64,458,603	19,184,513	— 740,540	43,656	11,494,158	71,364,762	64,458,603
Machinery and equipment	995,299,247	1,136,306,779	+ 238,213,819	2,017,994	724,400,536	1,643,401,315	995,299,247
Fixtures, furniture and office equipment	76,510,017	165,997,937	+ 4,106,756	4,163,310	117,053,382	125,398,018	76,510,017
Construction in progress and advances for fixed assets	460,488,447	241,181,955	— 399,479,142	19,950	21,996,266	280,175,044	460,488,447
	<u>2,312,078,076</u>	<u>1,735,023,280</u>	<u>—</u>	<u>6,544,520</u>	<u>948,914,890</u>	<u>3,091,641,946</u>	<u>2,312,078,076</u>

Financial Assets

Investment in subsidiaries and associated companies	267,481,600	86,793,694	—	4,170,769	28,661,088	321,443,437	267,481,600
Loans with a minimum term of four years	12,454,786	547,058	—	6,915,758	—	6,086,086	12,454,786
— thereof secured by mortgages: DM 983,603 —	<u>279,936,386</u>	<u>87,340,752</u>	<u>—</u>	<u>11,086,527</u>	<u>28,661,088</u>	<u>327,529,523</u>	<u>279,936,386</u>
						3,419,171,469	2,592,014,462

II. Current Assets

Inventories

Raw materials and supplies	330,566,484	290,436,244
Work in progress	111,187,213	102,796,876
Finished products and merchandise	<u>478,079,206</u>	<u>472,862,221</u>
	<u>919,832,903</u>	<u>866,095,341</u>

Other Current Assets

Advance payments to suppliers	23,449,058	22,103,514
Trade receivables	222,243,803	208,887,796
Notes receivable — thereof rediscountable at the Federal Reserve Bank: DM 104,024 —	8,142,741	14,371,929
Cash on hand, deposits at the Federal Reserve Bank and at postal giro accounts	1,746,494	1,556,837
Cash with banks	969,739,440	732,139,923
Marketable securities	1,037,446,027	1,045,058,741
Receivables from subsidiaries	859,463,961	753,115,168
Receivables resulting from loans granted under sec. 89 AktG (Corporation Law)	1,365,880	1,449,782
Miscellaneous assets	<u>280,284,026</u>	<u>335,621,619</u>
	<u>3,403,881,430</u>	<u>3,114,305,309</u>
	4,323,714,333	3,980,400,650

III. Prepaid Expenses

621,178 526,716

7,743,506,980 6,572,941,828

Shareholders' Equity and Liabilities

		Dec. 31, 1986 DM	Dec. 31, 1985 DM
I. Common Stock		750,000,000	600,000,000
II. Reserves			
Legal reserves			
Balance at beginning of the year	187,083,250		
Transfer from premium	405,000,000	592,083,250	187,083,250
Other reserves			
Balance at beginning of the year	1,133,188,750		
Transfer from 1986 net income	168,750,000	1,301,938,750	1,133,188,750
		1,894,022,000	1,320,272,000
III. Special Reserves		45,594,847	150,361,358
pursuant to sec. 3 Ausl. Inv. G. (Foreign Investment Law) and sec. 74 ESIDV (Income Tax Regulations) and sec. 34.3 ESIR (Income Tax Guidelines)			
IV. Registered Dividend Right Certificates		70,620,660	59,713,920
V. General Allowance for Doubtful Accounts		11,171,067	12,988,694
VI. Pension Fund Provisions and Liabilities			
Pension fund provisions		815,094,871	744,290,788
Liabilities to BMW Benevolent Fund		59,314,423	60,293,367
		874,409,294	804,584,155
VII. Other Provisions			
Provision for deferred maintenance		26,666,359	23,031,469
Miscellaneous provisions		2,570,070,317	2,175,127,614
		2,596,736,676	2,198,159,083
VIII. Liabilities with a Term exceeding four Years			
Loans – thereof secured by mortgages:	DM –	60,026,000	60,026,000
Due to banks		167,520,429	215,401,137
– thereof secured by mortgages:	DM 125,000 –		
Miscellaneous liabilities		1,878,305	1,928,988
– thereof secured by mortgages:	DM –		
Of item VIII., due in less than four years:	DM 197,908,500		
		229,424,734	277,356,125
IX. Other Liabilities			
Trade payables		887,876,677	753,225,748
Advance payments received		8,461,941	6,824,809
Liabilities to subsidiaries		15,832,939	77,300,519
Miscellaneous liabilities		190,606,145	162,155,417
		1,102,777,702	999,506,493
X. Net income available for Distribution		168,750,000	150,000,000
		1986 DM	1985 DM
Contingent Liabilities on Discounted Notes Receivable		400,028,824	347,410,432
Guarantees – thereof for Subsidiaries:	DM 42,360,656 –	42,360,656	47,255,957
Guarantees for Bonds of BMW Overseas Enterprises N.V., Curaçao and BMW Finance N.V., Den Haag		562,225,000	311,853,000
		7,743,506,980	6,572,941,828

Statement of Income of BMW AG for the year ended December 31, 1986

with comparative figures for the previous year

Net sales
Increase of finished products and work in progress

Other company-produced additions to tangible fixed assets

Total value of production

Expenditure for raw materials, supplies and merchandise purchased

Gross income

Income from profit and loss transfer agreements
Income from investment in subsidiaries and associated companies
Income from other financial assets
Other interest and similar income
Gains on retirements of fixed and financial assets
Gains resulting from the reduction of the allowance for doubtful accounts
Gains resulting from the reduction of provisions
Gains resulting from the reduction of special reserves
Miscellaneous income – thereof extraordinary: DM 2,119,668 –

Wages and salaries
Social security contributions
Cost of pension plans and related benefits
Depreciation on fixed assets
Depreciation on financial assets
Losses from devaluation or disposal of current assets other than inventories and
transfer to allowance for doubtful accounts
Losses on retirements of fixed assets
Interest and similar expenditure
Taxes
on income, profits and property
thereof charged to subsidiaries and associated companies

others
Expenditure for profit and loss transfer agreements
Transfer to special reserves
Miscellaneous expenditure

Net income
Transfer from net income to reserves

Net income available for distribution

Note in accordance with sec. 159 AktG (Corporation Law):
In the 1986 business year DM 17,105,858 were paid for old age pensions; in the next five
years these payments will probably be 121%, 131%, 143%, 161%, 184% of this amount.

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

DM	1986 DM	DM	1985 DM
	14,994,292,603		14,246,358,858
	16,825,360		31,077,316
	15,011,117,963		14,277,436,174
	58,644,495		44,093,722
	15,069,762,458		14,321,529,896
	8,608,065,695		7,890,787,969
	6,461,696,763		6,430,741,927
	4,603,642		8,349,502
	157,242,015		140,624,508
	696,275		846,011
	194,440,222		208,920,739
	5,470,457		2,532,087
	1,817,627		—
	65,805,864		59,460,835
	105,499,936		54,800,000
	309,497,622		169,489,828
	845,073,660		645,023,510
	7,306,770,423		7,075,765,437
	2,672,097,884		2,422,293,441
	416,713,213		374,401,436
	84,841,062		121,813,642
	948,914,890		751,594,071
	28,661,088		—
	15,911,146		13,545,111
	3,592,293		4,769,856
	46,750,564		54,665,221
709,321,567		743,411,401	
11,082,803		14,843,355	
698,238,764		728,568,046	
8,575,317		2,948,308	
	706,814,081		731,516,354
	8,771,041		5,971,598
	733,425		20,051,745
	2,035,469,736		2,275,142,962
	6,969,270,423		6,775,765,437
	337,500,000		300,000,000
	168,750,000		150,000,000
	168,750,000		150,000,000

The accounting, the annual financial statements and the management report, which we have audited in accordance with professional standards, comply with the German Law and the company's statutes.

Munich, April 3, 1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Clemm
Wirtschaftsprüfer

(independent auditors)

Kilgert
Wirtschaftsprüfer

Notes on the BMW Consolidated Financial Statements (Domestic)

The Group of consolidated companies was extended by BMW Intec GmbH and Bavaria Verwaltungsgesellschaft mbH which were newly established in the year under review. Schorsch Meier GmbH left the Group of consolidated companies after merging with BMW AG.

The Group companies BMW Verwaltungsgesellschaft mbH, Munich, as well as Schorsch Meier GmbH (new), Munich, are not included in the consolidated companies because of their minor importance. MITEC – Moderne Industrietechnik GmbH, Ottobrunn, is not included because it is not a Group company pursuant to section 18.1 AktG (Corporation Law).

The development of the domestic BMW Group was substantially determined by the course of business of BMW AG, BMW Leasing GmbH and BMW Ingenieur-Zentrum GmbH + Co.

A report on the course of these and of the other Group companies has been provided.

The following provides additional information.

Scope of Consolidation	Common stock on Dec. 31, 1986 DM million	Interest
Bayerische Motoren Werke AG, Munich (BMW AG)	750.00	
Bavaria Wirtschaftsagentur GmbH, Munich *	0.20	100% BMW AG
Bavaria-Lloyd Reisebüro GmbH, Munich	0.14	51% Bavaria Wirtschafts- agentur GmbH
BMW Ingenieur-Zentrum Verwaltungs GmbH, Munich	0.05	100% BMW AG
BMW Ingenieur-Zentrum GmbH + Co., Munich	–	99% BMW AG 1 % BMW Ing.-Zentrum Verwaltungs GmbH
BMW Leasing GmbH, Munich */**	30.00	100% BMW AG
BMW Marine GmbH, Munich *	6.00	100% BMW AG
BMW Maschinenfabrik Spandau GmbH, Berlin	6.00	100% BMW AG
BMW Motorrad GmbH, Landshut	0.05	100% BMW AG
BMW Motorrad GmbH + Co., Munich	–	99% BMW AG 1 % BMW Motorrad GmbH
BMW Motorsport GmbH, Munich *	0.05	100% BMW AG
Fahrzeug- und Maschinenfabrik GmbH Landshut, Landshut *	0.30	100% BMW AG
BMW Technik GmbH, Munich *	0.05	100% BMW AG
Bavaria Verwaltungsgesellschaft mbH, Munich *	0.05	100% BMW AG
BMW Intec Gesellschaft für innovative Technologie mbH, Munich *	0.05	100% BMW AG

* Profit and loss transfer agreement with the Parent Company

** Declaration of liability of BMW AG pursuant to section 16 PubiG (Law on Company and Group Accounts), old version

Consolidated balance sheet

The consolidated balance sheet is predominantly determined by the assets and capital resources of BMW AG as Parent Company, the leased products, the additional long-term liabilities and deferred income of BMW Leasing GmbH as well as the investments at BMW Ingenieur-Zentrum GmbH + Co.

The consolidation reserve mainly contains the reserves of consolidated Group companies offset with an acquired business interest.

Consolidated statements of income

The consolidated income statements are largely determined by the results of BMW AG and BMW Leasing GmbH.

The income and costs of products leased by BMW Leasing GmbH, in addition to the corresponding items of BMW AG, are reflected in the sales and expenditure. The higher write-downs compared with BMW AG are mainly the result of investments in BMW Ingenieur-Zentrum GmbH + Co.

The lower interest income compared with BMW AG is due to the financing of leased products.

The (domestic) Group's net income amounts to DM 346.7 million.

BMW AG

Consolidated Balance Sheet (Domestic) at December 31, 1986

with comparative figures for the previous year

Assets

	Dec. 31, 1986	Dec. 31, 1985
	DM	DM

I. Fixed and Financial Assets

Fixed Assets

Real estate and equivalent rights with office, factory and other buildings	1,298,341,887	898,981,057
Real estate with residential buildings	7,872,284	7,207,430
Real estate without buildings	7,800,818	33,251,185
Buildings on land not owned	53,680,136	68,370,373
Machinery and equipment	1,654,139,899	998,042,452
Fixtures, furniture and office equipment	132,811,022	84,124,042
Construction in progress and advances for fixed assets	346,126,050	510,034,580
	<u>3,500,772,096</u>	<u>2,600,011,119</u>

Financial Assets

Investment in nonconsolidated subsidiaries and associated companies	314,474,699	235,180,867
Loans with a minimum term of four years	6,317,136	12,709,206
– thereof secured by mortgages: 983,603 DM –		
	<u>320,791,835</u>	<u>247,890,073</u>
	3,821,563,931	2,847,901,192

II. Current Assets

Leased Products

837,285,272 586,167,975

Inventories

Raw materials and supplies	336,287,349	295,412,149
Work in progress	111,681,706	103,154,777
Finished products and merchandise	525,833,739	526,367,008
	<u>973,802,794</u>	<u>924,933,934</u>

Other Current Assets

Advance payments to suppliers	23,949,537	22,566,856
Trade receivables	271,425,456	255,300,927
Notes receivable – thereof rediscountable at the Federal Reserve Bank: DM 124,008 –	8,162,725	26,503,353
Cash on hand, deposits at the Federal Reserve Bank and at postal giro accounts	2,151,643	1,957,044
Cash with banks	973,304,768	785,548,530
Marketable securities	1,037,446,027	1,045,058,741
Receivables from subsidiaries	809,270,035	509,757,464
Receivables resulting from loans granted under sec. 89 AktG (Corporation Law)	1,365,880	1,449,782
Miscellaneous assets	298,261,169	375,198,951
	<u>3,425,337,240</u>	<u>3,023,341,648</u>
	5,236,425,306	4,534,443,557

III. Prepaid Expenses

1,364,492 1,214,177

9,059,353,729 7,383,558,926

Shareholders' Equity and Liabilities

		Dec. 31, 1986	Dec. 31, 1985
	DM	DM	DM
I. Common Stock		750,000,000	600,000,000
II. Reserves			
Legal reserves			
Balance at beginning of the year		187,083,250	
Transfer from premium		405,000,000	592,083,250
Other reserves			
Balance at beginning of the year		1,133,188,750	
Transfer from 1986 net income		168,750,000	1,301,938,750
		1,894,022,000	1,320,272,000
III. Consolidation Reserve		20,891,676	20,876,376
IV. Minority Interests – including share of consolidated subsidiaries' net income for the year: DM 44,706 –		128,006	192,643
V. Special Reserves		45,594,847	150,361,358
pursuant to sec. 3 Ausl.Inv.G. (Foreign Investment Law) and sec. 74 EStDV (Income Tax Regulations) and sec. 34.3 EStR (Income Tax Guidelines)			
VI. Registered Dividend Right Certificates		70,620,660	59,713,920
VII. General Allowance for Doubtful Accounts		12,209,728	14,637,731
VIII. Pension Fund Provisions and Liabilities			
Pension fund provisions		822,076,923	752,875,388
Liabilities to BMW Benevolent Fund		59,314,423	60,293,367
		881,391,346	813,168,755
IX. Other Provisions			
Provision for deferred maintenance		26,741,359	23,161,469
Miscellaneous provisions		2,664,835,135	2,239,691,232
		2,691,576,494	2,262,852,701
X. Liabilities with a Term exceeding four Years			
Loans – thereof secured by mortgages:	DM –	60,026,000	60,026,000
Due to banks		527,846,353	346,421,137
– thereof secured by mortgages:	DM 107,604,661 –		
Miscellaneous liabilities		1,878,305	1,928,988
– thereof secured by mortgages:	DM –		
Of item X., due in less than four years:	DM 519,730,717		
		589,750,658	408,376,125
XI. Other Liabilities			
Trade payables		919,466,946	782,109,220
Advance payments received		8,507,874	7,343,827
Liabilities to subsidiaries		382,133,970	213,809,922
Miscellaneous liabilities		205,666,059	177,645,243
		1,515,774,849	1,180,908,212
XII. Deferred Income		409,250,096	401,945,847
XIII. Unappropriated Net Income consolidated		178,143,369	150,253,258
		1986	1985
		DM	DM
Contingent Liabilities on Discounted Notes Receivable		423,871,118	361,452,962
Guarantees – thereof for Subsidiaries:	DM 42,360,656 –	42,360,656	47,545,822
Guarantees for Bonds of BMW Overseas Enterprises N.V., Curaçao and BMW Finance N.V., Den Haag		562,225,000	311,853,000
Liabilities for Warranty Contracts		8,849,296	8,837,676
		9,059,353,729	7,383,558,926

Consolidated Statement of Income (Domestic) for the year ended December 31, 1986

with comparative figures for the previous year

External sales

Expenditure on items not requiring separate disclosure and after set-off
with change in inventories and company-produced additions to plant and equipment

Income from investment in nonconsolidated subsidiaries and associated companies

Income from other financial assets

Other interest and similar income

Gains resulting from the reduction of provisions

Miscellaneous income

Depreciation on fixed assets

Depreciation on financial assets

Interest and similar expenditure

Taxes

on income, profits and property

others

Expenditure for loss transfer of a nonconsolidated
associated company

Net income

Balance brought forward from previous year

Transfer to reserves

Transfer to consolidation reserve

Transfer to minority interests

Minority interests in consolidated subsidiaries' net income

Unappropriated net income consolidated

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

	1986		1985
DM	DM	DM	DM
	15,558,506,464		14,741,298,328
	14,246,468,534		13,456,764,791
	<u>1,312,037,930</u>		<u>1,284,533,537</u>
	155,941,047		139,908,947
	706,445		858,481
	176,917,755		200,986,525
	74,658,308		63,372,361
	<u>449,334,161</u>		<u>243,741,750</u>
	857,557,716		648,868,064
	2,169,595,646		1,933,401,601
	986,158,799		793,091,499
	28,661,088		—
	83,911,715		87,361,335
713,831,497		747,701,616	
<u>10,302,403</u>	724,133,900	<u>4,251,321</u>	751,952,937
	15,400		—
	1,822,880,902		1,632,405,771
	346,714,744		300,995,830
	253,331		618,529
	168,750,000		150,000,000
	15,300		—
	14,700		—
	44,706		124,043
	178,143,369		150,253,258

The consolidated financial statements and the consolidated annual report, which we have audited in accordance with professional standards, comply with all statutory requirements.

Munich, April 3, 1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Schulz
Wirtschaftsprüfer

(independent auditors)

Fahrion
Wirtschaftsprüfer

BMW AG

Ten Year Survey

		1977	1978
Sales	DM million	4,993.0	5,959.2
Increase	%	+ 16.5	+ 19.4
Export share	%	47.0	47.6
Production – automobiles	units	290,236	320,853
Production – motorcycles ¹⁾	units	31,515	29,580
Sales – automobiles	units	288,260	321,196
Sales – motorcycles ¹⁾	units	31,231	26,592
Investment in tangible fixed assets	DM million	335.1	304.9
Additions to investment in subsidiaries and associated companies	DM million	11.7	5.6
Depreciation on tangible fixed assets	DM million	222.5	249.6
Workforce at end of year		33,398	35,171
Wage earners		23,804	24,815
Salaried employees		7,786	8,408
Fixed assets	DM million	1,353.4	1,450.9
Current assets	DM million	1,203.7	1,487.5
Common stock	DM million	396.0	500.0
Reserves	DM million	391.5	511.3
Shareholders' equity	DM million	787.5	1,011.3
as % of fixed assets	%	58.2	69.7
Long-term liabilities ²⁾	DM million	711.7	694.2
Shareholders' equity, special reserves, registered dividend right certificates, long-term liabilities	DM million	1,499.2	1,705.5
as % of fixed assets	%	110.8	117.5
Balance sheet total	DM million	2,557.1	2,938.4
Material expenditure	DM million	2,620.9	2,989.5
as % of total value of production	%	51.8	50.2
Workforce expenditure ³⁾	DM million	1,350.8	1,439.2
as % of total value of production	%	26.7	24.2
Taxes on income, profits and property	DM million	242.2	374.6
Net income	DM million	125.3	150.6
Dividends	DM million	65.3	80.6
per share of DM 50 nominal value	DM	9.–	9.–

¹⁾ from 1977 to 1980 production and sales of BMW Motorrad GmbH

²⁾ pension fund provisions, liabilities to the BMW Benevolent Fund, liabilities with a term exceeding four years

³⁾ wages and salaries, social security contributions, cost of pension plan and related benefits

⁴⁾ proposal of the Management

1979	1980	1981	1982	1983	1984	1985	1986
6,560.3	6,898.5	7,822.1	9,371.6	11,480.9	12,931.6	14,246.4	14,994.3
+ 10.1	+ 5.2	+ 13.4	+ 19.8	+ 22.5	+ 12.6	+ 10.2	+ 5.2
48.0	55.0	55.7	61.1	59.8	61.1	65.0	65.7
336,981	341,031	351,545	378,769	420,994	431,995	445,233	446,438
24,415	29,260	33,120	30,554	28,053	34,001	37,104	32,054
335,132	339,232	348,946	377,684	422,491	434,266	440,732	446,109
27,339	29,263	32,452	30,398	28,291	33,912	36,320	31,731
472.8	738.9	815.6	752.5	800.6	663.8	906.5	1 735.0
4.5	46.1	66.2	85.4	4.7	5.4	35.0	86.8
294.4	330.1	473.1	615.8	716.9	707.9	751.6	948.9
36,777	37,246	39,777	40,738	43,169	44,692	46,814	50,719
25,461	25,118	27,113	27,398	29,084	29,524	30,170	31,883
9,294	10,022	10,583	11,113	11,778	12,677	13,918	15,822
1,590.5	1,976.6	2,254.3	2,422.7	2,487.3	2,410.6	2,592.0	3,419.2
1,587.4	1,619.1	1,698.7	2,203.4	2,713.8	3,496.0	3,980.9	4,324.3
500.0	500.0	500.0	600.0	600.0	600.0	600.0	750.0
586.3	646.3	701.3	851.3	995.3	1,160.1	1,320.3	1,894.0
1,086.3	1,146.3	1,201.3	1,451.3	1,595.3	1,760.1	1,920.3	2,644.0
68.3	58.0	53.3	59.9	64.1	73.0	74.1	77.3
734.6	968.5	1,169.1	1,041.4	925.8	976.7	1,081.9	1,103.8
1,820.9	2,126.1	2,417.9	2,657.5	2,734.9	2,971.9	3,212.3	3,864.1
114.5	107.6	107.3	109.7	110.0	123.3	123.9	113.0
3,177.9	3,595.7	3,953.0	4,626.1	5,201.1	5,906.6	6,572.9	7,743.5
3,327.8	3,675.6	4,142.5	5,045.9	6,221.5	6,915.0	7,890.8	8,608.1
50.3	52.9	52.6	53.3	53.9	53.6	55.1	57.1
1,626.3	1,781.1	2,030.8	2,243.8	2,471.8	2,792.5	2,918.5	3,173.7
24.6	25.6	25.8	23.7	21.4	21.7	20.4	21.1
400.7	298.1	245.6	372.5	617.3	690.4	728.6	698.2
175.0	160.0	145.0	200.0	288.0	329.6	300.0	337.5
100.0	100.0	90.0	110.0	144.0	150.0	150.0	168.8 ⁴⁾
10.-	10.-	9.-	10.-	11.- + 1.-	12.50	12.50	12.50 ⁴⁾

Supervisory Board

Hans Graf von der Goltz
Bad Homburg v.d.H.
Chairman
Businessman

Kurt Golda*, Grönsdorf
Deputy Chairman
Chairman of the Works Council
of BMW AG

Eberhard von Heusinger
Bad Homburg v.d.H.
Deputy Chairman
Member of the Board of Management
of Alana Industrie-Aktien
und Anlagen AG

Hans Winschin*, Munich
Deputy Chairman
Member of the Works Council
of BMW AG, Munich plant
(until May 8, 1987)

Johann Vilsmeier*
Frauenbiburg nr. Dingolfing
Deputy Chairman (since May 9, 1987)
Chairman of the Works Council
of BMW AG, Dingolfing plant

Johanna Quandt
Bad Homburg v.d.H.
Deputy Chairman

Dr.-Ing. E. h. Klaus Barthelt
Erlangen
Chairman of the Board of
Management of Kraftwerk Union AG

Reinhold Bauer*, Landshut
Chairman of the Works Council
of BMW AG, Landshut plant
(since May 9, 1987)

Helmuth Baumgärtner*, Dingolfing
Member of the Works Council
of BMW AG, Dingolfing plant

Klaus Bernhardt*, Frankfurt/Main
Trade union secretary

Norbert Fischer*, Frankfurt/Main
Member of the Board of Management
of IG Metall

Jakob Gilliam*, Seeshaupt
Head of Technical Planning
of BMW AG

Udo Knop*, Frankfurt/Main
Member of the Board of Management
of Bank für Gemeinwirtschaft AG

Dr. Wolfgang Leeb, Frankfurt/Main
Member of the Board of Management
of Dresdner Bank AG

Alois Mathe*, Munich
Deputy Chairman of the Works Council
of BMW AG, Munich plant

Dr. Hans Meinhardt, Wiesbaden
Chairman of the Board of
Management of Linde AG

Prof. Dr. Rudolf Nirk, Karlsruhe
Lawyer at the Federal High Court

Hans-Erdmann Schönbeck, Gräfelfing
President of the Confederation
of the Automobile Industry

Manfred Tögel*, Munich
Member of the Works Council
of BMW AG, Munich plant

Dr. Dr.-Ing. E. h. Dr. phil. h. c. Kurt Werner
Darmstadt
Chairman of the Board of
Management of Maschinenfabrik
Goebel GmbH

Dr. Kurt Wessing, Düsseldorf
Lawyer

*elected by the employees

Board of Management

Dr.-Ing. E. h. Eberhard v. Kuenheim
Chairman

Volker Doppelfeld

Dr.-Ing. Hans Hagen
(until October 31, 1986)

Dr.-Ing. E. h. Hans C. Koch

Franz Köhne

Dr. Günter Kramer
(since May 7, 1986)

Dr. Helmut Schäfer

Dr. Robert Büchelhofer, Deputy
(since May 7, 1986)

Dr. Eberhard von Koerber, Deputy
(until March 31, 1986)

Dr.-Ing. Wolfgang Reitzle, Deputy
(since February 21, 1986)

Officer with General Authority:

Dr. Eberhardt C. Sarfert

General Counsel:

Dr. Hagen Lüderitz

Agenda of the Annual General Meeting

Agenda of the 67th Annual General Meeting to be held on Thursday, July 2, 1987 at 10 a.m. in the Kongreßsaal of the Deutsche Museum, Museumsinsel 1, Munich.

1. Presentation of the Annual Accounts at December 31, 1986, of the Annual Report and of the Report of the Supervisory Board, as well as of the Consolidated Financial Statements at December 31, 1986 and the Consolidated Annual Report.

2. Resolution on the allocation of profits.

Board of Management and Supervisory Board propose using the balance sheet surplus for the 1986 business year, amounting to DM 168,750,000, as follows: distribution of a dividend of DM 12.50 per share with a nominal value of DM 50 on the common stock with full dividend rights for the 1986 business year (DM 600,000,000) DM 150,000,000 and distribution of a dividend of DM 6.25 per share with a nominal value of DM 50 on the common stock with half dividend rights for the 1986 business year, resulting from the capital increase of July 1986, (DM 150,000,000) DM 18,750,000
Balance sheet surplus DM 168,750,000

3. Resolution on the formal approval of the actions of the members of the Board of Management.

Board of Management and Supervisory Board propose approving the actions of the members of the Board of Management for the 1986 business year.

4. Resolution on the formal approval of the actions of the members of the Supervisory Board.

Board of Management and Supervisory Board propose approving the actions of the members of the Supervisory Board for the 1986 business year.

5. Choice of auditors for the 1987 business year.

The Supervisory Board proposes the appointment of Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, as auditors for the 1987 business year.

BMW AG

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Frieder Blickle

BMW AG

