



**Annual Report
of the Bayerische
Motoren Werke
München
on the
1977 Business Year**

BMW AG



BMW

Comparative Annual Figures

		1977	1976	Change %
Sales ¹⁾				
BMW AG	DM million	4,993.0	4,287.0	+16.5
BMW Konzern	DM million	5,223.2	4,490.3	+16.3
BMW Group ²⁾	DM million	5,530.5	4,756.1	+16.3
Output				
Cars	units	290,236	275,022	+ 5.5
Motorcycles	units	31,515	28,209	+11.7
Car sales				
Domestic	units	143,774	135,994	+ 5.7
Foreign	units	144,486	139,602	+ 3.5
Total	units	288,260	275,596	+ 4.6
Motorcycle sales				
Domestic	units	6,668	8,040	-17.1
Foreign	units	24,563	20,131	+22.0
Total	units	31,231	28,171	+10.9
Personnel at of year end				
BMW AG		33,398	30,192	+10.6
BMW Konzern		35,684	32,444	+10.0
BMW Group		37,581	34,030	+10.4
Personnel costs	DM million	1,350.8	1,135.6	+19.0
Balance sheet total	DM million	2,590.1	2,198.1	+17.8
Capital stock	DM million	396.0	330.0	+20.0
Net worth ³⁾	DM million	820.5	695.6	+18.0
Fixed assets	DM million	1,386.4	1,216.7	+13.9
Investments in tangible fixed assets	DM million	335.1	320.8	+ 4.5
Depreciation of tangible fixed assets	DM million	222.5	160.5	+38.6
Net income	DM million	125.3	126.0	
Dividends	DM million	65.3 ⁴⁾	63.0	
per old share of DM 50 Nominal Value	DM	9.00 ⁴⁾	10.00	
	%	18 ⁴⁾	20	
per new share of DM 50 Nominal Value	DM	4.50 ⁴⁾	5.00	
(entitled to dividends as of July 1, 1977)	%	9 ⁴⁾	10	

¹⁾ excluding value-added tax

²⁾ The BMW Group comprises BMW AG and the domestic and foreign firms in which it holds direct or indirect interests exceeding 50%.

³⁾ including special items containing reserves.

⁴⁾ proposed by the management.

**Bayerische
Motoren Werke
Aktiengesellschaft
München**

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on the
1977 Business Year**

BMW AG

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Report of the Supervisory Board

During the past year, the Supervisory Board regularly observed the management of the company. In joint sessions with the Managing Board, and on the basis of documentary and oral reports from the Managing Board, it kept itself fully informed of the company's position, the course of business, and basic problems of future management, discussing these matters in detail with the Managing Board.

The financial statement for the 1977 business year, the accounts of the company, and the annual report were examined by Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and were given its unqualified endorsement. The results of this examination have been approved by the Supervisory Board.

The Supervisory Board has examined and approved the financial statement for 1977 and the annual report of Bayerische Motoren Werke AG, as submitted by the Managing Board. The financial statement is thereby confirmed.

The Supervisory Board has examined and now endorses the proposal of the Managing Board to apply the balance sheet profit of DM 65.34 million for the payment of a dividend of DM 9.00 per share with a nominal value of DM 50 on the capital stock entitled to full dividends (DM 330 million), and the payment of a dividend of DM 4.50 per share with a nominal value of DM 50 on the capital which is entitled to half the dividend distribution, resulting from the capital increase of July, 1977 (DM 66 million).

In accordance with the conclusions of the examination of the Supervisory Board, there are no grounds for objections.

The Supervisory Board has taken cognizance of the 1977 financial statement of the BMW Konzern, which was examined by Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and was given its unqualified endorsement, as well as of the Konzern's annual report and of the report of the accountants responsible for the Konzern's financial statement.

The Supervisory Board has appointed Dr. Eberhardt Sarfert a full member of the Managing Board as of 1 October, 1977. Dr. Sarfert was appointed deputy member of the Managing Board responsible for personnel on 1 October 1976.

Munich, April 1978

The Supervisory Board
Dr. Herbert Quandt
Chairman.

Report of the Managing Board

In 1977, most Western industrial nations experienced restrained economic development. The auto industry was the only branch in which conditions continued to be favorable. The first half year saw a continuation of the previous year's growth all over the world; in the second six months demand stabilized at a high level.

In West Germany, contrasting trends in the auto industry and in the economy as a whole continued throughout the year. Domestic auto sales reached record highs whereas the German economy grew only slightly overall. The auto industry again contributed substantially to the economic growth achieved and helped maintain the general employment level.

For BMW, the 1977 business year was marked by continued strong demand. We increased sales and expanded our market share both in Europe and overseas. Despite strengthened capacity, lengthy delivery schedules were unavoidable. The full exploitation of production capacity and increased sales of higher value models again favored the company's financial position.

Contrasting Trends

Various factors accounted for the divergent trends of car sales and of the economy as a whole. Firstly, despite the high level of worldwide unemployment (in Europe about 5 million, in the USA about 7 million), car buyers did not appear overly concerned about the possible loss of jobs and income. Secondly, the attractions of driving seemed to gain in appeal over other consumer products. In 1977 the growth of consumption in the West European industrial nations was 2% greater in real terms than in the previous year, and the purchase of automotive products contributed considerably to this result.

However, this was not adequate for a self-sustaining upturn in the economy, since willingness to invest remained weak. Gross capital investments in Western Europe rose by only 1%. On average throughout the year, industrial output grew by 2.5% as against 5% in 1976 while the GNP increased by only 2% compared with 4.3%.

At the same time, employment continued to deteriorate. The unemployment rate for young people increased. Even in the USA, where the growth process weakened to a lesser degree than in Japan and Western Europe, there was no drop in unemployment. The number of workers rose by 3 million, to the highest level in the history of the United States, but the supply of new, young potential workers grew at about the same pace.

Similarly, 1977 saw no progress in the war on inflation. On average, consumer prices rose by 8.5% in the Western industrial nations, as in the previous year. One of the causes was the temporarily sharp increase in prices for raw materials, which led to a perceptible cost inflation for imported raw materials, primarily in the countries with weak currencies. Secondly, the wage costs per unit of output rose on average by 7.5% in the Western industrial nations.

On the other hand, some countries reported progress in dealing with their external economic problems, with France, Italy and Great Britain in particular reducing their balance of payments deficits.

This was not the case in the USA whose trade deficit is an ever-growing burden on the world economy and international trade. The dollar declined rapidly. At the end of 1977, on a weighted average its value was about 10% lower than in the previous year. Thus it fell against the yen by 18%, against the Swiss franc by 17%, and against the DM by 11%. During the first quarter of 1978, the dollar continued to fall, posing a threat to West German exports.

No upturn

In West Germany, hopes for a strong economic upturn in 1977 were not fulfilled. Instead of the anticipated 5% growth in the GNP (real terms), only 2.4% was achieved. Industrial production rose by only 3% compared with the previous year (7% in 1976). There was little to stimulate the economy since domestic demand grew only slightly, while orders from abroad showed a distinct decline.

In 1977 exports in real terms were only 4% above those of the previous year, substantially below the early growth forecast of 9%. This corresponds to a short-fall in real GNP of over DM 10 billion or to a 1% decline in economic growth. Simultaneously imports rose by 6%. The positive balance of payments of West Germany, at DM 8 billion, matched the level of the previous year.

The absence of strong foreign demand was an additional factor affecting domestic demand. Both private consumption and investments grew by less than had been expected. Despite the release of premium savings deposits, real consumer outlays rose during 1977 by only 3%. The uncertain outlook for exports and renewed deterioration in earnings acted to restrain investments. Gross capital investments rose in 1977 by only 3% in real terms, whereas in 1976 they had increased by 5%. In 1977, despite the "Program for Investment in the Future" adopted in the spring, government investment dropped slightly, reaching a level in real terms of 5% below that of the recession year of 1974.

Economic growth was too weak to improve the labor situation. The number of unemployed failed again in 1977 to drop below the million mark; the unemployment rate was 4.5% (4.6% in 1976). The number of workers employed in industry as a whole was maintained. But in the overall economy, the number of available jobs fell once again by 100,000.

Labor productivity across the board rose by only 3% in 1977, compared with 6.6% in 1976, not least because of the lower rate of growth of output. At the same time, wages were increased by about 7%, so that the rise of wage costs per unit of output again accelerated as against 1976. On the other hand, prices for imported goods, particularly for raw materials, had a stabilizing effect. In contrast to other countries, primarily those with weak currencies, import prices for raw materials sank in West Germany as a consequence of the appreciation of the DM by 0.5% against 1976, and for imported semi-finished products by 2.3%. Consequently prices on the home market became ever more stable.

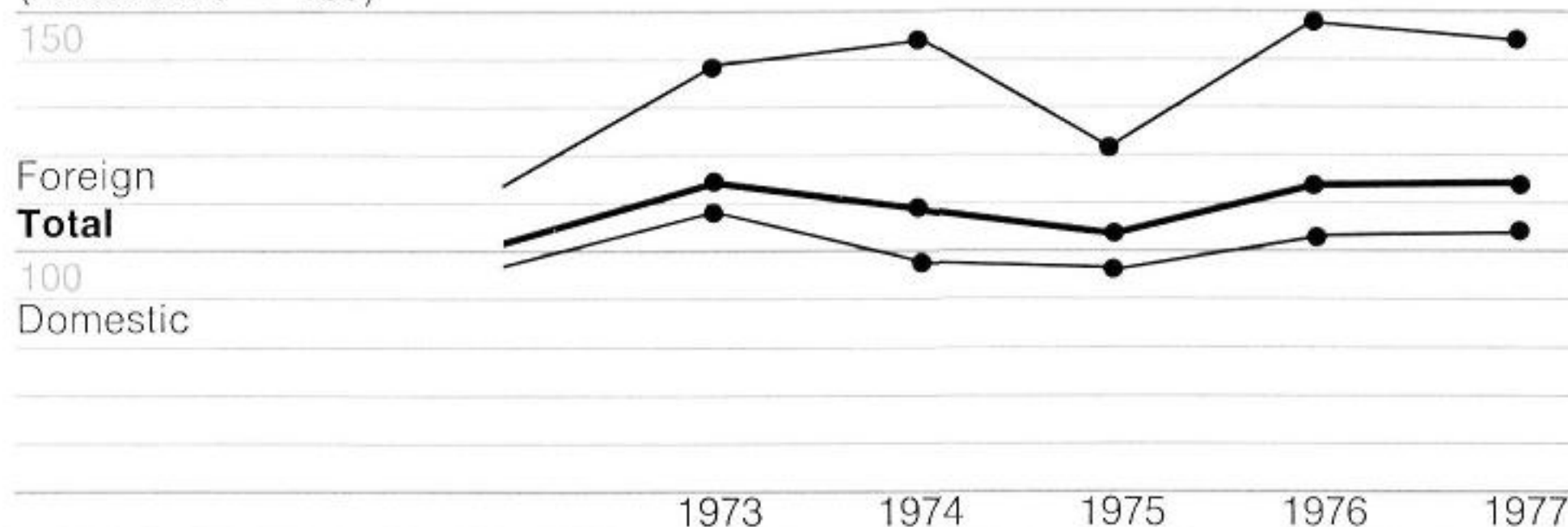
By the end of the year, price increases for industrial manufactured goods had fallen to 1.7% (4.3% in 1976), showing the lowest rate since the spring of 1969, while the rise of consumer prices slowed to 3.5% (3.9% in 1976). Costs for auto maintenance also rose only moderately, by 2.8% (3.7% in 1976). Here too, the West German trend contrasted with international developments.

International Boom in Car Sales

The upturn in the international auto business continued in 1977, but slowed down in the second half of the year. However developments varied from market to market. Whereas in Europe registrations virtually stagnated at the high level of the beginning of the year, passenger car sales in the USA rose unabated until the autumn. In Japan, after a short-lived revival in early 1977, domestic demand again slipped significantly. Particularly high increases in registrations were reported in the USA and in Switzerland, both being up about 15%. Purchases in Austria, which were carried forward for tax reasons showed a one-time plus of 31%.

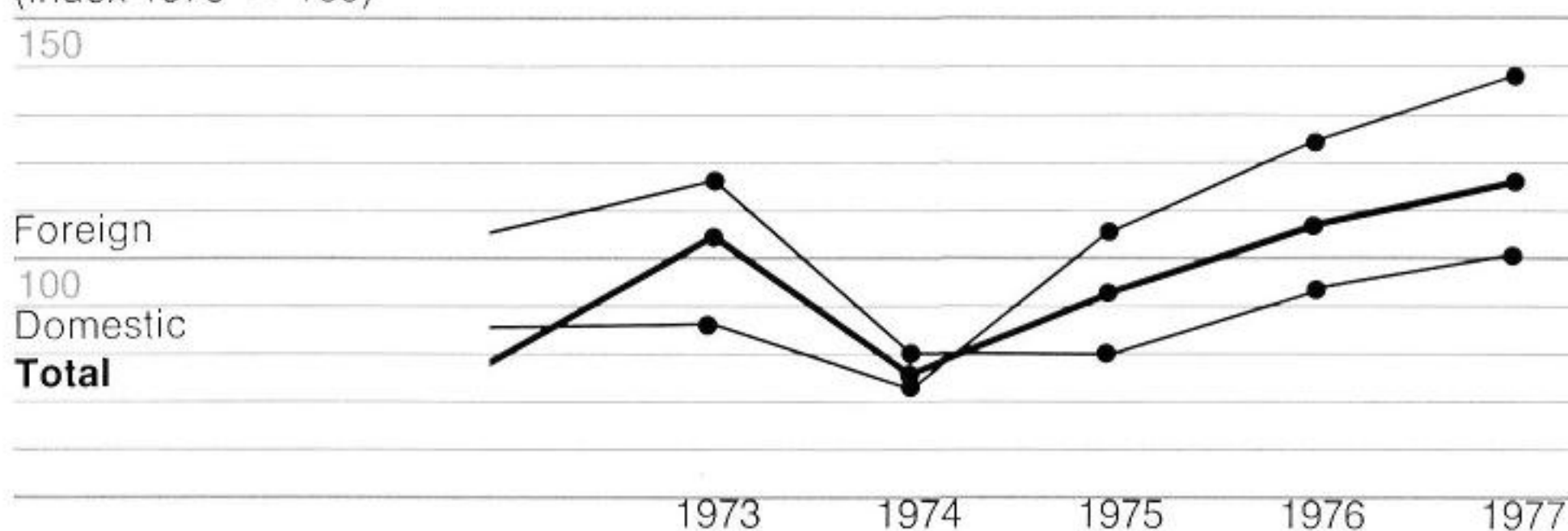
Only in the Scandinavian countries was the market trend unsatisfactory. Unfavorable economic developments and foreign payments difficulties influenced the market there, to a great

Orders Taken by German Industry (real) (index 1970 = 100)



	1973	1974	1975	1976	1977
Total	115	109	103	113	113
Domestic	108	98	97	102	103
Foreign	138	144	122	148	143

Orders Taken by German Passenger Auto Producer (real) (index 1970 = 100)



	1973	1974	1975	1976	1977
Total	103	77	92	107	117
Domestic	86	73	106	124	138
Foreign	116	80	80	93	101

extent in some areas. Only since the beginning of this year does South Africa seem to be emerging from its deep recession in 1976.

As in 1976, the auto industry was a powerful factor in maintaining employment. The worldwide output of passenger cars and estate vehicles was 30.8 million, 5.6% above the level of the previous year and a record in production history.

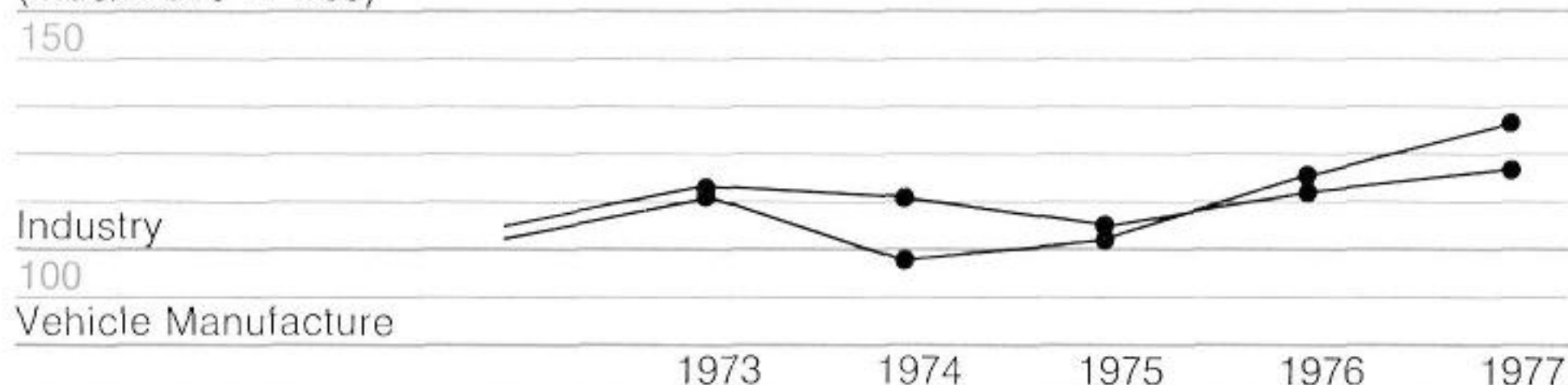
However, the individual producing nations showed varying shares in that growth:

- In the Common Market nations, output was increased by only 3.5% to about 10 million units. Production bottlenecks at some plants, social conflict, and strikes caused the below-average increase. Growth would have been almost negligible if it had not been for certain countries — such as West Germany at 7% — which recorded above-average increases.

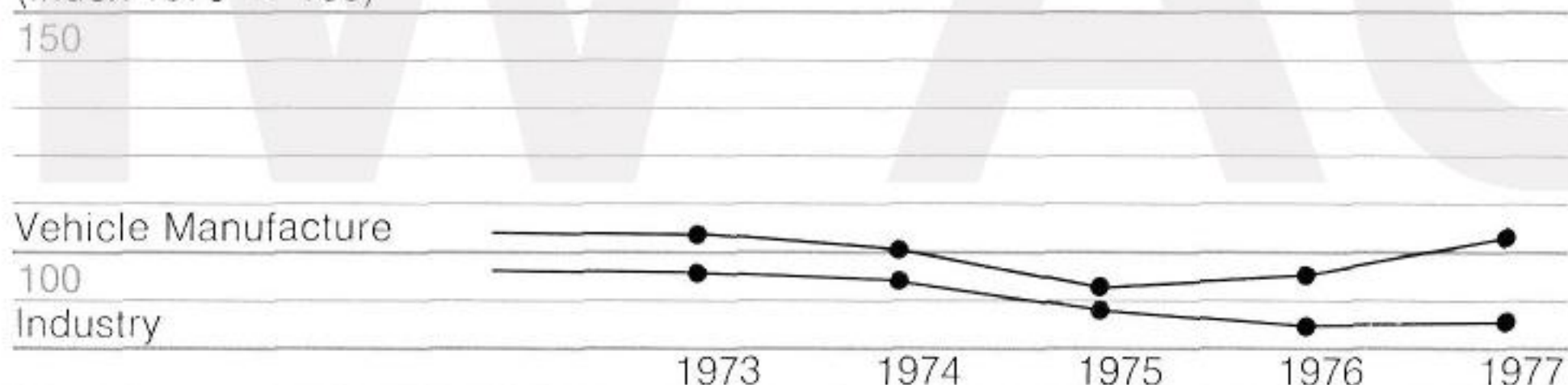
- Particularly strong gains were achieved in the USA, 8.4% up to 9.2 million units, and in Japan, 8.0% up to 5.4 million units.

Whereas the North American auto makers expanded primarily their domestic sales, the Japanese made substantial export efforts, with particular success in the USA and in Great Britain. In 1977, Japanese car exports rose by 16% to 2.95 million. In comparison with 1973, this was a growth of 103%. Despite stagnating domestic sales, Japanese manufacturers thus increased their world market share to 18%, whereas the West German share was about 12%.

Production Industry and Vehicle Manufacture (index 1970 = 100)

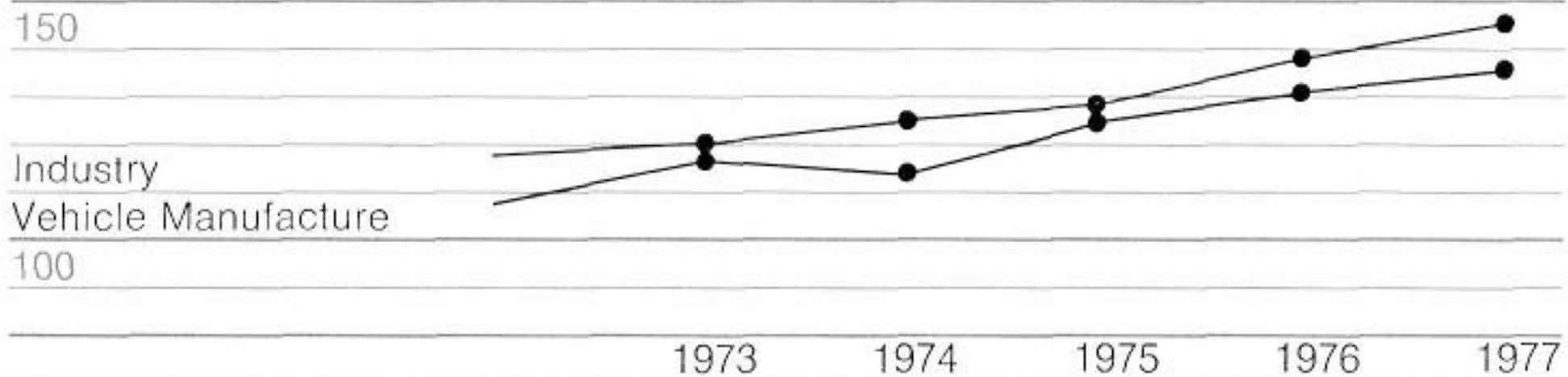


Personnel Employed (index 1970 = 100)



Industrie (index)	97	95	89	86	87
(in thousands)	8,159	7,943	7,430	7,250	7,263
Vehicle Manufacture (index)	103	101	93	97	103
(in thousands)	656	641	594	616	654

Productivity (index 1970 = 100)



Industry	119	123	128	138	145
Vehicle Manufacture	116	112	123	130	136

The German Auto Industry — Bulwark of the Economy

In West Germany too, the auto industry was one of the few sectors of the economy that developed favorably in 1977. As in the previous year, it was the bulwark of the economy. Compared with 1976, net output in vehicle production rose by about 8%, as against an increase in production of only 2% for German industry as a whole.

Domestic demand was strong. Registrations rose to 2.56 million units, thereby exceeding the previous year's record level by 10.8%. Of this total, 2.02 million units, a rise of 11.5%, were produced by domestic manufacturers. The import share remained virtually unchanged at about 21%. Consequently the model policies of West German auto makers too proved in 1977 to be quite successful in the face of competition from imports.

But exports were less satisfactory. High wage costs, various restrictive import measures in individual countries, and particularly the renewed sharp rise in the value of the DM (which on a weighted basis relative to the export structure of the German automobile industry was 8.2% in 1977) hampered foreign sales of German-built cars. The damage caused by the price increases for German cars on foreign markets amounted to at least 10.5%, and could not be fully compensated for even by a modern, technically and qualitatively advanced model program.

German car exports rose during 1977 by only 4% to 1.9 million units, thus remaining below the 1973 record level of 2.1 million units by a margin of 11%. The international competitiveness of German car manufacturers has deteriorated. Their export quota fell from 60% in 1973 to 51% last year.

In 1977 about 3.79 million passenger cars and estate vehicles were produced, approximately 7% more than in 1976. On an all-year average, plants operated at about 96% capacity.

The supply of materials and raw materials caused no difficulties. In 1977 free trade in raw materials was to some extent threatened by protectionism. But on the whole, prices for raw material remained relatively favorable as a result of various factors, not least of which was the change in the external value of the DM. But on all raw material markets, for both medium and long-term purposes, it is expected that prices will again increase. The energy market also was quite stable during 1977.

Apart from various increases in capacity, the growth of output also required an expansion of personnel. At the end of 1977 670,000 people, 5% more than in the previous year, were employed in the German auto industry. This matched the level of employment in 1973.

A comparison of the performance of the German auto industry during the past two years is quite impressive. But seen over a longer term, a less favorable picture emerges. Whereas worldwide production since 1970 has risen by 40%, and in Japan alone by 61%, output in West Germany has grown by only 7% over the same period. Besides the shifts in currency exchange rates, this performance has been influenced by the fact that the labor costs of the West German auto industry, at DM 23.10 per hour, have climbed to the top of the international wage scale. The gap between the labor costs of German auto makers and competing foreign producers has widened considerably. At the beginning of 1978, for example, the hourly wage costs in the USA were

DM 19.80, in Japan DM 14.20, in Italy DM 11.60 and in Great Britain DM 9.20.

To meet increasingly strong foreign competition, the West German auto industry has substantially increased its capital investments. Investments in fixed assets in 1977 were further increased over 1976, amounting to about DM 3 billion. In addition, the industry invested about DM 3.8 billion, or about 4% of turnover, in research and development.

Successful Business Year for BMW

At BMW the course of the 1977 business year was marked by the introduction of the new limousines of the 7 Series, and the new small 6-cylinder engines. As a result, the already great demand for BMW cars found new impetus. Orders and delivery schedules increased still further, although daily production grew from 1,220 units in the previous year to 1,340 units.

Higher production necessitated expansion of the labor force as well. At the end of 1977, BMW AG had 33,398 employees in the plants, at headquarters, and in its regional sales and service organization in Germany. Including domestic and foreign subsidiaries, 37,581 were employed by BMW. Thus, 3,551 new jobs were created during the year.

The senior managerial staff set a high standard of self-reliance. In joint working sessions with the Managing Board of BMW AG, it became clear that precisely this managerial group is of decisive importance to the future development of the company. Consequently in 1977, as in earlier years, numerous meetings were held, at which topical themes were examined jointly. It is intended to extend the ideas of senior management beyond the sphere of its own responsibilities and to integrate them into the decision-making process of the Managing Board. This will enable the company to achieve its long-term objectives.

Despite the hiring of more workers, special shifts and overtime were necessary in almost all production sectors.

With capacity utilized to the full, a total of 290,236 cars was manufactured by BMW in 1977, 5.5% more than in the previous year.

Plant Restructuring and Introduction of BMW 7 Series

At the end of February 1977 the Munich plant turned out the last BMW of the old large 6-cylinder class. From 1968 to 1977, more than 220,000 units of this model, including its variants, the BMW 2500, 2800, 2.8 L, 3.0 S, 3.0 Si, 3.0 L and 3.3 Li, rolled off the assembly line. They built BMW's reputation in the market for large limousines.

The model change enabled BMW to make decisive improvements in the structure of its plants. The Munich Milbertshofen plant concentrated on the 3 Series and on the production of engines for all BMW cars. The Dingolfing plant is producing the 5, 6 and 7 Series.

As a result of this measure, daily production of the BMW 3 Series was increased from 620 units to 770 units during the course of 1977.

Engine production was expanded by the assembly of the new small 6-cylinder engine, and in addition was restructured by substantial new investments. Working conditions were further improved, as had been the case in other areas during 1976. Workers were provided with more space for assembly.

At the Dingolfing plant, 1977 was marked by the start-up of the new BMW 7 model series. More workers were engaged. By the end of the year, daily production of the 7 Series was already at 150 units. Since the end of the company's vacation in 1977, Dingolfing has also been producing the 6 Series, the BMW Coupé.

BMW Investments Remain above Industry Average

Considerable investments led to increased production. In 1976 the body and assembly units in Dingolfing had been enlarged. At present, expansion of the press shop and for spare parts warehouse is in progress. The new plant will be expanded step by step, without adversely affecting production. The construction program for Dingolfing, with its variable structure, has proven to be a success. Production in Dingolfing was increased from 430 units per day at the start of 1977 to 570 units by the end of the year.

Because of higher output and growing automation of production, the coming years are expected to bring a substantial increase in energy consumption. Last year it was necessary to draw electric power from a new switching station. As a result, it is now possible to supply the plant with about 25 MW, which is four times as much as the town of Dingolfing requires. Transition to natural gas in the plant was completed, after the processing installations had been converted to operate on natural gas instead of liquid gas.

The plant in Landshut was also expanded. The demand for parts on the assembly lines grew, mainly because of the new models.

At all plants numerous steps were taken to protect the environment. The focal point was the selection of ecologically improved processes for new production installations, particularly in the field of surface treatment. In this way, the new final painting line in Dingolfing was equipped with powerful air purification plant. The same purpose is served by a test installation for new purification and application processes in a part of the paint shop in Munich. The results of these tests will, if appropriate, be applied in larger installations. The rising demands for water purification are being met at the plant by completion of the second stage of a water effluents treatment system.

In 1977 a total of about DM 335 million was invested by BMW AG in fixed assets. On the one hand, these investments are designed to effect the expansion of capacity and structural improvements of the plants, which are not oriented towards temporary peak demand periods but are planned to meet the sure demands of the longer term. On the other hand, considerably more was invested than in 1976 in research and development.

The share of fixed investments in sales is 6.7%. As in past years, at this level it was above the industry average.

Increased demands on Purchasing and Logistics

Growing production meant greater requirements for raw materials and parts. The expenditures on raw materials, accessories, and fuels, as well as for finished parts, rose from 1976 to 1977 by DM 408 million.

All in all, suppliers were well prepared for the continuing high level of demand for vehicles, and thus were able to meet the demand; they deserve our gratitude for their cooperation, flexibility and adaptability in meeting our needs. Higher labor costs were partly compensated for by a higher level of rationalization. The suppliers also made greater efforts to pinpoint production potential abroad.

Foreign, and particularly European, parts manufacturers intensified their efforts to make deliveries to BMW; good contacts were made. Imports will enable BMW to compensate for part of its exports, and thereby reduce prevalent currency risks. As in the past, the supreme guideline for BMW's purchasing staff remains a high standard of quality and security of supply.

In 1977, Logistics was faced with growing and substantially more diversified volumes of materials. In line with the increased rate of output, and the expansion of the model and equipment variants, the stocks of raw materials, accessories, fuels and semi-finished products rose. Nevertheless, the average



reserves of such materials was maintained 1976 levels.

In order to rationalize the materials flow still further the logistic systems for disposal and procurement, receipt of materials, storage, transport, and the guidance of both production and assembly were renewed or expanded. Despite the increased workload due to the changes in the model range and increased material flows, the reorganization of materials handling and production control was continued according to plan in 1977. Here the decentralization measures introduced in 1976 proved fruitful: the plants were more flexible and were more readily adaptable to changing conditions in the market.

Excess Demand

In 1977, 288,260 BMW cars were sold, 4.6% more than in 1976. This growth corresponded to expanded production

The program for the BMW 7 Series comprises models with 2.8, 3.0 and 3.3 liter motors; the 3.3 liter motor has an injection unit. The motors produce between 125 and 145 DIN kW (170–197 hp). The cars achieve speeds of up to 205 km/hr.

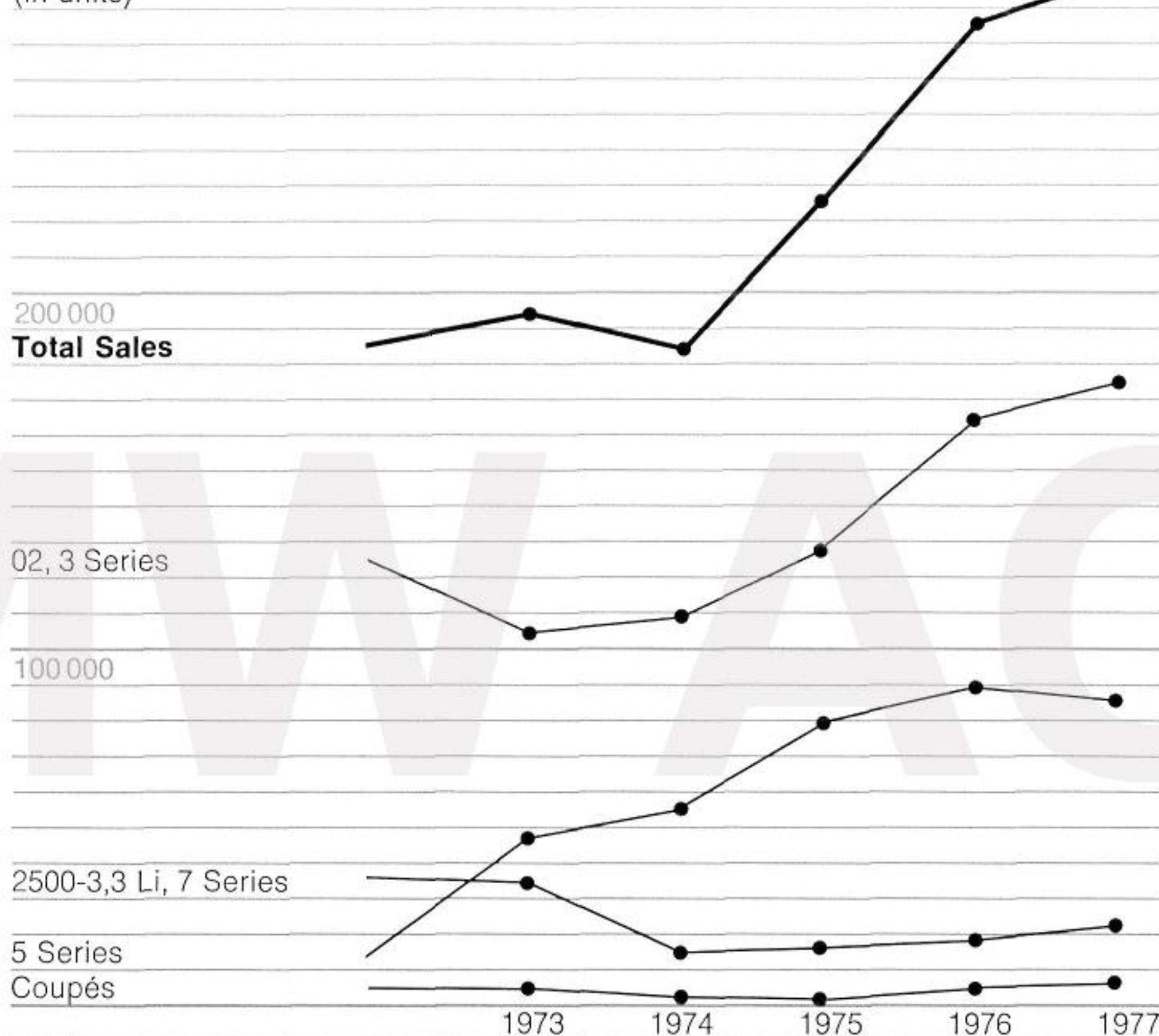
facilities but was outstripped by a much higher level of demand. Orders exceeded the excellent results of the previous year by 19%, whereas the industry as a whole showed a plus of 10%. Consequently the factory, dealers, and importers had only minimal stocks at their disposal throughout the year. Both at home and abroad, customers had to accept longer delivery dates.

The rise in sales benefited mainly the domestic dealers, so that last year deliveries to the home and export markets were evenly divided. In West Germany, BMW set a new record, at 140,182 registrations. Therefore BMW was able to maintain roughly its market share of 5.6% despite the strong expansion of the whole market. Impressive growth rates were achieved by the big BMW limousines (including the newly-introduced 7 Series) and by the BMW Coupés, the registrations of which were up by 54% and 24% respectively.

Registered passenger cars and estate vehicles in West Germany grew by mid-1977 to 20 million vehicles, 6% up on 1976. But the total number of BMWs rose twice as fast, at 12%. Of all registered cars in West Germany, at present 1 million, or 4.5%, are BMW models. A year ago, the percentage was 4.2%. The highest growth rates were posted by models of the 3 Series.

On the export markets, there were varying trends. Substantial sales increases in the neighboring European countries and overseas contrasted with adverse developments in Scandinavia. But overall, BMW exports were up by 3.5%. BMW's share in vehicle exports from West Germany was 7.7%. Important foreign markets were the USA (about 29,000 units), Italy (about 17,000), France (about 15,000) and Holland (about 12,000). Because of the limited delivery capacity, the whole of the demand from these nations could not be met.

BMW Car Sales
(in units)



Total Sales	193,978	184,330	226,688	275,596	288,260
Domestic	95,555	85,641	120,553	135,994	143,774
Foreign	98,423	98,689	106,135	139,602	144,486
02, 3 Series	104,946	109,648	127,798	163,519	175,094
5 Series	47,773	55,790	79,982	89,715	85,318
2500-3,3 Li, 7 Series	35,344	15,876	17,032	17,912	21,748
Coupés	5,915	3,016	1,876	4,450	6,100

Strong Demand for New Models

Worldwide sales successes confirmed the viability of BMW's model policy. The structure of the auto program changed considerably with the introduction of new models and engines. In 1976, only just over a quarter of all BMW automobiles were equipped with 6-cylinder engines, whereas in 1977 the figure rose to 30%, and in the current year it is foreseen that the 66% mark will be reached.

Meanwhile the BMW 728, 730 and 733i models have come to be recognized as being in the highest category internationally. With this series, BMW succeeded in providing an alternative to other globally famous models. They were well received by the trade press and driving public, and the high sales forecasts were exceeded by orders.

The new 6-cylinder models of the 3 and 5 series have also been well received by the market. With the newly developed engine, the renowned BMW 6-cylinder driving style can now be offered for all models with 2000 or more cc. The BMW 6-cylinder engines provide better performance and driving comfort for the 320 and 520 models. In addition the BMW 323i, as well as the new BMW 528i, strongly underscore the sporting character of BMW cars.

BMW Dealers Quality-oriented

The technical improvement of the models is making ever higher demands on BMW's dealer organization. Numerous and intensive courses have been held to ensure that BMW drivers continue to receive individual and skilled services. During 1977, almost 50% of the personnel of the dealers' organization took part in seminars and courses to upgrade the quality and speed of repairs.

The willingness of dealers to invest in their services has risen remarkably and was confirmed by a poll of BMW customers. Almost 90% of the sample described the quality of BMW service as good, satisfactory or excellent. This has also led to a rise in customer confidence in their dealers.

The structure of the domestic dealers' organization was further tightened up. New and efficient partners were found, and the policy of further development and quality improvement proved successful. Exclusive dealerships increased. In 1977, 95% of domestic sales of new automobiles were made by exclusive dealers.

At BMW's regional organizations, the rising volume of business made numerous capital investments essential. BMW in Frankfurt was reconstructed and expanded; it is planned to relocate BMW in Offenbach to a new building.

A new building in Stuttgart will bring under one roof two departments which until now have been geographically separated: the spare parts warehouse, the sales office and servicing facilities.

Successful Subsidiaries

In 1977, the majority of the subsidiary and associated companies of BMW AG were highly successful. BMW Motorrad GmbH produced 31,515 motorcycles, 11.7% more than in 1976, a record high.

A new subsidiary was established to produce and market marine engines. In early 1978, BMW Marine GmbH exhibited for the first time at the International Boat Show in Düsseldorf and unveiled its program to the public. This consists of a range of maritime BMW 4 and 6-cylinder engines and a newly developed Z-drive.

BMW subsidiaries abroad account for two-thirds of total auto sales. In 1977, the merits of this sales policy were evident. At the beginning of 1978 BMW Austria GmbH, Salzburg, began operations as the sales company in Austria.

Favorable Company Results

The sales of BMW AG rose in 1977 by 16.5% to DM 4.993 billion. Of this sum, DM 2.645 billion came from the domestic market, and DM 2.348 billion were accounted for by exports.

The increased turnover resulted partly from increased sales; but primarily it was due to the shift in demand for higher-priced models. Rising costs for labor and materials made an increase in sales prices inevitable. At home, non-obligatory price recommendations for BMW cars were raised 3.8% at the end of March 1977, which taken for the year as a whole meant an average of 1.6%. Export prices were increased in line with currency changes and in view of specific competitive conditions in individual markets, each factor being approximately of equal importance. Turnover of the BMW Group rose in 1977 by 16.3% to DM 5.531 billion.

Favorable market conditions, a better product mix, and high utilization of capacity combined to produce a net income of DM 125.3 million in 1977. The Managing Board and the Supervisory Board recommend to the Annual General Meeting that a dividend of DM 9.00 per DM 50 nominal share be paid on the capital with full dividend entitlement (DM 330 million), and a dividend of DM 4.50 per DM 50 nominal share on the capital which is entitled to half dividends (stemming from the capital increase of July 1977: DM 66 million).

Taking into account the tax rebate of 9/16 associated with these cash dividends, domestic shareholders will receive DM 14.06 per old share and DM 7.03 per new share.



The BMW motorcycle program was restructured during the year; it now includes machines with 600, 800 and 1,000 cc. The new product is the R 80/7 (photo above), which is sold with a choice of either 37 or 40 DIN kW (50 or 55 hp).

1978: Automobile Sales Approach the Long-term Trend

During the first few months of 1978, the trend of the West German economy can only be viewed with restrained optimism. As a result of a rise in domestic orders for investment goods and expanding outlays by the government, the economy was clearly reviving in the fall of 1977, and the whole economic growth process was again in motion. But because of strong appreciation of the DM since the end of 1977, it is questionable whether the positive impulses which have so far been in evidence will prove adequate for a self-sustaining upturn in the economy. The risks of a renewed setback caused by foreign economic trends have grown substantially. German companies, both in the foreign and home markets, find themselves confronted with appreciably keener foreign competition.

This unstable economic point of departure calls for cautious optimism about the further progress of the auto industry. At home, in view of the boom in demand during previous years it is probable that demand for cars will not increase further, but will re-approach the longer term trendline. By contrast, the development of demand from abroad is made vulnerable by special risks, though export markets account for more than 50% of the labor force of the domestic manufacturers.

With these uncertainties in mind, 1978 may see a consolidation of output and of sales at the high level attained in 1977, which would have to be considered a success.

Continuing Good Business Climate for BMW

In the first few months of 1978, there were no signs of reduction in demand for BMW products. The 7 Series and the new small 6-cylinder engines contributed substantially to this result. New orders continue to outpace production capacity; delivery dates remained very long.

In order to meet market demand and satisfy staff needs, investments in fixed assets will be increased in 1978. Considerable additional investment is projected for motorcycles. Intended is to improve production and to expand and round off the model range by starting a second smaller motorcycle series.

The current year is expected to bring satisfactory results for BMW's subsidiaries and associated companies. But here it is impossible to overlook the trend toward stiffer competition in the motorcycle markets and the development of currency parities.

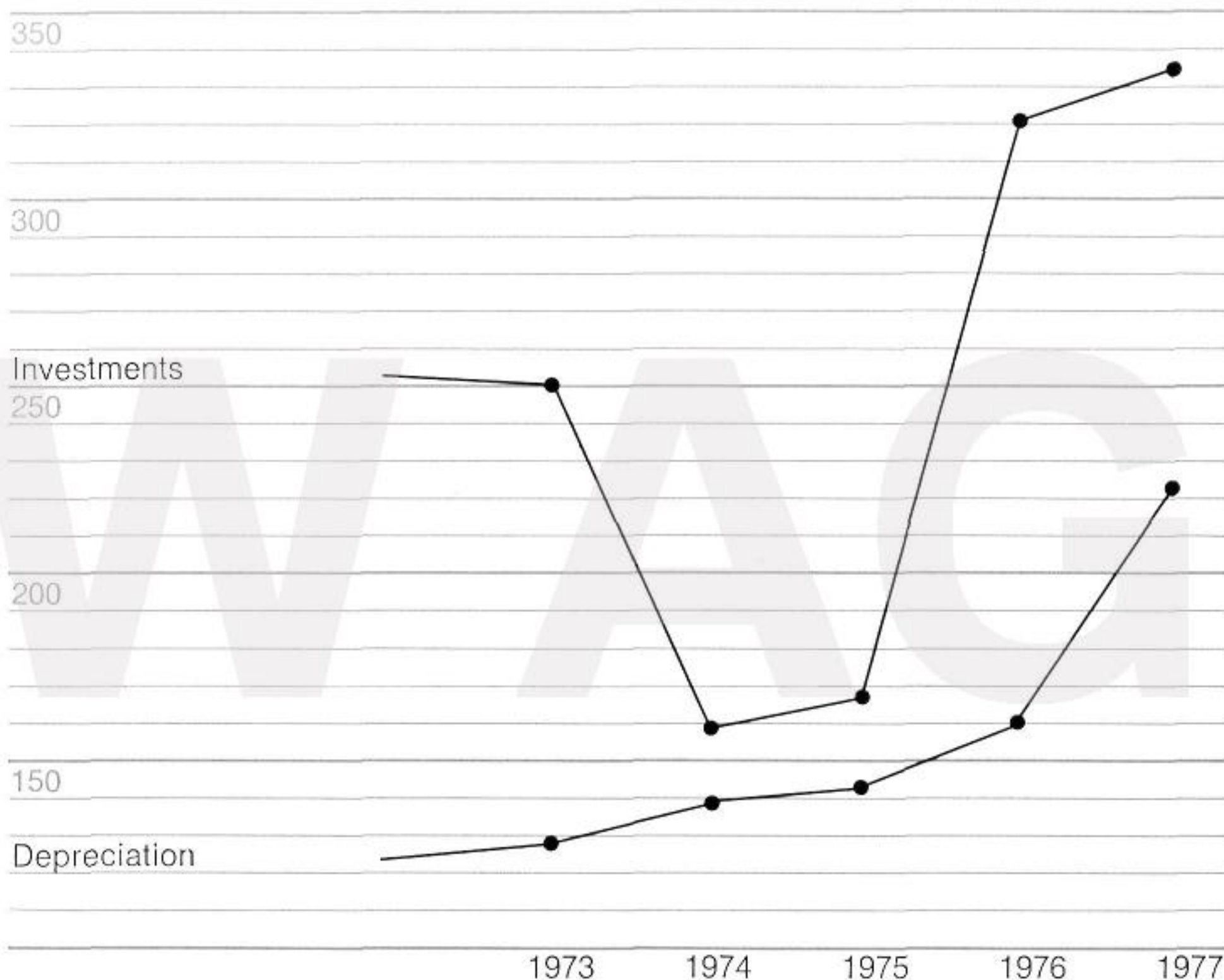
Taking the long-term view, there are basically no negative trends anticipated in the car and motorcycle markets. However, the strong fluctuations in demand of the past few years provide grounds for thinking that, as the demand for spares increases in significance, customers will react still more noticeably to changes in economic and trade conditions.

Causes for concern are developments in the international monetary system and a growing tendency of important nations to counter structural difficulties with protectionist measures. Government intervention in international trade and import restrictions would be a severe blow to West German industry because of its strong dependence on exports. This is particularly true of German makers, where every second job is dependent on foreign sales.

The BMW AG management sees as its main tasks to consolidate the growth achieved during the past three years, to reinforce the overall structure of the company, and to prepare BMW for the future challenges of the marketplace.

Investments in and Depreciation of Tangible Fixed Assets of BMW AG

DM million



Investments	250.0	159.4	167.3	320.8	335.1
Depreciation	128.2	139.4	142.8	160.5	222.5
DM million					

The BMW Production Program

R 60/7

599 cc
29 DIN kW (40 hp)



R 80/7

797 cc
37–40 DIN kW (50–55 hp)



R 100/7

980 cc
44 DIN kW (60 hp)



316

1573 cc
66 DIN kW (90 hp)



318

1766 cc
72 DIN kW (98 hp)



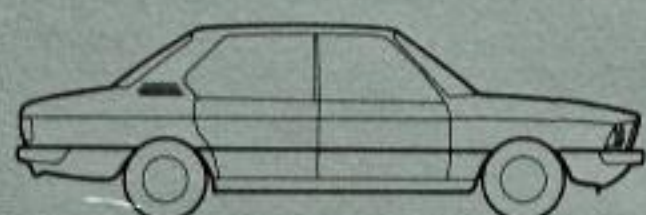
320

1990 cc
90 DIN kW (122 hp)



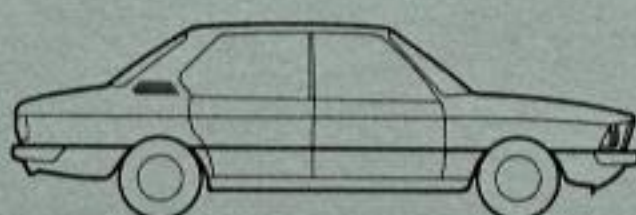
518

1766 cc
66 DIN kW (90 hp)



520

1990 cc
90 DIN kW (122 hp)



525

2494 cc
110 DIN kW (150 hp)



728

2788 cc
125 DIN kW (170 hp)



730

2986 cc
135 DIN kW (184 hp)



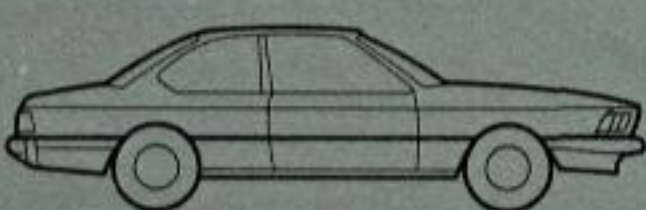
733i

3210 cc
145 DIN kW (197 hp)



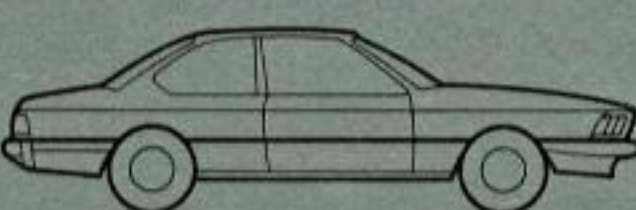
630 CS

2986 cc
136 DIN kW (185 hp)



633 CSI

3210 cc
147 DIN kW (200 hp)



R 100 S

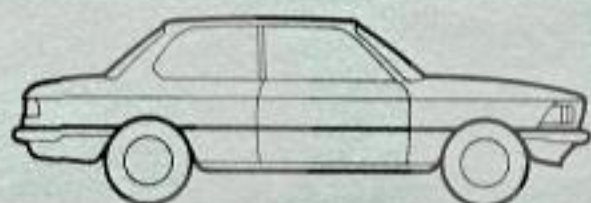
980 cc
48 DIN kW (65 hp)

**R 100 RS**

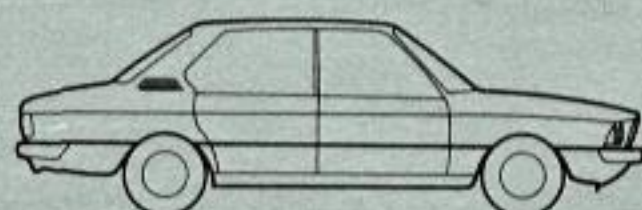
980 cc
51 DIN kW (70 hp)

**323i**

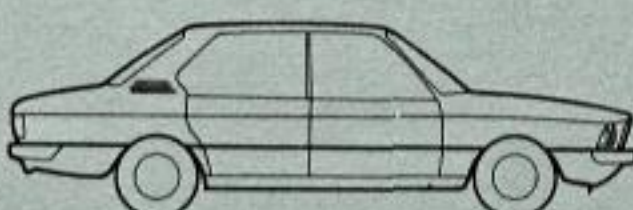
2315 cc
105 DIN kW (143 hp)

**528i**

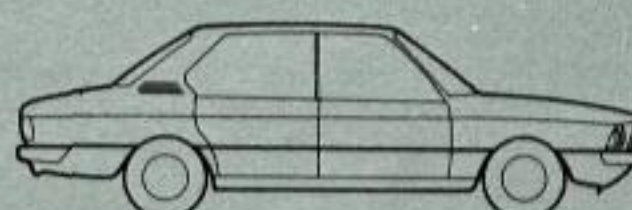
2788 cc
130 DIN kW (177 hp)

**530i USA**

2986 cc
130 DIN kW (176 hp)

**530 Südafrika**

2986 cc
135 DIN kW (184 hp)



Research and Development

Energy conservation and environmental protection remained the most important tasks of 1977 for research teams in the worldwide automobile industry. However, 1977 proved yet another year in which no panaceas could be found which fully satisfied both goals. Conflicts of purpose arising from the disparate demands for both a drastic reduction in consumption on the one hand and an equally drastic cutback in pollutant and noise emissions on the other, could not be eliminated.

Official intervention, taking the form of new legislation, adds to the difficulties. Regulations vary from country to country; and their total showed no signs of diminishing during the year under review. They necessitate increasing expenditures on research and development by every automobile firm.

These considerations prompted BMW to increase its research and development potential by an extra-proportional factor through added investment in fixed assets and by expanded staffing.

Among other measures, eighteen additional engine test beds were put into operation to meet the growing complexities of engine development.

The planning phase for a new aerodynamic research and development center was largely completed and construction initiated in early 1978. This will make it possible for BMW to optimize vehicle aerodynamics in the future within its own installation. Heating, ventilation and air cooling systems can then be carefully coordinated with fuel consumption. Moreover, this research center will make it possible to adapt all vehicles to the most varied demands of the export markets, a task which presupposes the simulation of any climate on earth.

A new styling center was completed during the reporting year. Among its many facilities are a large display room where designs, models and prototypes may be evaluated.

These new installations permit increased pursuit of an expansive program of research and development. In addition to current work on future drive systems, financed in part by the Federal Ministry for Research and Technology due to its special character, there are new projects devoted to development of more economical and environmentally favorable engine concepts.

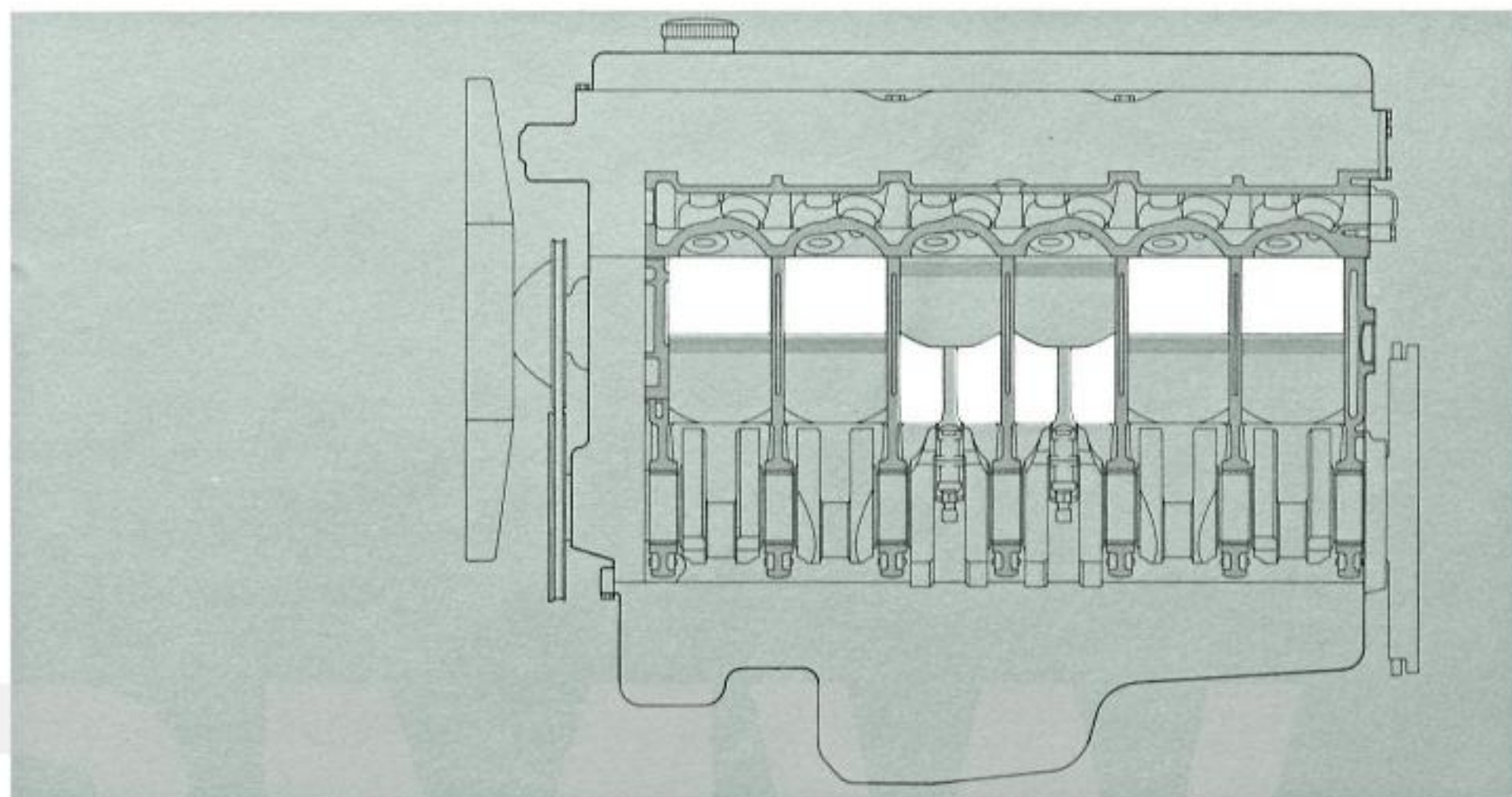
The path toward inclusion of advanced electronics in production automobiles, already chosen in 1976 — when the "Check Control" was developed to monitor safety functions in the BMW Coupé — has been further explored.

Among the numerous novelties of this past year we were already able to mention the introduction of the large BMW 7 Series cars in our last Annual Report. In addition there were several model changes and special developments for specific markets. Above all there was a new, small six-cylinder engine generation, a third BMW engine range which took its place alongside the four- and large six-cylinder powerplants.

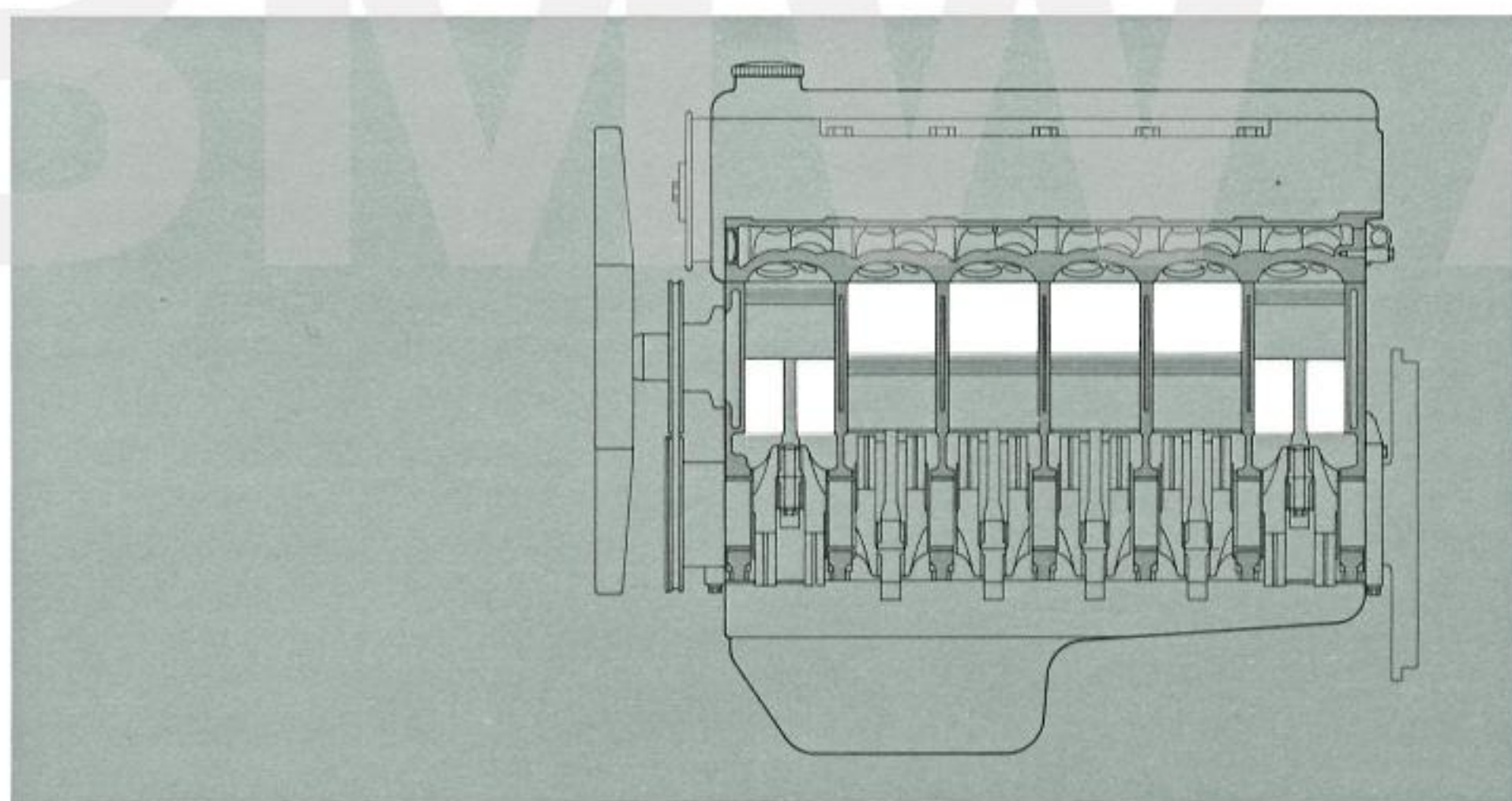
The development goal set for these engines was light weight and extremely compact dimensions since they would also have to fit into 3 Series automobiles. The highly-rated smooth running of the big sixes was to be extended to this smaller BMW model. In addition, it was understood that all legislative requirements for reductions in fuel consumption as well as in pollutants and noise levels would be met.

The new engine was designed as an inline six, since this layout offers the best operational characteristics. A crankshaft design developed for the large six-cylinder engines, with seven main bearings and twelve balance weights, was adopted, along with the proven BMW concept of cast iron block and light alloy cylinder head. These factors optimize requirements for lightness and low noise levels with acceptable production costs and reliability. A new exhaust system was developed to reduce engine noise even further.

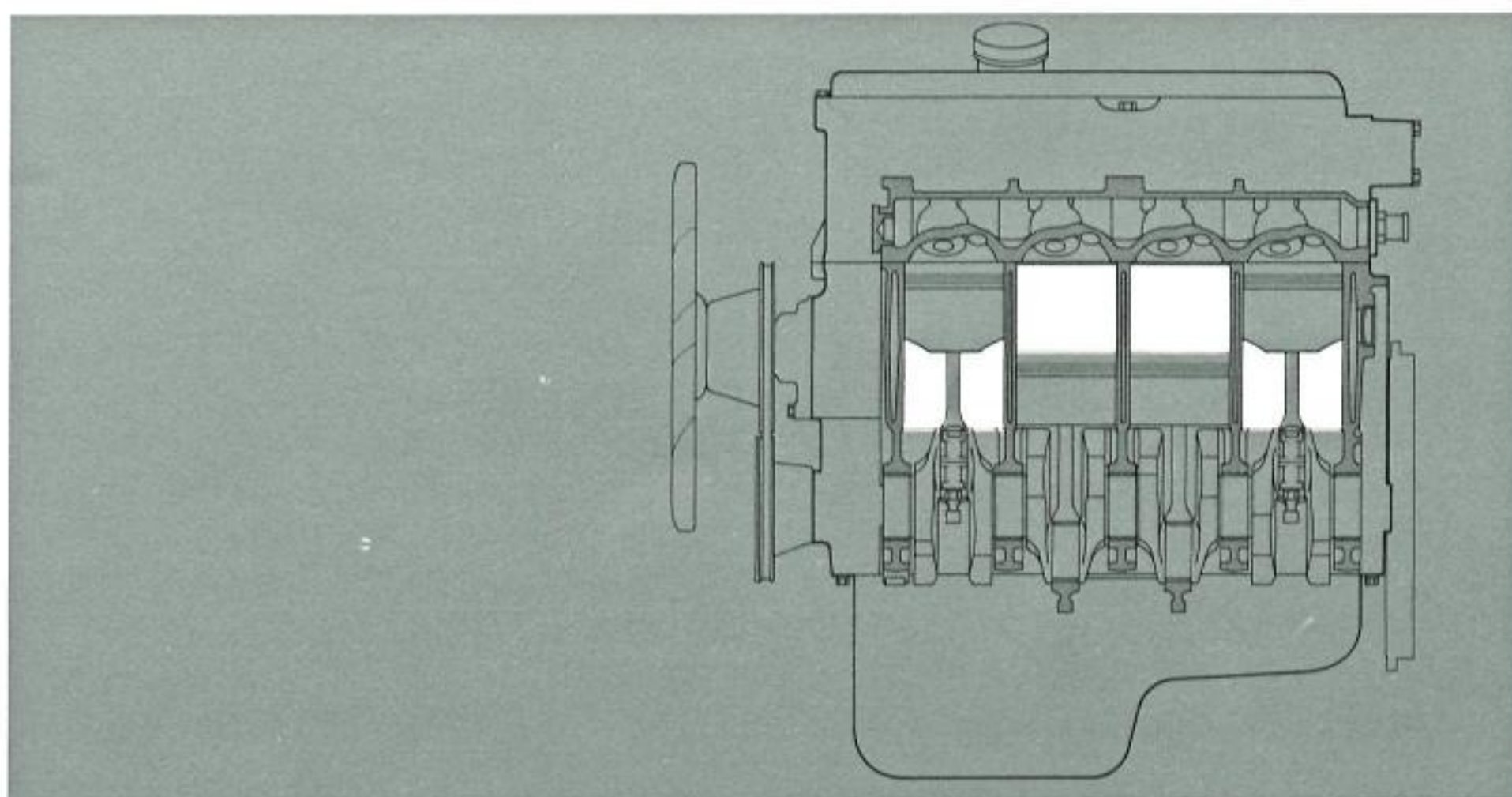
Improved compound carburetors for the 2 liter version and proven K-Jetronic for the 2.3 liter injection engine as well as further development of the combustion chambers all contributed to favorable consumption and emissions values for these new engines. The first engine produces 90 DIN kW (122 hp) and is fitted to the BMW 320 and 520 models. The injection engine offers 105 DIN kW (143 hp) and will be used in the newly-conceived top model in this 3 Series, the BMW 323i.



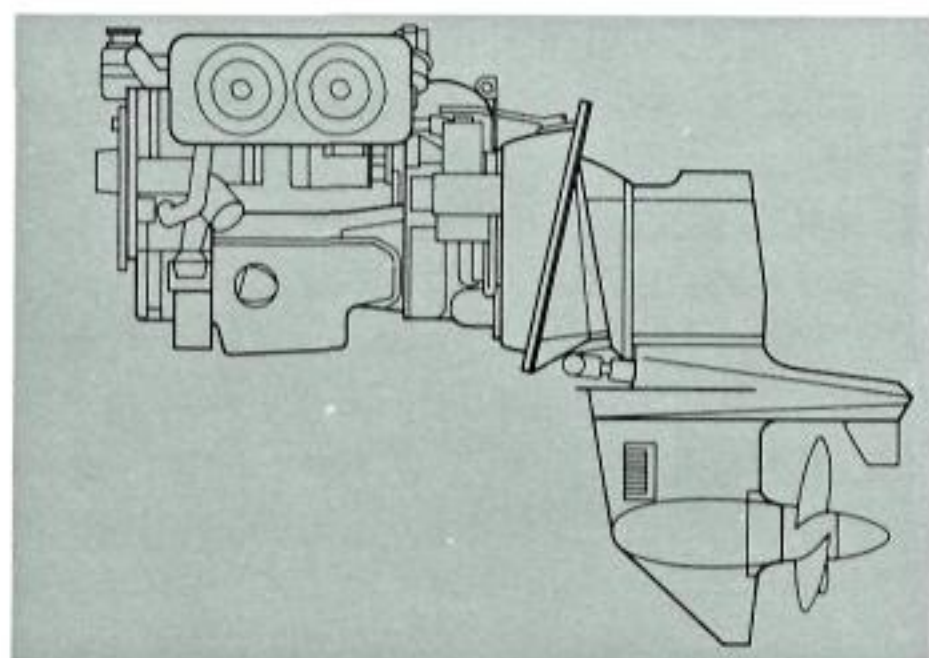
BMW 6-cylinder engine



The new small BMW 6-cylinder engine is marked by its compact construction. In both dimensions and weight, it falls between the well-known 4-cylinder and 6-cylinder engines made by BMW. The engine, which is particularly short for an inline 6-cylinder with its cubic capacity, can therefore be used in the BMW 3 Series.



BMW 4-cylinder engine



BMW engines for motorboats: a 2-liter 4-cylinder unit and two 6-cylinders of 2.8- and 3.3-liter displacement. These powerplants deliver between 86 and 136 DIN kW (120–190 hp). All of them can be offered with Z-drive.

This new BMW 323i benefits from a reworked and more sporting chassis featuring four disc brakes and roll dampening for the front axle, adapted from the 7 Series, which considerably reduces roll moments around the longitudinal axis during high-speed cornering.

The top model in the 5 Series has also been uprated. Its 2.8 liter engine was fitted with an electronic injection system (L-Jetronic) and transistorized ignition. Along with improved performance (from 125 DIN kW to 130 DIN kW or 177 hp), this also gives the BMW 528i particularly favorable consumption and emissions values.

In the motorcycle sector a new 800 cc model, the BMW R 80/7, was introduced during 1977. It provides two engine options of 37 and 40 DIN kW (50 and 55 hp). Performance and torque flexibility of the machine were further improved, compared to its predecessor.

During the past year BMW pressed forward with adaptation of its engines for maritime use. The first two-liter, four-cylinder and 2.8 or 3.2 liter six-cylinder engines, already well-known as BMW automobile powerplants, were put into operation for power boats at the beginning of 1978. For this purpose they were given reduced compression to accommodate normal gasoline, a modified torque curve and new type of flame protector. BMW marine engines are characterized by high output from a relatively low weight.

To parallel these developments, a new Z-drive system which meets the maximum demands of modern marine engine technology, was developed in cooperation with Hurth.

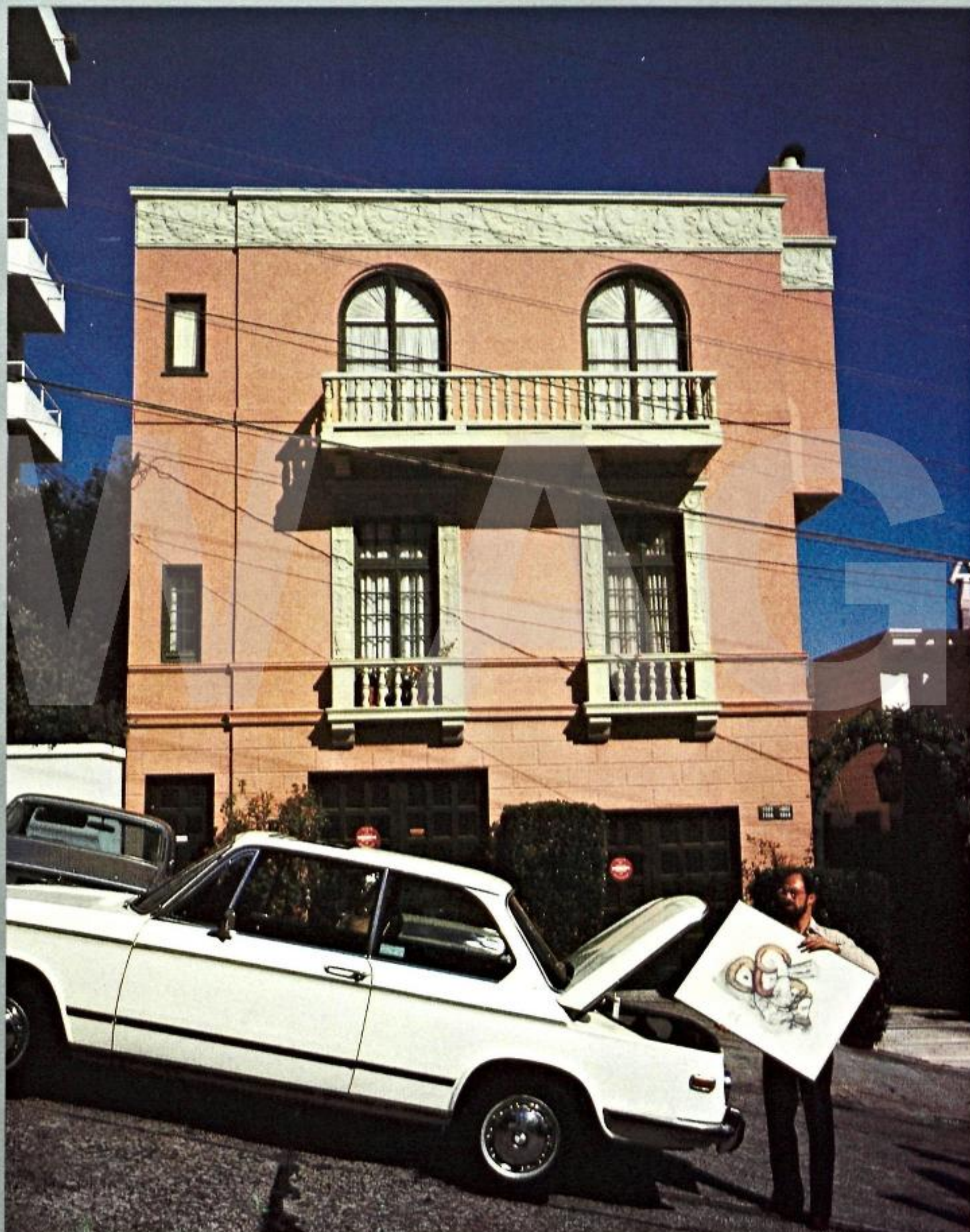
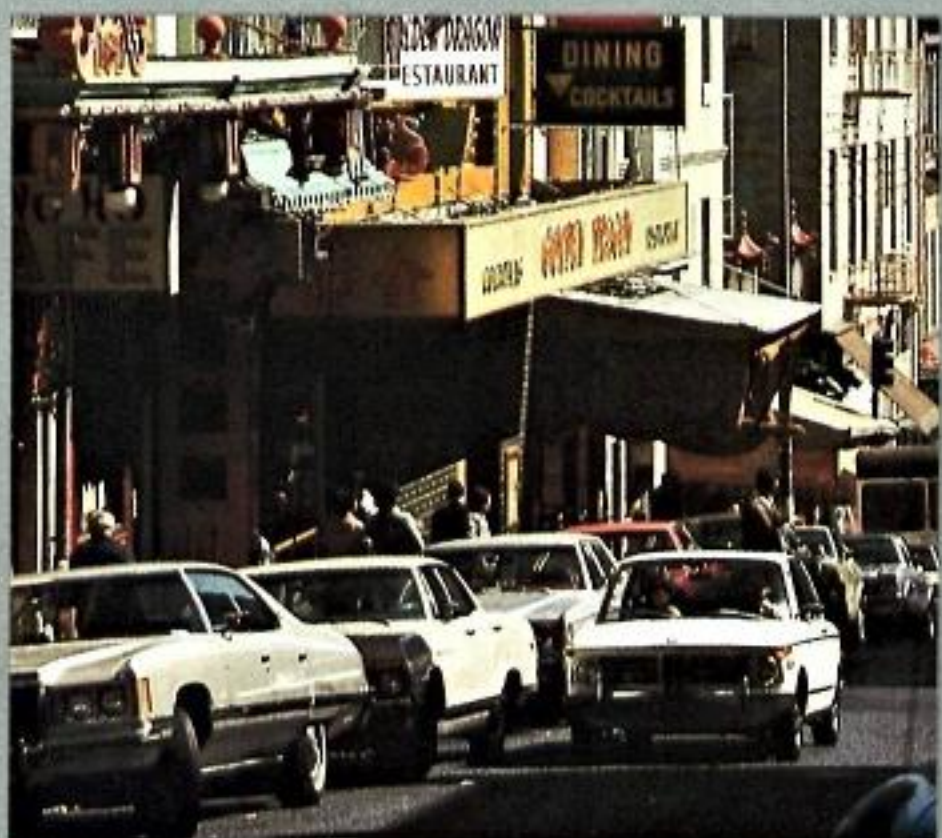
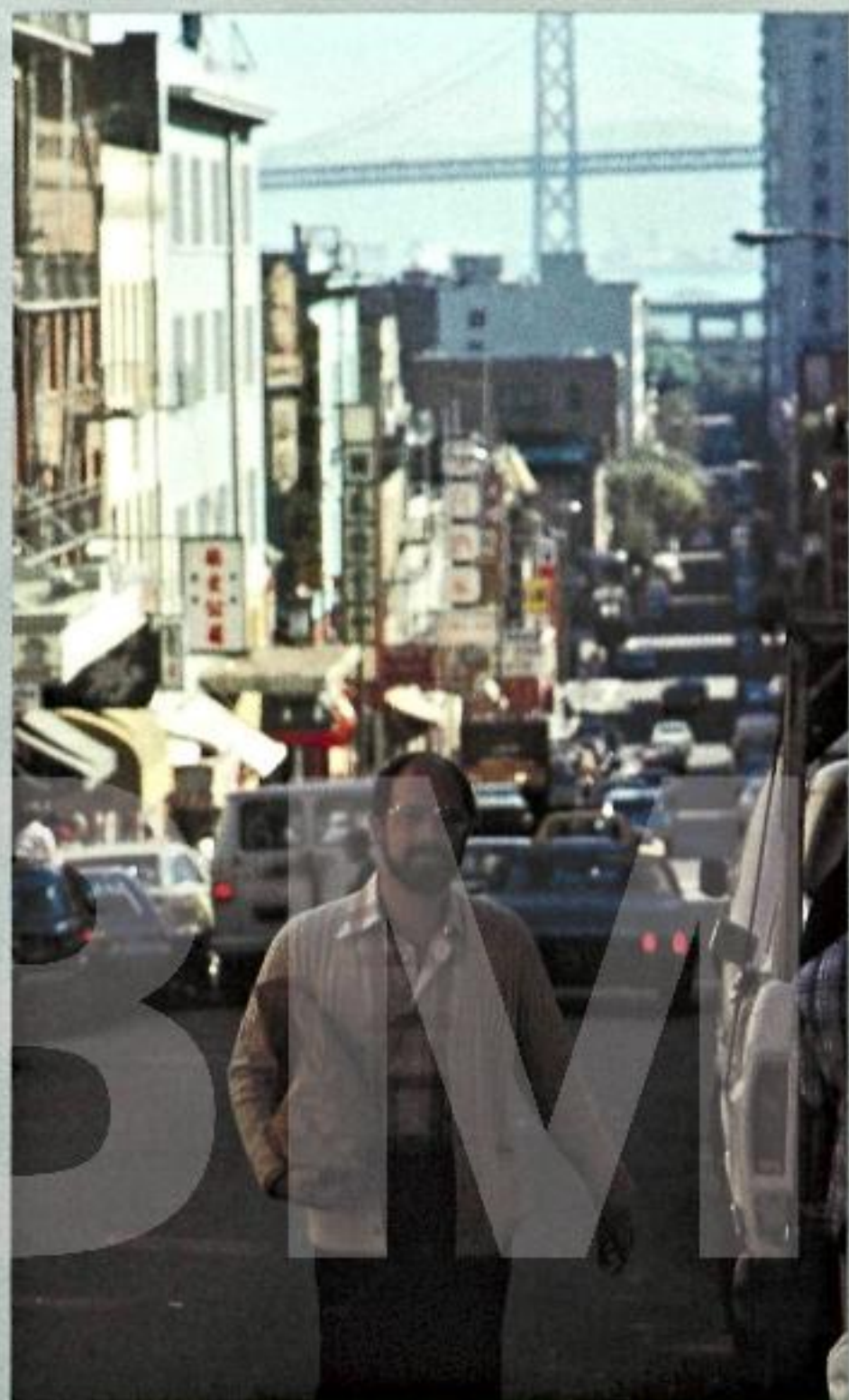
BMW took over direct import and distribution of its automobiles for the US market three years ago. Since that time sales have very nearly doubled. Close to 29,000 BMW automobiles were registered in America during 1977. Thus the USA becomes the largest foreign market for BMW.

The photos which follow show who the BMW buyers are in America and what their vehicles mean to them. BMW drivers of both sexes from San Francisco represent the many BMW customers across America.

Richard Silver, 32. Richard Silver is a real estate agent. But he is also an art dealer. It happened like this: whatever money he earned from opening land for construction of housing and shopping centers was invested in modern American art. The collection began to grow. With great pleasure he turned to selling art as well as buying it.

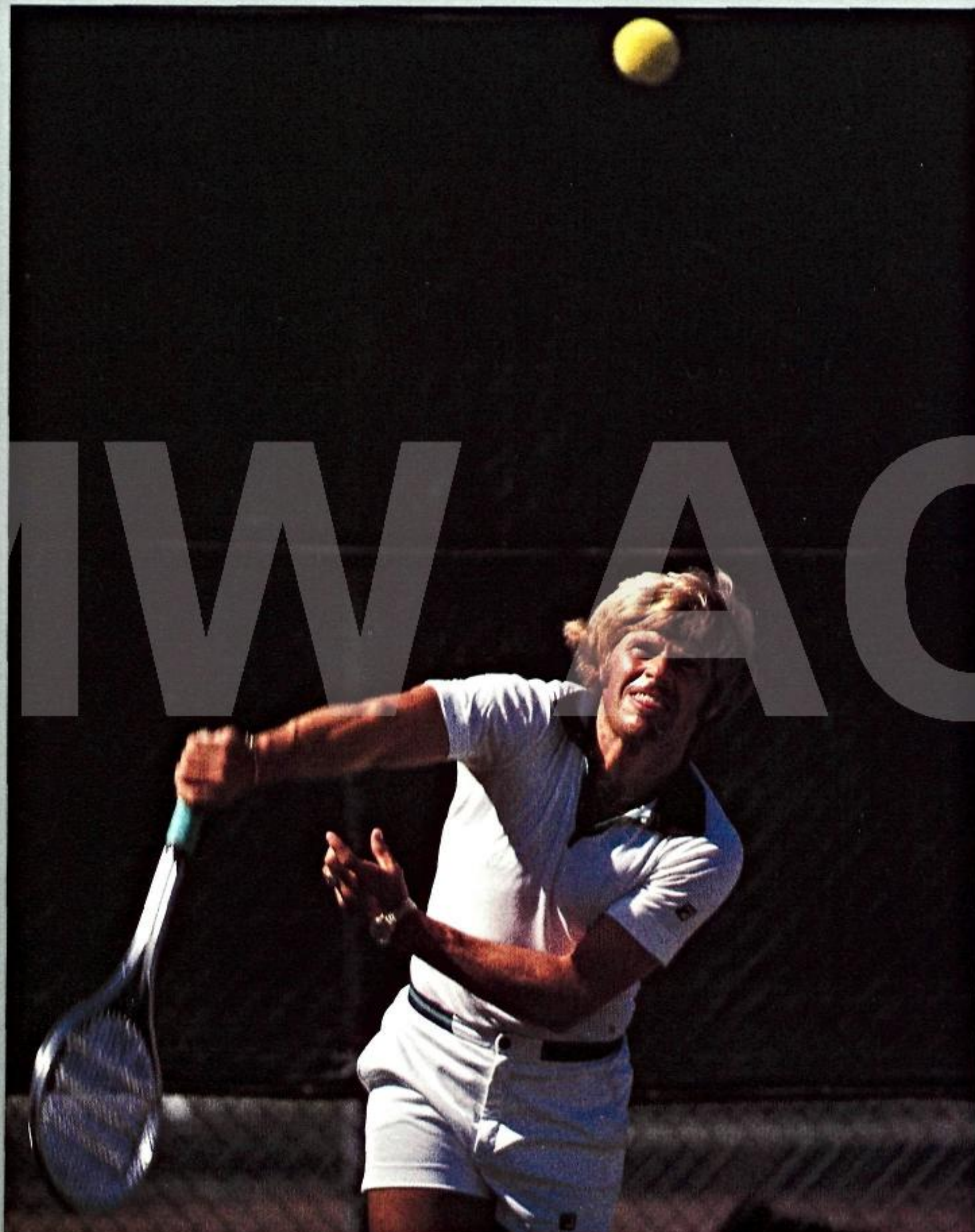
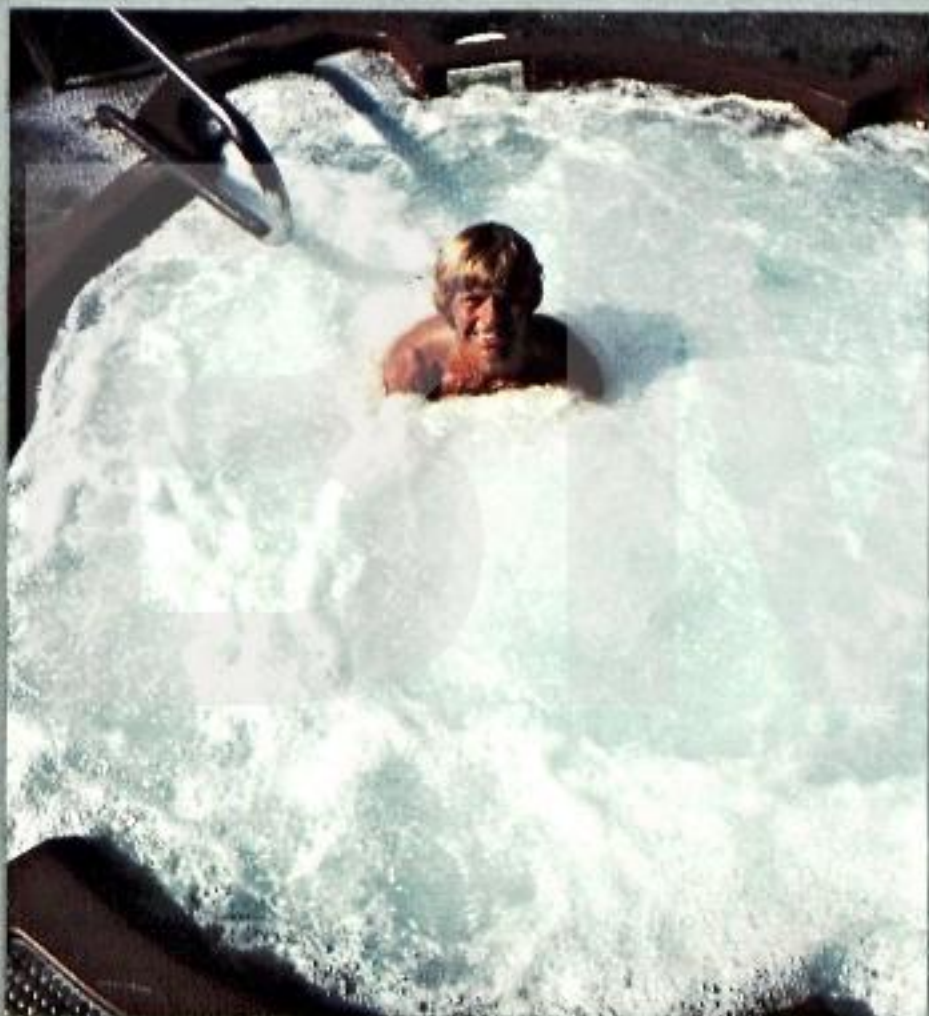
He lives close to Chinatown. And he goes to Chinatown to shop or eat. Seldom on business. He often visits a cellar theatre there with friends. It usually offers classic plays: Maria Stuart in Chinese.

BMW Drivers in San Francisco



Gordon Smith, 37. Gordon Smith worked for a computer firm. Far too long, as he says. Now his hobby is his job. He has played tennis since he was eight. As a tennis pro he gives lessons and takes part in countless tournaments. Not only for fun and not for cups. For money, of course.

The Pacific lies nearby, the mountains within easy reach. He sails and skis. He lives in a bungalow on the grounds of the Mill Valley Tennis Club. But he isn't there often. You are more likely to find him on the courts. And if he isn't there, he might be spotted in a hot Jacuzzi bath.



lanthea Hall. William Smith, 26. lanthea Hall works as news editor for a television station. She oversees the proper sequence of the noon news from a control room – daily from twelve to one.

William Smith is a dentist, born in the Fidji Islands. He has lived in San Francisco since he was 17.

Following the noon news lanthea collects William for lunch. Afterwards she drives him back to his practice. The rest of the day is free for her. Their friends call lanthea and William an emancipated married couple. That gives them a good laugh.



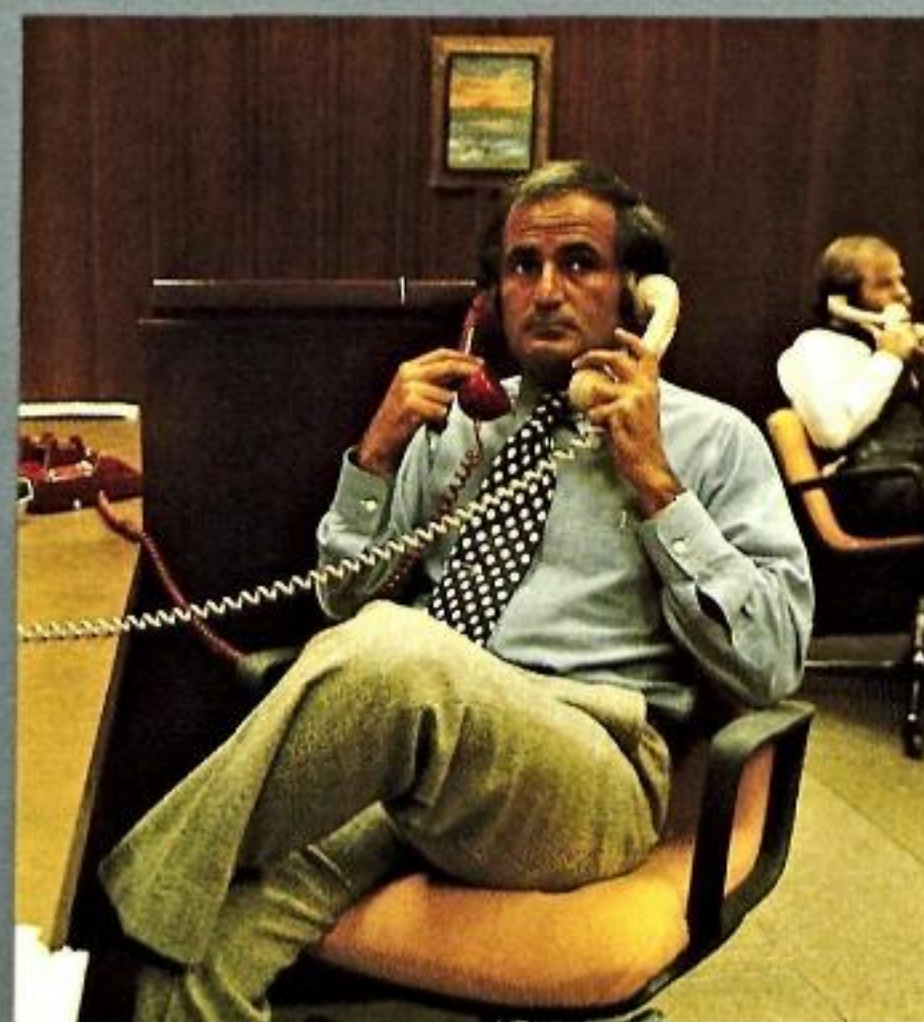
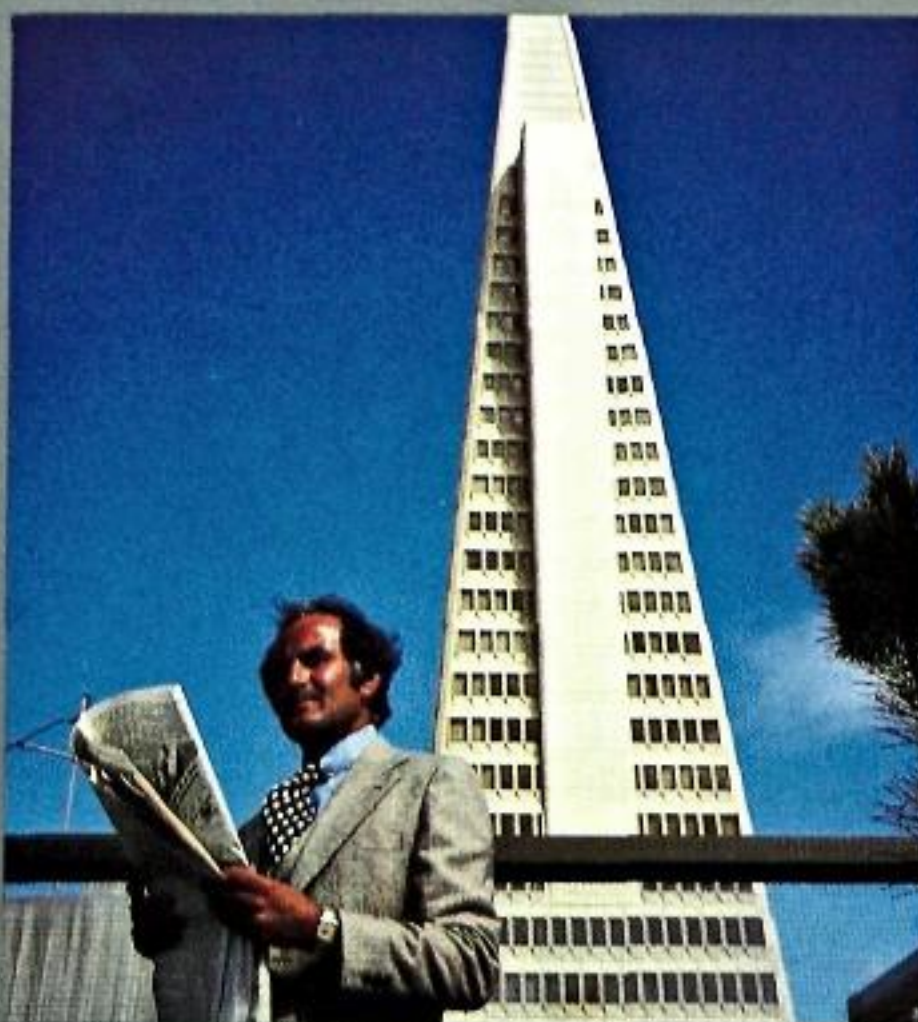
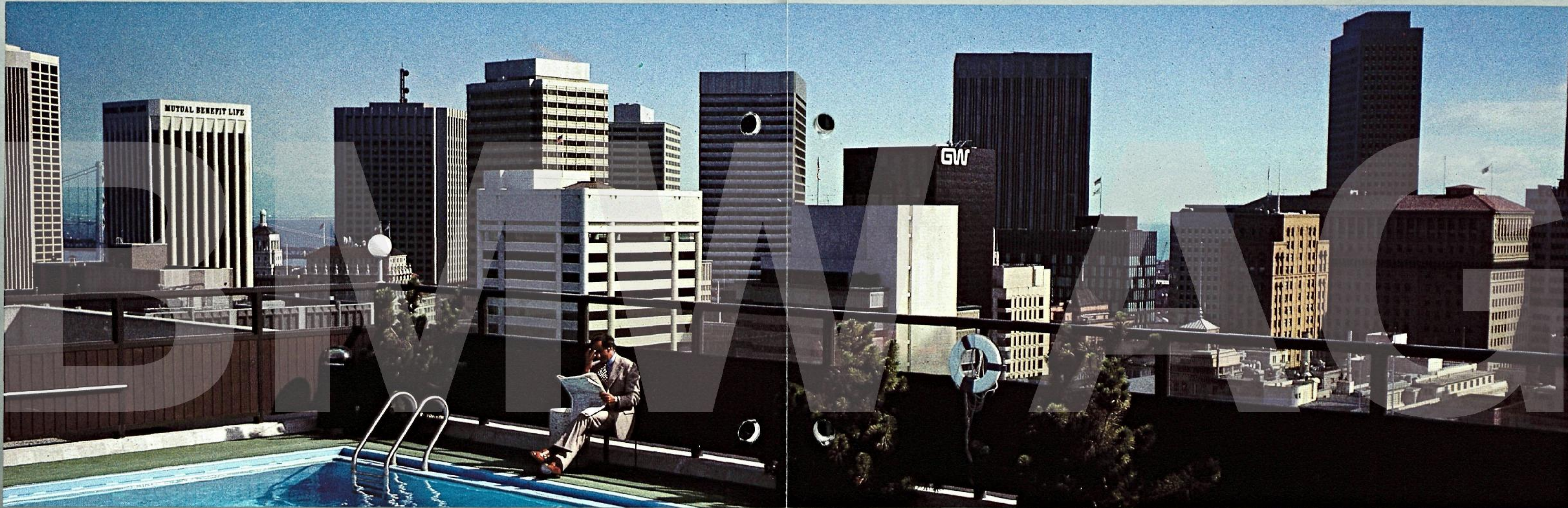
Phillip Speyer, 37. Phillip Speyer is Vice President of a stockbrokerage firm. He was born in Amsterdam. He lived for years in New York and Louisville — but life in Frisco suits him best.

When the board closes around two he usually drives to his home in Marin County. For swimming or tennis. He doesn't swim in the pool at the Holiday Inn. But he likes to sit there with a newspaper after lunch.

Some afternoons he drives up to Mount Tiburon. For its wonderful vista of the city. He can absorb that for hours.

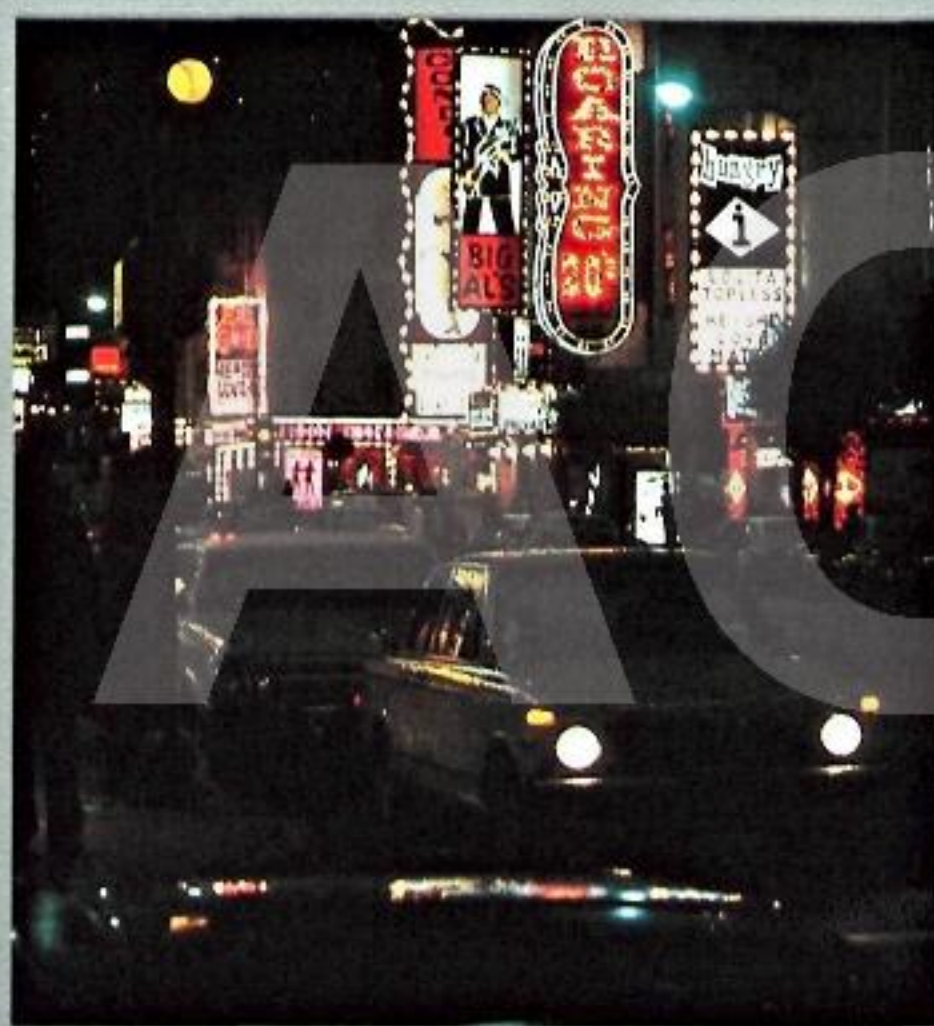
BMW faces very stiff competition on one of the most difficult car markets in the world. However, BMW's characteristic engineering and their designs suggest that the future will continue to be satisfactory. The popularity and love for BMW automobiles have grown briskly. Many racing successes underlined the special BMW performance profile. Expensive, technically advanced models are steadily gathering a firm and expanding customer circle all their own. The BMW program has become notably more attractive, particularly for buyers of automobiles in the top price classes.

"If you were going to buy a new car today (at \$ 6,000 or more), which brand would you consider first?" Among metropolitan households with a yearly income exceeding \$15,000, BMW was seldom mentioned only a few years back. In 1977 BMW took second place among all responses: 31 percent of those asked had automobiles from the Bayerische Motoren Werke in mind.



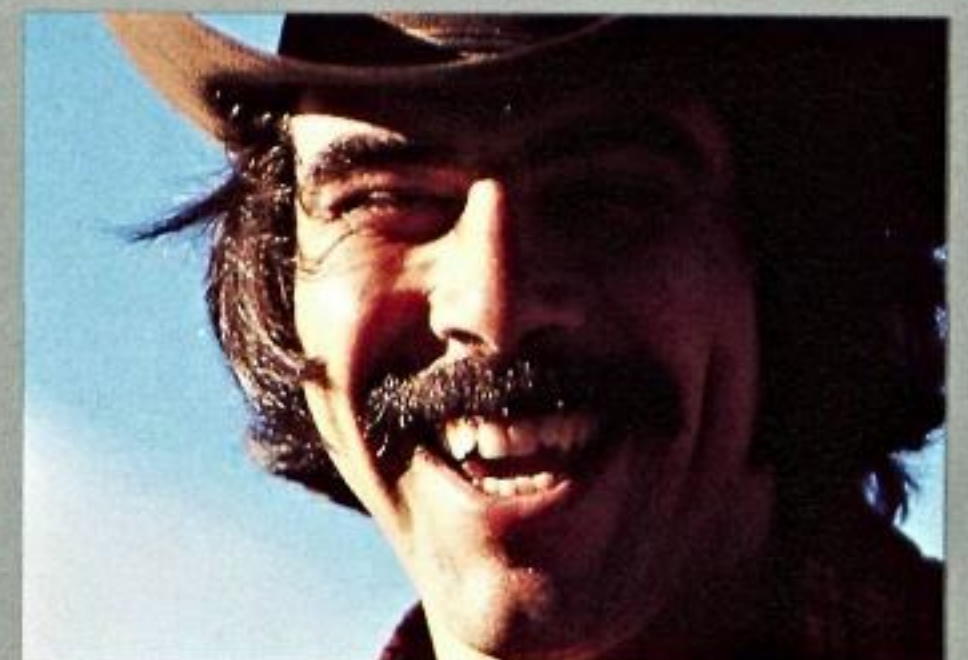
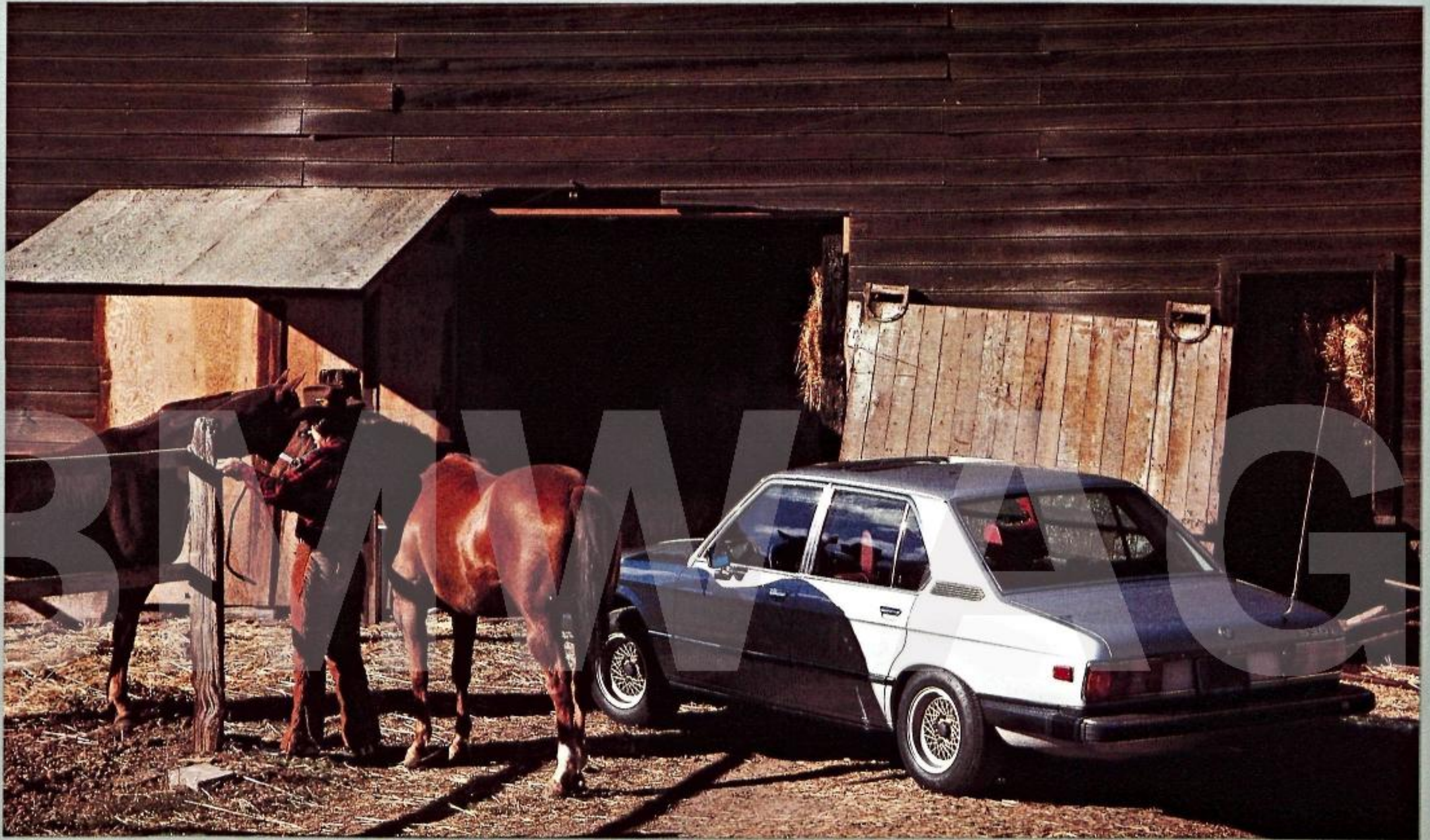
Terry Isaacman. Terry Isaacman worked several years for an advertising agency. Chiefly on motor sport promotions. Today she is on her own as an advertising copywriter. She cleared out a room in her home and turned it into an office. To get up and not have to drive to an office somewhere, to simply go to work in the next room; that is the main attraction of her new job.

Many of her friends live in Los Angeles. As she once did. They visit her regularly. So she shows them San Francisco from the side she loves best: the night side.



Dr. David Michaelson, 31. Dr. David Michaelson is a doctor specializing in accident medicine at a major hospital. He spends most free weekends with his wife at a friend's ranch. Nina was born in Japan. He comes from Nashville. He brought the hat, saddle, spurs and chaps from Nashville. And broke his own quarter horse. He doesn't use it for rodeos, however. Only for herding cattle at the ranch.

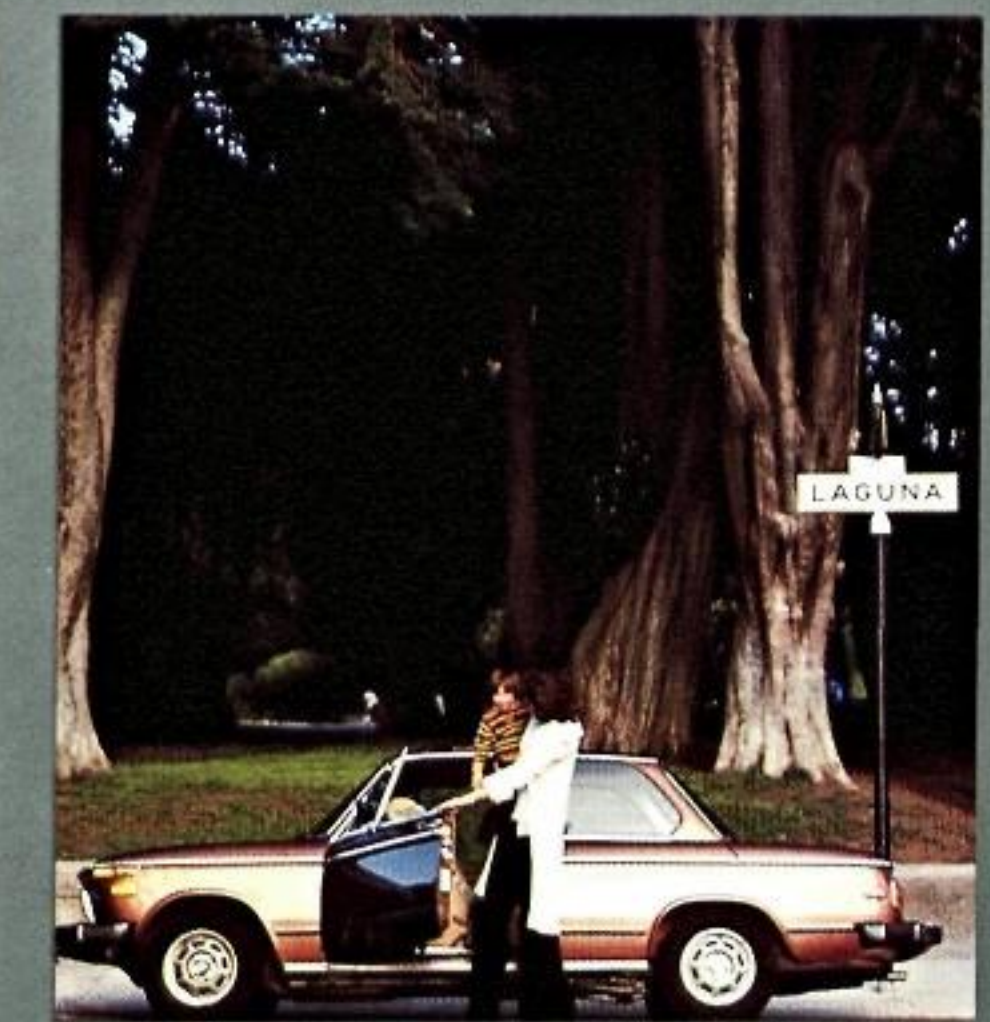
When evening falls he disappears into a large garden behind the ranch. A fire is lighted. He plays the guitar and sings. The love for country music comes from Nashville too.



Dora Bowles. Dora Bowles was born in Stuttgart. She went to the States as a little girl. And now, she seldom speaks German any more. Only occasionally with her mother — after old Marlene Dietrich movies.

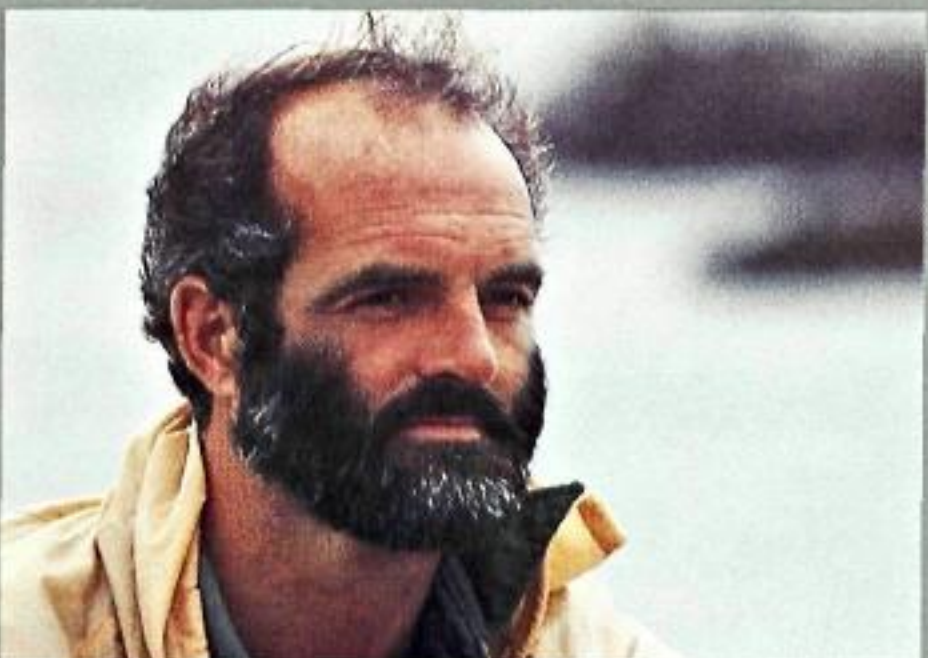
"The Palms" is a jazz coffee house. It belongs to her. Her husband owns an antique and a shoe shop. The three operations are managed jointly.

Her husband is a keen collector of old cars. But she wanted, "an auto that really worked." To drive their three year old son to kindergarten. Or to the park to play — when she can take time from her work.



Tom Macy, 36. Tom Macy was a lawyer, then a pilot in Vietnam. Today he travels for a "non-profit" organization. All over America. Searching for land which the government might buy back and turn into protected areas. He spends most of every year in the wilderness. Wandering across the country. Through Canada and Alaska. Camping on ice. Hunting his own food.

When he is in San Francisco he drives south along the coast. Where the beach is empty he parks the car and swims in the surf. Winter is his favorite time for this: because the waves are higher and the beaches emptier.



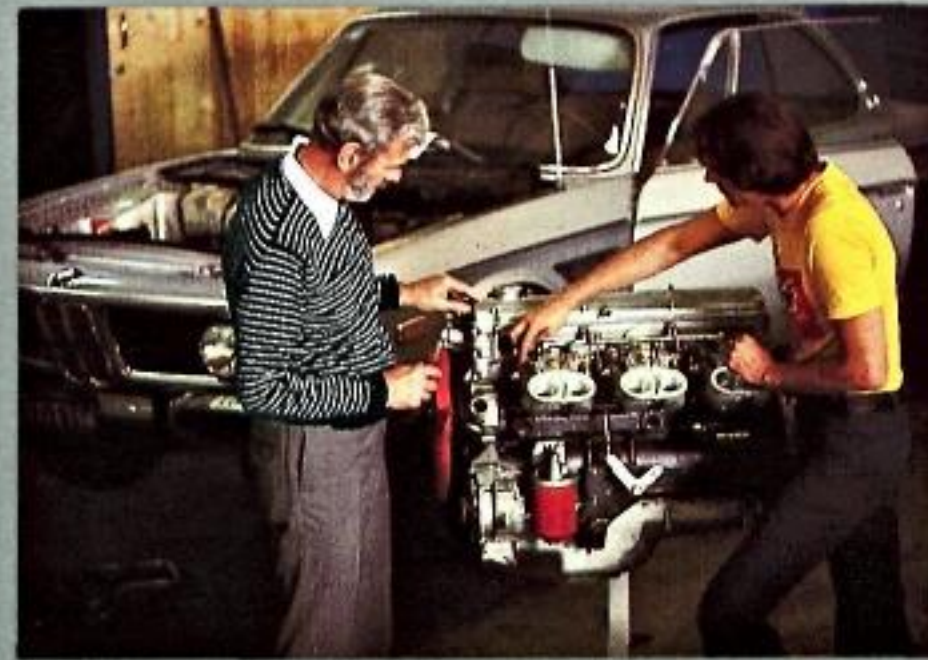
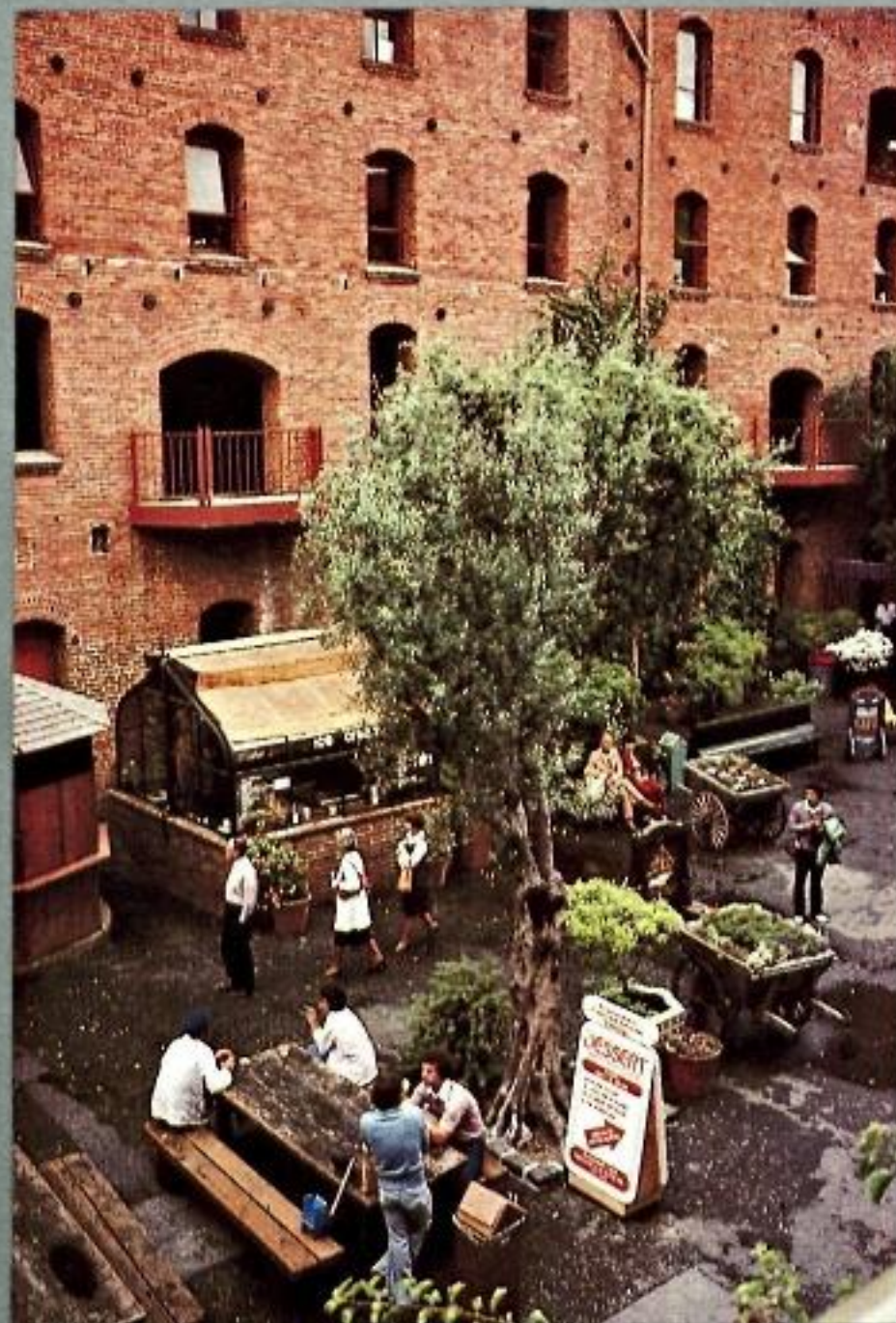
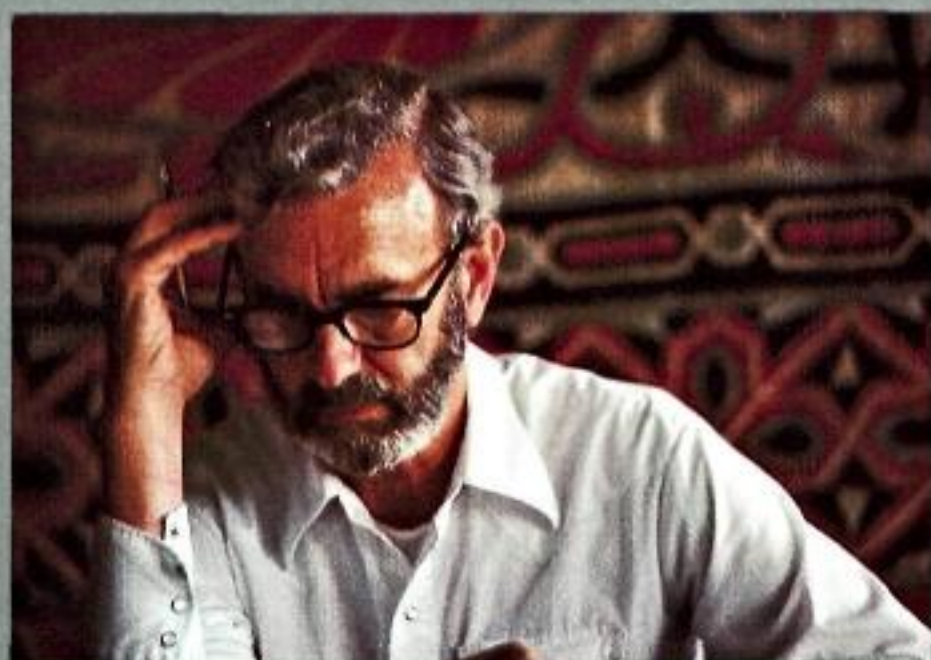
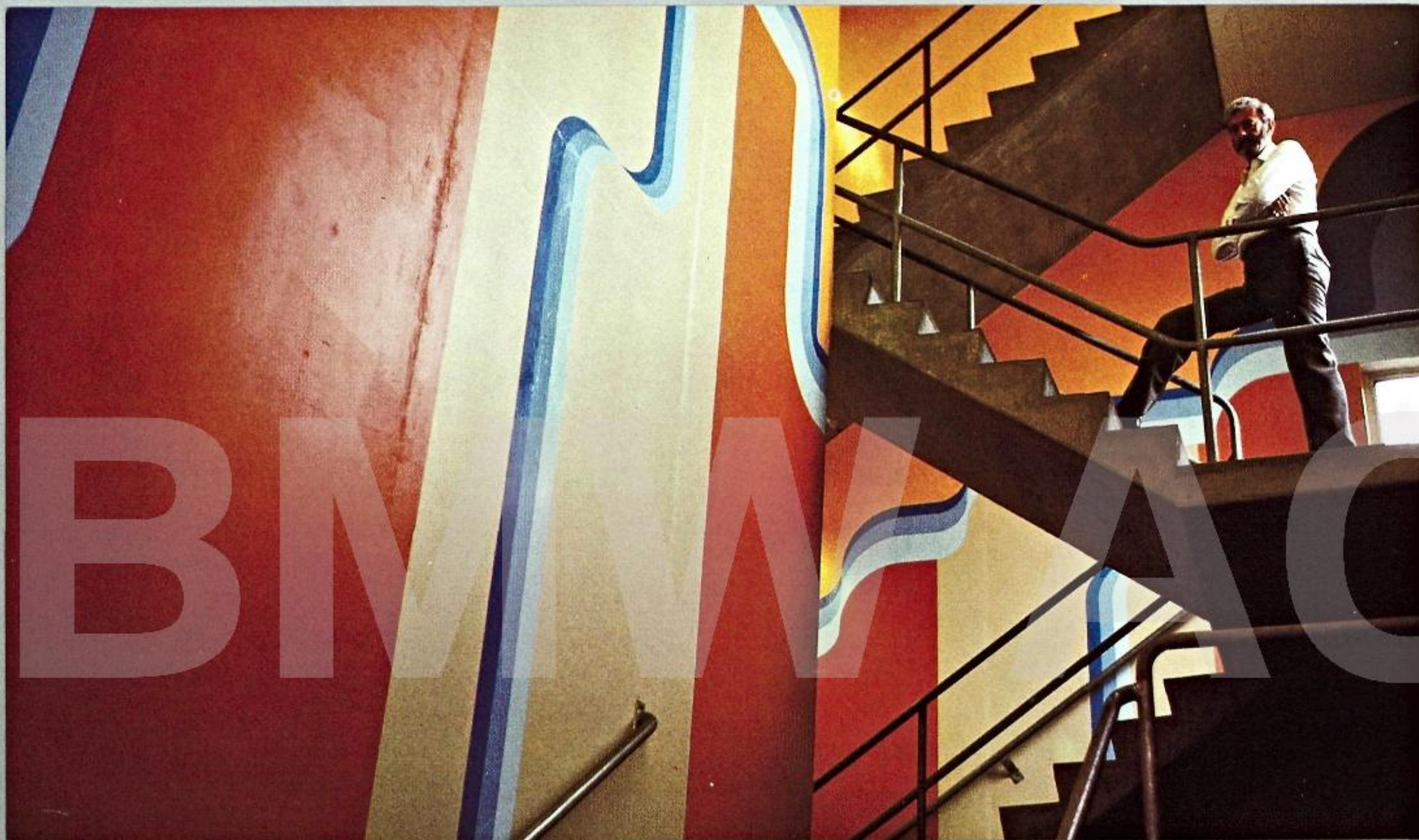
Bryan Lee, 35. Bryan Lee is a building contractor. Or a restorer? Because he doesn't build houses. He specializes in remodeling and restoring old ones. He finds the best of them in the Height Ashbury district. Desirable rental properties emerge from the one-time dropout nests of the flower children. The love of these young people for old houses remains: they rent most of these apartments, modernized from scratch.

Peggy Lee was born in Shanghai. Both had Chinese ancestors. But his were grandparents who moved to the city of a thousand hills. Three-score years ago.



Joseph Esherick, 45. Joseph Esherick is director of the Architecture Department at the University in Berkeley. City planning is his major interest: the chances for retaining city centers and making them more attractive to the people. Ecology and environmental protection.

He is famous, above all, for his designs which rebuilt the "Cannery" into a shopping, restaurant and recreation center. The "Cannery" was once a fish processing plant at Fishermans Wharf. Today it is more than a tourist attraction. It is the secret tip for good jazz, West Coast Blues and the best crêpes, done in guaranteed French style.



Personnel

The rapid growth of BMW in the past few years, the establishment and development of its foreign subsidiaries, and the expansion and diversification of its products have led to corresponding changes in the company's personnel structure.

In 1977, the overall number of BMW employees grew by 3,500. This was in line with increased capacities and intensified development work. Despite this further increase in personnel, six special shifts and considerable overtime were necessary during the year. The Managing Board of BMW AG thanks its employees for their dedication and accomplishments in 1977.

In BMW AG, it was primarily the staff of the Dingolfing plant which was further increased. As a result, the unemployment rate in this part of Lower Bavaria was reduced to a level well below the average for West Germany. More than one-third of all BMW AG employees now work in Dingolfing.

At BMW subsidiaries, the numbers employed increased as a result of expansion programs. By the end of the year, BMW had about 37,600 employees worldwide, or 10.4% more than in the previous year.

The rise in numbers employed was evenly divided between wage and salary earners. But the share of foreign workers fell. Because of legislation prohibiting new hirings and contract extensions, it is anticipated that their share will continue to fall in the foreseeable future.

The high rates of turnover in personnel of earlier years continued to decline, largely because of improved working conditions throughout the company.

The average age of our personnel is 35, and despite numerous hirings the duration of employment averages 6.6 years. Last year, 200 employees celebrated their 25th year of service, while 25 others reached their 40th anniversary with BMW.

Expenditures on wages and salaries, social costs, and retirement pensions rose by DM 215.2 to DM 1,350.8 million. This 19% increase was due on the one hand to new hirings, and on the other to an increase of 6.9% on February 1, 1977 in wages and salaries. A third cause was an increase in social costs under Government legislation, and the fourth and last factor was an improvement in conditions by the company itself. Due to the raising of the contribution limits for retirement and unemployment insurance, as well as to the increase in health insurance costs, social outlays now amount to 14.2% of wages and salaries. The extra social costs, based on contractual and legislated increases, meant an additional burden of DM 9.7 million on the company.

Within the framework of retirement benefits provided by the company, current payments were increased by an average of 20% during 1977, and the provision for future pensions was raised correspondingly. A further improvement in the company's pension plan is that now every employee is given an individual promise of pension rights on joining the company instead of only after ten years of service. All the domestic subsidiaries have made a similar commitment to their employees. The pension rights become effective after an employee's 35th birthday and after ten years of service. To meet this commitment, domestic BMW companies have set aside appropriate provisions. The provisions and liabilities of BMW AG for retirement funds were increased by a further DM 97.4 million.

In 1977, DM 25.4 million were paid out for the business year 1976 in profit-sharing bonuses to the staff of BMW AG. The Christmas bonus rose to DM 62.8 million mainly because of the increase in staff.

The approved amount subscribed for registered participation bonds was increased to DM 19.8 mill. Favorable conditions at the company and the favorable outlook induced a larger number of the staff to subscribe under the scheme. About 24% of those entitled to participate opted for this method of capital formation. Interest also grew among the foreign workers. In all, a total of DM 6.9 million (DM 5.3 million in 1976) was subscribed.

Social Expenditures of BMW AG

DM million	1977	1976
Social expenditures stipulated by law and collective agreements		
Social security contributions	155.7	133.7
Sick pay	52.5	42.0
Paid public holidays	28.7	23.1
Vacation pay under collective agreements (50%)	42.1	33.3
Investment linked payments under national savings scheme	10.8	8.6
Down-time pay under collective agreements	8.5	6.2
Part of 13th month's wages and salaries under collective agreements	26.1	17.7
	324.4	264.6
Plant-related social expenditures		
Canteens, travel expenses, housing subsidies, health care etc.	39.3	36.5
Additional social expenditures		
Retirement pensions and provident benefits	102.4	93.5
Christmas bonuses and profit-sharing	67.8	59.3
Other benefits including long-service and loyalty premia, down-times, compassionate leave etc.	20.6	17.1
	190.8	169.9
Total	554.5	471.0

Personnel Distribution

	1975	1976	1977
BMW Group	31,107	34,030	37,581
BMW Konzern	29,637	32,444	35,684
BMW AG	28,989	30,192	33,398
Head Office and			
Munich Plant	18,024	19,248	19,360
Dingolfing Plant	7,799	9,010	11,613
Berlin Plant	1,369	—	—
Landshut Plant	658	767	934
BMW regional companies	1,139	1,167	1,491

In a rapidly-growing company, improvement of staff qualifications and further training is of great importance. BMW spent more than DM 20 million for these purposes in Munich and in Dingolfing alone. The number of apprenticeships at the domestic BMW companies was increased by 16.2% during the year under review. At the end of the year, about 1,500 apprentices were being trained. In 1977, 333 trainees successfully passed their final examinations, and many received well above-average marks. BMW will continue to make efforts to offer further employment within the company to all young specialists trained.

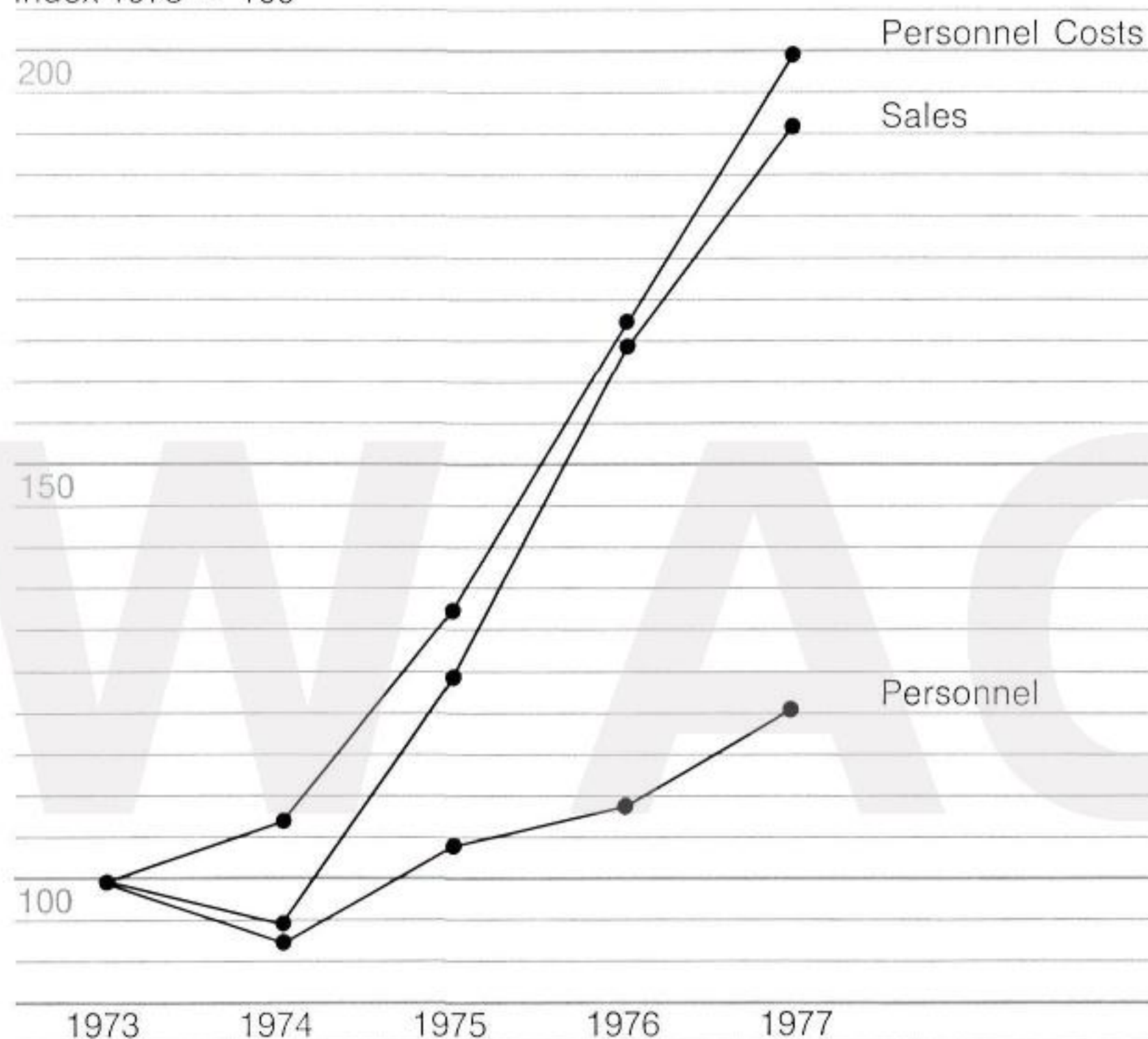
Numerous internal and external seminars were held to provide further staff training. Apart from improving job skills, these were aimed increasingly at providing a broader understanding of the company's activities. The BMW AG Training Center has accordingly further increased its range of courses. One of its focal points is the program of seminars for foremen.

In all the plants the company's suggestion program was increasingly supported. The number of suggestions made rose substantially in comparison with the previous year. The amount paid out in bonuses in 1977 was about DM 750,000.

Job safety and health of the workers again received close attention. The rapid expansion of the Dingolfing plant and the training of many new employees in the daily work of industry required increasing attention to the problems of safety on the shopfloor. Apart from instruction, there were many cases of adaptation to new working conditions. In addition, the expansion of social facilities led to improved labor conditions and thus to an increased level of industrial safety. In the future as well, management will keep a watchful eye on safety.

Personnel Costs Sales and Personnel of BMW AG

index 1973 = 100



678.0	728.0	902.7	1,135.6	1,350.8	Personnel Costs in DM million
100.0	107.4	133.1	167.5	199.2	
2,608.0	2,492.3	3,254.5	4,287.0	4,993.0	Sales in DM million
100.0	95.6	124.8	164.4	191.4	
27,737	25,805	28,989	30,192	33,398	Personnel at end of year
100.0	93.0	104.5	108.9	120.4	

The Company and the Public

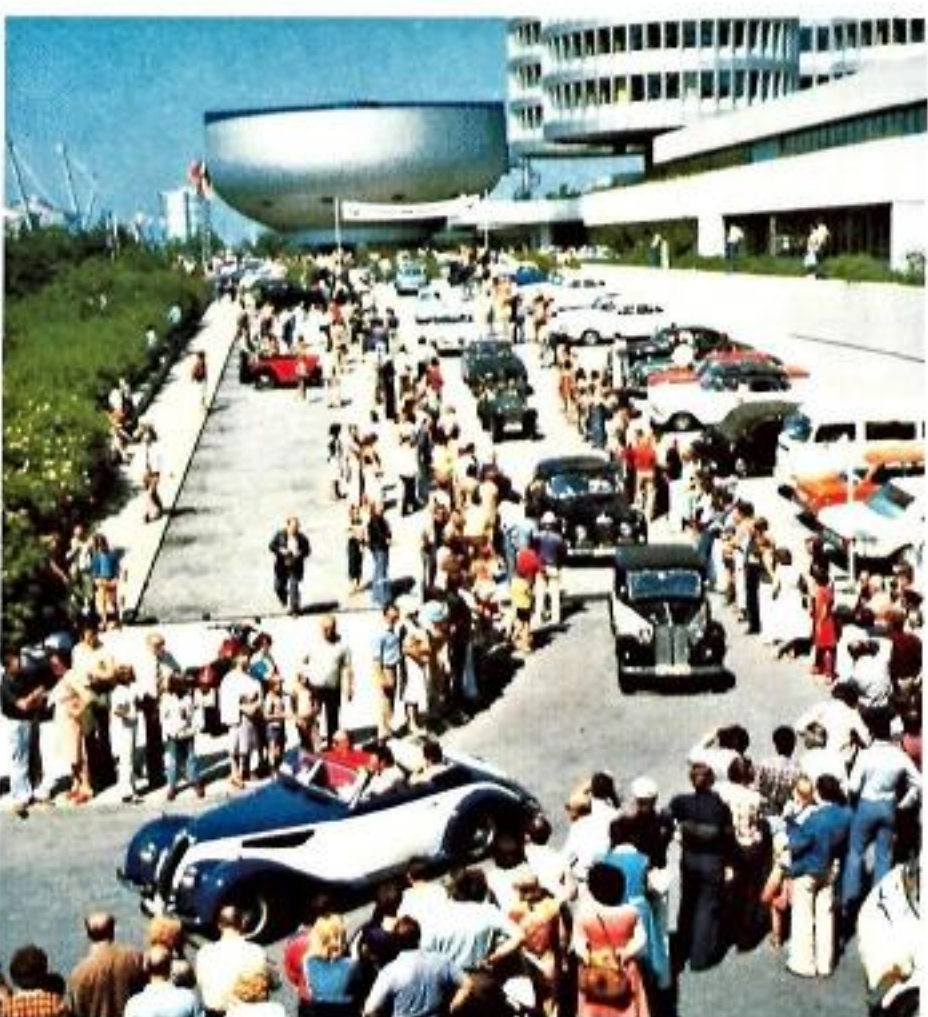
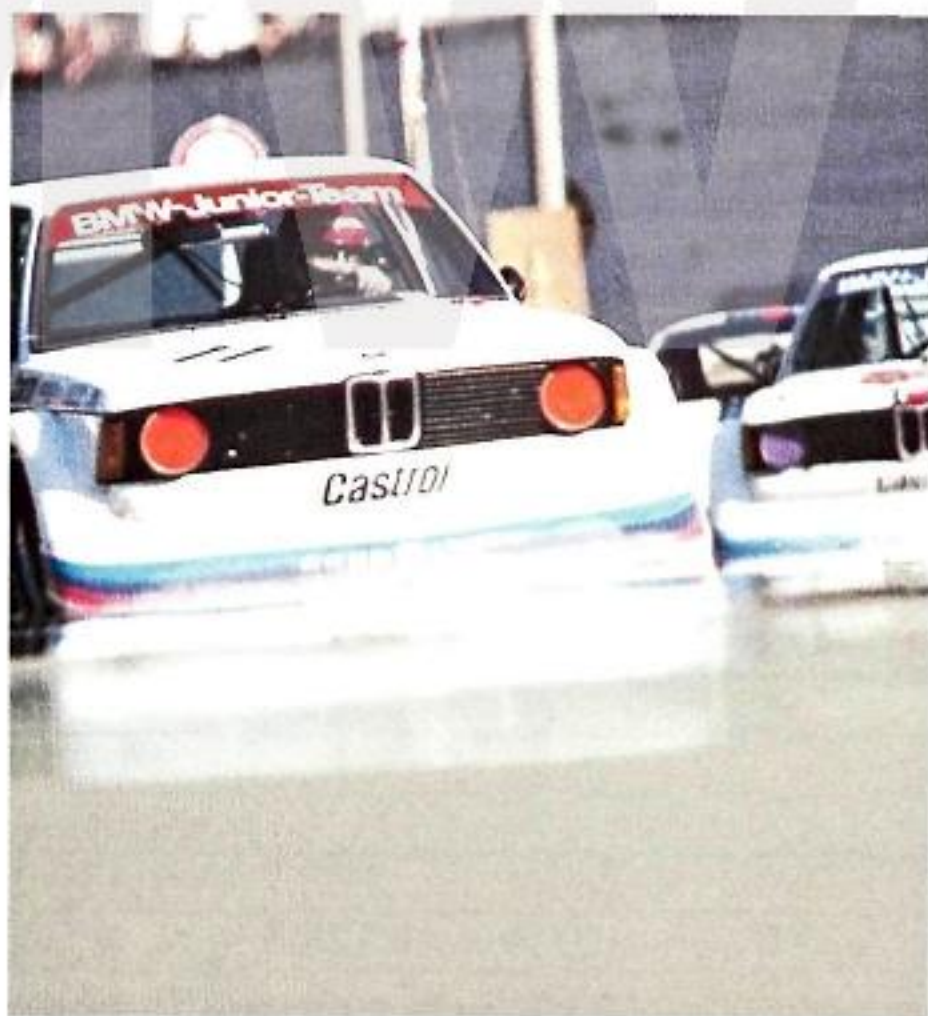
More than 1 million people visited the 47th International Automobile Exhibition in Frankfurt, which was held in the fall of 1977. In comparison with 1975 the interests of broad sections of the public in the further development of automobile technology had grown strongly, proof that the automobile continues to inspire fascination. The exhibition's theme "The auto takes us forward!" was understood not only in the sense of progress, but also in terms of a better quality of life.

The debate on the future of the car, which was held with public participation during the exhibition, was objective and relaxed. The West German authorities had not provoked stronger reactions on the part of the driving public nor of the auto industry since during the year, no new regulatory measures were introduced.

Moreover, studies made by the Federal Roads Office into the "Effects of Guidelines in comparison with a Maximum speed of 130 Kilometers/hour on Autobahns" ended without a conclusive recommendation to limit speeds.

The energy problem was more a matter of concern for the North American public than for the European public. More than 40% of North America's crude oil is used for auto fuel consumption, whereas in West Europe the figure is below 20%. Consequently the great controversies on the aims and extent of government imposed standards on the auto industry took place in the United States.

The BMW name continues to enjoy great public support both at home and abroad. Readers of the periodical "auto motor und sport" again chose the BMW 320 as Car of the Year in the up to 2 liter class, and the BMW 528 as the best car in the 2 to 3 liter cc range. "Car & Driver", the biggest specialist car publication in the USA, selected the BMW 320i as the best 2 liter car on the American market. BMW received a high award from the Council for Design in West Germany.



For the outstanding design of its "work-place in the automobile", i.e. the driver's seat, the steering wheel, the arrangement of the pedals and of the instrument panel, the BMW Coupé, as well as the 3 Series and the 5 Series, were awarded the Federal Republic's "Good Design" prize for 1977. At the time of the jury's deliberations, the 7 Series was not yet on the market. The design of its "work-place" is identical with that of the 6 Series.

The prize-winning BMW design was exhibited in many cities of West Germany, and among others at the First International Designers' Day in Karlsruhe. In Munich, the BMW Gallery, which has long been recognised for its contribution to the city's artistic life, also exhibited the display "Utopian Design of Vehicles" from the Documenta 6 exhibition in Kassel.

As regards BMW's investment programs, by far the biggest public reaction resulted from the decision to expand the Berlin motorcycle plant. The first turf was cut for the new building by West German President Walter Scheel on April 26th, 1977. It was the first time that a German head of state had visited BMW. (Photo above)

Owners of old BMW models, mostly dating back to prewar days and enthusiasts of the famous BMW models with the V 8 engines of the fifties, grouped together to form the BMW Veterans Club e.V.. The first international Oldtimer Meeting of this club took place in Munich in July, 1977, and was well received by the public. 60 motorcycles and 140 automobiles took part in rallies and concours d'elegance. (Photo below)



1977 brought BMW more successes than ever before in racing. Two world championship titles, four European championships and eleven national championships are the proud result. But more significant are the impulses which BMW again provided for racing in general during the year under review. Here the entry of the successful and popular BMW Junior Team has upgraded the German Automobile Motor Racing Championship. (Photo center left)

The Formula 2 European Championship will be similarly upgraded by the factory's commitment to racing engines.

The BMW Formula 2 engines, which are based on the 2 liter 4-cylinder

production engine, have now dominated Formula 2 races for 5 years, and have thus become the most successful engine of the past decade. Also worthy of mention is the third title won consecutively in the European Touring Automobile Championship by the BMW Coupes.

A new chapter in BMW's colorful racing history was added by one of the names in the world of art: Roy Lichtenstein, the leading American pop artist, painted a BMW 320 racing auto, which competed at Le Mans and won the 2 liter trophy for production autos. After Alexander Calder and Frank Stella, Roy Lichtenstein is the third important contemporary artist to make a BMW racing car the medium for his creative talents. (Photo above)

Subsidiaries

Siehe S. 42

Domestic

BMW Motorrad GmbH, Munich

In 1977, the favorable trends on world motorcycle markets continued. As in the previous year, it was possible to raise sales by 20% and more in various countries. In the USA too, sales of motorcycles increased perceptibly in 1977; in this, the largest motorcycle market in the world, the volume of sales grew by about 9%. In West Germany, the number of registrations rose by 18%. Here above-average growth was recorded for machines with more than 500 cc capacity.

Through well-planned steps to raise capacity, BMW Motorrad GmbH increased its output by 12% to 31,515 motorcycles, the record for BMW. 136 units were produced daily, compared with 116 the previous year.

The rise in output was particularly beneficial to the export markets. BMW motorcycle exports went up by 22%. At 24,563 deliveries, the export share of total sales rose from 71% to 79%. Despite this, in some markets BMW Motorrad GmbH had to accept loss of market share to Japanese competitors, particularly in the United States.

At home, the competitive situation for BMW deteriorated sharply. Despite the 10% appreciation of the yen against the DM, the Japanese competitors lowered their sales prices in Germany anywhere from 5% to 8%. Nevertheless, BMW motorcycle registrations at home grew by 5%. Particularly notable success was scored by the most powerful model, the BMW R 100 RS. Since the dealer networks had good stocks on hand, domestic deliveries were 17% below those of the previous year.

Sales to local and state authorities were good. 20% of export deliveries were made to this group of buyers.

Sales of BMW Motorrad GmbH rose in 1977 by 20% to DM 242.7 million.

The Result in 1977 did not fully match forecasts and were influenced by various special measures such as claiming the benefits in accordance with the law on the stimulation of Berlin's economy and the full topping-up of provisions for future pensions in line with new regulations for company retirement pensions. Investments amounted to more than DM 20 million; this was 8.9% of sales. The investments were mainly intended to raise capacity in certain areas, to procure spare parts and begin construction of new buildings.

The progressive expansion of the Berlin plant by BMW is creating new jobs. At the end of the year, BMW Motorrad GmbH had 1,820 persons employed, 14% more than in 1976.

To increase production before completion of planned reconstruction projects in Berlin, it was necessary to house some production capacity in rented buildings. This applied to about 150 of the staff. One of the company's principal aims, the provision of modern, contemporary working conditions, was thereby fully achieved.

In September 1977, the R 75/7 motorcycle was replaced by a new model, the R 80/7. This machine is being marketed in two engine versions, with either 37 or 41 DIN kW (50 or 55 hp). Performance, torque curve, and flexibility have been further improved, meaning broader diversification: BMW's range includes the 600, 800 and 1,000 cc machines.

The motorcycle sales network continued the increased efforts of the previous year to improve its services. The dealer organization at home was further specialized. In 1977, it was also possible to realise these aims in relation to the contractual partner firms abroad.

Besides international conferences for service managers, numerous courses were held in many countries. This involved a new type of training course for the motorcycle industry. Mobile training centers were put into operation, which make it possible to bring the training facilities nearer to the dealers, and to

provide a technical service for the authorities in the area.

The technical and organizational measures taken by the customer service departments were supported by a carefully trained team of service personnel. Systems were developed under which requests for service could be more rapidly met and satisfied.

In 1978 too, the development of BMW's motorcycle trade will be influenced by growing competitive pressures. This is less a matter of sales than of returns. BMW will face the increased competition with a broader model range. In the summer of 1978, the new medium-class R 45 motorcycle will be put on the market.

BMW Marine GmbH, Munich, which has been in operation since the end of June, 1977, was still in a build-up phase during last year. The new BMW marine engines came onto the market only at the start of 1978. The range consists of BMW 4- and 6-cylinder engines adapted for marine use, with 86 to 136 DIN kW (120 to 190 hp), and a newly-developed Z-drive. These engines are the nucleus of a range which can be extended. BMW Marine GmbH is flexible both in size of engine and types of drive.

The most important markets in Europe are Scandinavia, Italy, France and Britain, together with the USA overseas. At present BMW is building up a service-oriented international sales network which specializes in the boating field.

BMW Leasing GmbH, Munich, succeeded in 1977 in almost doubling the number of new leasing contracts via the BMW dealer network. This involved a substantial growth of turnover. The customers gained included large companies particularly, and parts of their vehicle fleets were equipped with BMW cars of all types. In most cases, the leasing contracts signed include comprehensive services, such as repairs, maintenance, insurance and accident-service.

The services offered by the company were extended in the fall of 1977 to include used cars. This armed BMW dealers with an attractive alternative to the sale of used cars.

Until now it has been mainly business clients who have leased BMW cars, this option will in future become more attractive to private customers as well. At the beginning of 1978, a special leasing offer was worked out for this group of customers. It was well received by the BMW dealer organization. BMW's foreign sales subsidiaries are also increasing their commitment to leasing operations.

Because of increased business volume, the capital of BMW Leasing GmbH was increased by DM 2 million in November 1977. It has now reached DM 2.5 million. In 1978, the company anticipates a favorable results.

Again in 1977, **BMW Motorsport GmbH, Munich** exemplified the high performance of BMW products by competing successfully in national and international sports events. The races in which the BMW 320 took part were of special importance. More than 30 BMW racing cars were built for the first year of operations based on this model. Sales of Formula 2 engines were also satisfactory. The company's sales was increased in comparison with 1976.

Schorsch Meier GmbH, Munich, was again able in 1977 to expand its business volume, despite a limited supply of vehicles. Orders remain at a high level. Good results were achieved, from the rising turnover.

To provide better supplies of spare parts and to rationalize sales to associated dealers, the company opened a new dispatch center in the Munich area in July 1977. It stocks about 20,000 spare parts of all kinds.

In 1977, **Bavaria Wirtschaftsagentur GmbH, Munich**, expanded its operations. The number of contracts signed was again increased. Its new contracts stemmed primarily from the growth in sales of insurance services at both domestic and foreign subsidiaries.

During the year under review, **Obermeyer Project-Management GmbH, Munich**, saw a higher level of orders, particularly from abroad. Thus the company undertook the planning and surveying of enlarged traffic facilities, for example in the Near East. It was also commissioned to plan and build for BMW a new process-controlled multi-shelf warehouse in Dingolfing. Its operations broken even in 1977.

For **BMW Kredit GmbH, Frankfurt**, of which concentrates on providing purchase financing for the BMW dealers' organization, 1977 was a year marked by the good sales position for BMW products. It succeeded in raising the volume of credits and broadening the basis for new business.

Profit and loss transfer agreements are in force with BMW Motorrad GmbH, BMW Marine GmbH, BMW Leasing GmbH, BMW Motorsport GmbH, Schorsch Meier GmbH, and Bavaria Wirtschaftsagentur GmbH.

Foreign

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

In 1977, the overall economic growth of the USA gradually slowed down. The American balance of payments deficit reached a post-war record level of about \$ 20 billion (1976: \$ 1.4 bill.). A major cause of this trend was a strong rise in imports, which was triggered by an above-average demand for crude oil. The value of the US dollar declined internationally.

By contrast the American automotive industry experienced very favorable conditions, and demand for cars remained strong. In all, 12% more cars

were registered in the USA than in 1976. Importers reported a 40% growth in sales; but their costs were hit by currency changes, particularly in the second half of the year.

BMW sales were also up by 12%. With sales at 28,776, BMW held its market share. As a result of a better model mix sales rose by about 35%. At the end of the year the number of employees was 339.

The dealer network was extended in line with the rising sales volume. At the end of the year 335 dealers, or 12% more than in 1976, were selling BMWs. Apart from the purely quantitative improvement, the demands made on dealers grew still further as regards the level and quality of the sales and maintenance staff. Intensive courses were held to acquaint employees with new models.

In the past year, BMW's success in the American market rested on the 320i, 530i, and 630/633 CSi models. The BMW 7 Series was introduced to the market at the beginning of 1978. Numerous entries in racing events enhanced BMW's image and reputation for high performance.

BMW France S. A., Bagneux, France

In 1977, there was again no sustained revival of the French economy. Total economic growth fell from 5.2% back to 2.7%. The rate of inflation sank to a minor extent, but was even then at 9.0%. The only major improvement was on the balance of payments deficit. But during the year the franc weakened sharply against the DM.

In contrast to this picture, the automobile market did generally well. French manufacturers increased sales by 3%, whereas due to currency changes, imports during this period were slightly reduced. With more than 1.9 million car registrations, a new French record was established.

BMW France achieved good results in 1977. Sales of BMW automobiles were limited to 14,706 vehicles by the volume of deliveries from the plants. This led to a small drop in sales; but the market

share remained at approximately the same level. The model mix was improved for all series. In the summer of 1977, the 7 model series was successfully introduced into France. Because of the more favorable model mix, total turnover of BMW France was up by almost a fifth.

The position on the motorcycle market was influenced by efforts on the part of the Japanese producers, who brought out a range of new models. These compete directly with BMW, and were placed on the market at stable prices. Sales dropped by a quarter compared with the previous year. But an order from the French Gendarmerie for more than 900 units had a positive effect. Deliveries were completed between November 1977 and April 1978.

The sales network was further expanded, and at the end of the year 134 dealers and 108 motorcycle stores carried BMW vehicles. Cooperation with BMW was further strengthened by the annual Central Dealers' Congress.

In 1977 the construction of a new office building was prepared. At the end of the year the company had 188 employees.

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

The overall economic growth of Belgium was marked by a very low rate of growth in GNP of 2.5%. Private consumption rose by the same amount. The Belgian franc remained stable, while the inflation rate dropped from 9.2% to 7.0%.

Demand for cars in Belgium continued to be good. Private registrations rose by 2%. BMW Belgium again reported good sales successes. Registrations of BMW vehicles increased by 14%; the market share was expanded to 2.2%. There was particularly strong demand for the 6-cylinder models of the 5 Series and for the models of the new 7 Series.

In the motorcycle market, BMW faced increasing competition from Japanese marks. BMW sales declined, but in the 1,000 cc class, BMW remained the leader.

Qualitative improvements in the network of 91 dealers and 38 motorcycle contractual partners led to a situation in which BMW is now exclusively represented by about 95% of its dealers.

Sales and results improved decisively as against the previous year. At end of the year BMW Belgium employed 102 persons.

BMW Italia S. p. A., Milan, Italy

The Italian economy was marked by a recession in 1977, after strong expansion at the start of the year. Due to restrictive economic policies, there was no real growth. Private consumption grew only marginally. It was possible to reduce the inflation rate to 19%, and the foreign trade deficit was cut. Despite the generally unfavorable economic situation, car registrations in Italy rose by about 4%, while imports were at approximately the previous year's level.

In 1977, BMW Italia found itself confronted with a difficult situation. Until the early part of 1977, there were restrictions on imports. Auto maintenance costs, such as gas prices, taxes, and insurance premiums grew appreciably. A particular problem is posed by the value-added tax of 35% on vehicles with a capacity of more than 2,000 cc., and on motorcycles above 350 cc. Nevertheless, by selling 16,800 units BMW showed a sales plus of 4% and a slight rise in market share. The small model series was very successful, and the new 7 models were well received by the market. Sales of motorcycles were slightly down.

Efforts made to improve the quality of the dealer network were continued. Besides exhibitions to introduce new models, a central dealers' congress was again held.

Sales activities were extended by the leasing business. Sales of BMW Italia was increased, while the profits remained equally good. At the end of the year, there were 171 employees of the company.

BMW (Switzerland) AG, Dielsdorf, Switzerland

In 1977, the overall Swiss economy remained the most stable in West Europe. Despite clear growth in the gross national product, the inflation rate did not rise above 1.1%. Private demand did not grow much, 1.5%. Due to the appreciation of the Swiss franc and the stability of prices, a surplus in the trade balance of sfr. 0.5 billion was achieved.

The trends in the automotive industry in Switzerland were again characterized by strong demand. West German auto makers could not quite maintain their market share of the previous year (46%), but the share of the French manufacturers at 20% also dropped back slightly. High growth rates were achieved by the Japanese, who were only just behind the Italian producers in fourth place. The market share of Japanese deliveries was 12%.

The expansion of sales of BMWs was conditioned by the restricted delivery capacity of its plants. 9,392 units, 8% more than in the previous year, were sold. Thus, it was almost possible to maintain BMW's market share, which was 4.6%. The model mix was improved, since for the first time the Coupés were available for the whole year, and the big new BMW models were in strong demand.

In the motorcycle sector as well, BMW (Switzerland) was successful, although Switzerland has the highest taxation rates for motorcycles of any nation in Europe. The tax and insurance for an R 100 RS cost more than for a BMW 733i.

As sales grew, the demand for spare parts rose accordingly. In order to further optimize the supply system, a new central warehouse was built, which was put into operation in October 1977. Orders from the BMW dealer network, which has grown to 158 under contract, can now be processed much faster.

The turnover of the company was further increased, and results were once more satisfactory. At the end of the year the company had 85 employees.

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

The economy of South Africa during the year under review was marked by low growth. GNP rose by only 1% again, and private consumption was decisively cut by administrative measures. The inflation rate was 10%. Foreign investment activity in South Africa remained weak. The exchange rate for the rand, which is directly tied to the dollar rate, deteriorated sharply, and this had an adverse effect on the performance of BMW (South Africa).

The unsatisfactory overall economic situation and government measures such as price increases and restrictions on gas sales had a negative effect on car sales. The total private car market fell by 10% in 1977. By contrast, BMW was able to increase its sales by 3%, to 6,218. The BMW market share increased from 3.0% to 3.7%, almost exclusively due to one model series.

The motorcycle market in South Africa grew by 14%. Here BMW increased its sales by 56%, thereby boosting its market share. The sales network for both cars and motorcycles was expanded to a total of 76 dealers under contract.

By the further expansion of the production facilities, BMW has increased output from an average of 450 units monthly at the beginning of 1977 to 800 per month today. In the last few months of 1977, the BMW 7 Series came on stream, and this model was introduced onto the South African market at the beginning of 1978.

At the BMW Rosslyn plant, Pretoria, a new vocational training and further educational center was built for both white and non-white workers. (Photo above) The shortage of trained skilled workers, foremen and technical specialists in the country requires highly skilled training, especially for the non-white staff members. About 100 employees can be trained simultaneously in this progressive training center. In the course of the year, BMW South Africa created 200 new jobs, and at the end of the year,



it had a staff of more than 1,000.

In September 1977, an organizational change was carried out, which was linked with an increase of funds to strengthen the working capital of the company. BMW (South Africa) (Pty) Ltd. is now owned 48.9% directly by BMW AG and 51.1% by BMW Holding AG, Zurich.

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

In May, 1977, the Austrian subsidiary company, BMW Austria Ges.m.b.H. was founded in Salzburg with registered capital of A.Sch. 15.0 million. This new company started operations in January, 1978.

Bayerische Motoren Werke
Aktiengesellschaft, Munich
Capital DM 396.0 million

Domestic

100% *
BMW Motorrad GmbH,
Munich
DM 12.0 million
Production and sales
of motorcycles

100% *
BMW Maschinenfabrik
Spandau GmbH,
Berlin
DM 6.0 million
Industrial
company

100% *
Schorsch Meier GmbH,
Munich
DM 0.3 million
Sales company

100% *

Fahrzeug- und Maschinen-
fabrik GmbH Landshut,
Landshut
DM 0.3 million
Property Company

100% *
BMW Leasing GmbH,
Munich
DM 2.5 million
Leasing of cars
and motorcycles

100% *
BMW Marine GmbH,
Munich
DM 3.0 million
Manufacture and
Sales of marine engines

100% *
BMW Motorsport GmbH,
Munich
DM 0.02 million
Participation in sports events,
production and sales of goods
for sports

100% *
Bavaria Wirtschafts-
agentur GmbH,
Munich
DM 0.2 million
Services company

95%
BMW Grundstücksgesellschaft
Berlin GmbH, Berlin
DM 0.02 million
Property Company

50%
BMW Kredit GmbH,
Frankfurt/M.
DM 9.0 million
Finance company

50%
Obermeyer Project-
Management GmbH,
Munich
DM 0.4 million
Planning company

Important interests
held by BMW AG in
April 1978.

* included in consolidated
financial statement

Foreign

100%
BMW (US) Holding, Corp.
Wilmington, Del., USA
US \$ 8.0 million
Holding

100%
BMW of North America Inc.,
Montvale, N.J., USA
US \$ 4.0 million
Sales of
BMW products

80% 20%
BMW France S. A.,
Bagneux, France
FF 10.0 million
Sales of
BMW products

50%
BMW Italia S.p.A.,
Milan, Italy
Lit. 1.0 billion
Sale of
BMW products

20%
BMW Distributors Eastern
Canada Ltd.,
Scarborough,
Ontario, Canada
Can. \$ 0.1 million
Sales of
BMW products

100%
BMW Holding AG,
Zurich, Switzerland
sfr. 10.0 million
Holding

100%
BMW (Schweiz) AG,
Dielsdorf, Switzerland
sfr. 0.5 million
Sales of
BMW products

51,1% 48,9%
BMW (South Africa)
(Pty) Ltd.,
Pretoria, South Africa
R 8.9 million
Production and sales of
BMW products

100%
BMW Austria Ges.m.b.H.
Salzburg, Austria
öS 15.0 million
Sales of
BMW products

100%
BMW Belgium S.A./N.V.,
Kontich, Belgium
bfr. 46.0 million
Sales of
BMW products

100%
BMW Overseas Enterprises N.V.
Willemstad, Curaçao, N.A.
DM 2.0 million
Finance company

10%
BMW (Australia) Pty. Ltd.,
Springvale, Vic., Australia
A \$ 0.05 million
Sales of
BMW products

Financial Review

During the year under review, DM 396.1 million were invested in fixed and financial assets. To cover this long-term capital need, DM 225.3 million were available from depreciation and write-downs in fixed assets, DM 97.4 million from allocations for fringe benefits, to and DM 60.0 million from the transfer from the year's surplus to the reserves. In this way, 97% of investments were covered by international financing.

In order to make financial provision for the continued expansion of BMW, apart from the transfer to the reserves, the shareholders' equity was further strengthened by an increase in the equity capital of DM 66.0 million. After early repayment of long-term loans from the previous year, long-term liabilities were increased by DM 32.1 million in 1977. In this way the favorable conditions on capital markets as regards interest rates and redemption dates were used to full advantage.

In total, DM 84.7 million more in long-term funds were available in excess of the amount required for financing of fixed and financial asset investments during the year. The long-term provision of funds is so planned as to continue the improvement in the financial structure of the company and in the financing of the major investment program for the next years.

The liquidity of BMW AG once again improved, with liquid assets rising by DM 28.8 million.

Sources and Applications of Funds, 1977

DM million

Application of Funds		Source of Funds	
Investments in		Increase of Shareholders' Equity	66.0
Fixed assets	335.1	Depreciation and Retirement of Fixed assets ²⁾	225.3
Investments in Participations	3.4	Increase in Provisions and Liabilities for Pension Funds	97.4
Investments in other financial assets	57.6	Allocation to Reserves from net income	60.0
		Increase in long-term liabilities	32.1
Long-term	396.1	Long-term	480.8
Increase in Inventories	112.0	Increase in other provisions	83.7
Increase in trade receivables ³⁾	56.9	Increase in trade payables	34.5
Increase in liquid funds	28.8	Increase in other liabilities (including payments received)	23.9
Increase in other assets (including advance payments made and deferred charges)	6.6	Dividend for 1977 (proposed)	65.3
Increase in net receivables from group companies (less liabilities)	24.8		
Dividend for 1976	63.0		
Short-term	292.1	Short-term	207.4
	688.2		688.2

1) after divestitures

2) less change in special items containing reserves

3) less general provision for bad debts

Investments of f+f. assets

L.t. loans
L.t. liabilities } was said down L.t. borrowings

The balance sheet structure of assets and capital improved in comparison with the previous year. The share of fixed and financial assets was further reduced to 53.7% of the balance sheet total, which increased by DM 389.7 million (17.8%). They are covered to the extent of 110.5% (105.0% in the previous year) by shareholders' equity, fringe benefit funds, and long-term borrowings.

The increase in the cover for invested capital by long-term funds is primarily due to the growth in the funds available for fringe benefits.

As a result of the increase in capital stock and the transfer to reserves, the proportion of shareholders' equity in the balance sheet total remained at the same level as in the previous year. Every effort continues to be made to strengthen the base of BMW's resources and to maintain its earnings potential.

Working capital again increased during the faster than the balance sheet total.

*Waugh, Waugh, /
hox, hox, hox.*

Assets and Capital Structure

Assets	Dec. 31, 77	Dec. 31, 76	Liabilities and shareholders' equity	Dec. 31, 77	Dec. 31, 76
	DM mill. %	DM mill. %		DM mill. %	DM mill. %
Fixed assets	1,123.7 43.5	1,015.0 46.3	Shareholders' equity	820.5 31.8	695.6 31.7
Financial assets	262.7 10.2	201.7 9.2	Fringe benefit funds <i>Pers. & Salary</i>	263.3 10.2	165.9 7.6
			Long-term borrowings <i>Liabs</i>	448.4 17.4	416.3 19.0
Total fixed and financial assets	1,386.4 53.7	1,216.7 55.5	Total funds	1,532.2 59.4	1,277.8 58.3
Inventories and advance payments	449.0 17.3	341.5 15.6	Provisions	477.7 18.5	394.0 18.0
Trade receivables	173.0 6.7	116.1 5.3	Trade payables and advance payments received	324.5 12.6	288.9 13.2
Liquid assets	218.4 8.5	189.6 8.6	Due to group companies	83.9 3.2	93.0 4.2
Receivables from group companies	198.8 7.7	183.1 8.4	Other current liabilities	98.4 3.8	75.6 3.4
Other			Balance sheet profit	65.3 2.5	63.0 2.9
Current assets	156.4 6.1	145.3 6.6			
Current assets	1,195.6 46.3	975.6 44.5	Total short-term liabilities and provisions	1,049.8 40.6	914.5 41.7
Total assets*	2,582.0 100.0	2,192.3 100.0	Total liabilities and shareholders' equity	2,582.0 100.0	2,192.3 100.0

* less general provision for bad debts

Notes on the 1977 Financial Statement of the BMW AG

Balance Sheet

Assets

Fixed Assets

The previous chapters contain a detailed report on the additions to fixed assets and on their application. The composition and development of fixed assets by types of investment can be seen from the presentation in the balance sheet.

As in the previous year, during the year under review the additions have been brought into the accounts at cost or at production cost for taxation purposes. For planned depreciation, the tax regulations on determination of useful life are applicable. They are as follows:

- for office and factory buildings, including distribution facilities installed in buildings: 30–50 years.
- for residential buildings: 50 years.
- for real estate installations: 5–20 years.

Plant and machinery, as well as factory and office equipment with a useful life in excess of five years are depreciated for tax purposes on the declining balance method, with planned transition at a later date to the straight-line method. As in previous years, accruals of minor value have been written off in full. For type-specific special tools of current models, depreciation of the initial equipment for each model or assembly is calculated in accordance with performance and the expected life of the model. Special tools for the models that went into production in 1977 are being depreciated proportionately to time on the basis of a shorter expected life.

Depreciations relating to the additions in 1977 are composed as follows:

In 1977, again full advantage was taken of all tax regulations on special depreciation allowances.

The real estate of the company at home, including the real estate of associated companies, on settling day totaled 3.26 mill. square meters (3.13 mill. sq. ms in 1976). It is located primarily in Munich, Dingolfing, Landshut and Berlin.

BMW AG leased the Munich office building, which was built on company land by third parties under a lease which runs for 30 years with effect from 1972. In 1977, the rent paid was DM 11.2 million. An hereditary building lease in respect of the real estate has been registered in favor of the real estate company owning the high-rise offices.

	Additions and Transfers in DM Million	Depreciation allowances in DM Million
Real Estate with office, factory and other buildings (including residential accommodation)	24.4	1.2
Buildings on real estate owned by third parties	4.3	0.3
Plant and Machinery	181.9	32.3
Factory and Office Equipment	105.4	32.6
	316.0	66.4

Financial Assets

The transfer of shareholdings in BMW France S. A., BMW Italia S. p. A., and BMW Belgium S. A./N. V., to our holding companies in the USA and Switzerland, the purchase of shares in BMW (South Africa) (Pty) Ltd. by BMW AG, and the change in the corporate status of Bavaria Autohaus GmbH led to decreases of DM 8.3 million and accruals of DM 6.2 million under the heading of Investments in other companies. The accruals also comprised increases of capital at BMW Marine GmbH of DM 2.98 million, at BMW Leasing GmbH of DM 2.0 million, and an increase in the company's own resources of DM 0.5 million at BMW Kredit GmbH.

Loans with a minimum term of four years were increased primarily by the purchase of loan notes. The retirements comprise contractually agreed repayments.

Loans and securities listed under assets are employed to provide long-term liquidity for future investment programs.

Inventories

Inventories rose by DM 112.0 million (33.4%). This is mainly due to increased production, the expanded manufacturing program and the rise in the costs of wages and materials. Stocks of finished vehicles remain extremely low due to continued high demand.

As in earlier years, raw materials, auxiliary materials and supplies, as well as bought-in parts have been valued at the lower of cost or market value. Advantage was taken of the opportunities for special depreciation of imported goods pursuant to Section 80 of the Income Tax Regulations. Work in progress and finished products have been entered on the basis of production costs, i. e. costs of production materials plus labor, as well as output-related share of production and materials overheads.

Write-downs due to risks arising from prolonged storage or reduced technical marketability have been adequately allowed for.

Other Current Assets

Claims for deliveries and services increased primarily because of rising export deliveries. Trade receivables are composed of 27.0% receivables from domestic buyers and 73.0% receivables from purchasers abroad. Receivables from group companies did not increase materially. All conceivable individual risks in the value of receivables have been adequately taken into account by means of value write-downs on the assets side, quite apart from the general provision for bad debts shown under liabilities.

The higher level of liquidity is explained in the Financial Review.

Other assets, which increased by DM 11.6 million, include claims for investment allowances, cost of tooling subsidies to suppliers, loans granted, claims deriving from settlement of turnover tax and interest accounts, together with receivables from returns, freights and empties.

Was ist denn „^{voll} Halbberechtigt“
 berechtigt oder nicht! (allerdings
 nur für halbe Dividende)

Liabilities and Shareholders Equity

Shareholders' Equity

On July 7, 1977, the annual general meeting resolved to raise the capital stock by DM 66 million to DM 396 million by an issue of new shares. The new shares are fully entitled to dividends as from 1 January 1978; half of the dividend for the trading year 1977 accrues to them. This equity increase was effected in July, 1977.

Declared Reserves

From the net income the sum of DM 60 million was transferred to the Other Reserves. The declared reserves now amount to DM 391.5 million.

Special Items Containing Reserves

The special depreciation allowance pursuant to Section 6b of the Income Tax Act, under the heading Fixed Assets, has been used in accordance with normal depreciation.

General Provision for Bad Debts

On the basis of the increase in trade receivables, the general provision for bad debts has been raised from DM 5.8 million to DM 8.1 million. As in the previous year, an allowance of 2.5% for domestic and 5.0% for foreign receivables was made to cover general risks inherent in receivables from deliveries and services, bills in hand, advance payments made and other assets.

Pension Funds Provisions and Liabilities

The improvement in company benefits has been explained in the chapter on Personnel and Fringe Benefits. Increased commitments required a build-up in the Pension Fund provisions of DM 93.0 million. The actuarial calculations have been based on an interest rate of 5.5%.

Of the Pension Fund provisions, DM 192.4 million are accounted for by future benefit rights and DM 31.2 million by current pensions. In the year under review, a total of DM 7.3 million was transferred to the BMW Benevolent Fund for current benefits and for an increase in the required covering capital.

Other Provisions

The company's Other Provisions grew primarily due to higher commitments towards staff and to an increase in warranty provisions as a result of the rise in sales volume. In addition, as in the previous year, provisions had to be made for taxation not yet due, for settlement of accounts with dealers and suppliers, and for liability risks abroad. All discernible risks have been adequately provided for.

Liabilities with a term Exceeding 4 Years.

In the context of the increased business done, and in order to finance the investment program, long-term liabilities consisting of loan notes issued by credit institutions and other creditors were raised by DM 32.1 million to DM 448.4 million. Security for these loans is provided by land charges which on the date of closing the books were valued at DM 205.9 million.

Currency liabilities were converted at the higher rates quoted on closing day.

Other Liabilities

Because of the expansion in the volume of purchases and investments, the accounts payable increased by DM 34.5 million.

Other liabilities include payroll and salary items, credit balances of customers, commitments for interest payments and various other obligations.

Contingent liabilities, particularly those in favor of indemnities accepted by special financial partnerships, have been shown separately in the balance sheet.

Statement of Income

In the preceding chapters we have reported on the composition and growth of sales. Taking account of the changes in inventories of work in progress and finished products and of capitalized assets manufactured by the company, the total value of production was DM 5,063.0 million, which represents an increase over the previous year of DM 762.4 million (17.7%).

Outlays for raw materials, auxiliary materials and factory supplies, as well as for bought-in goods, after deduction of the discounts allowable, increased during the year under review by 18.4%, slightly more than the total output. Gross income as a percentage of total production was 48.2%, which was slightly below the figure for the previous year (48.5%).

Income from other financial assets and other interest payments and similar income again increased due to the improved liquidity by 6.7%, whereas interest paid and similar outlays declined by 9.0%. As a result, the net interest position improved by DM 7.2 million.

Income from the liquidation of provisions accrued as a result of lapsed risks in the settlement of accounts with suppliers and customers, as well as in other liabilities.

Miscellaneous income includes primarily income from investment subsidies, rents and leases, licences, service companies, refunds of premia paid to insurance companies, employment bonuses and foreign exchange gains.

Expenditure Structure relative to total Production	1973	1974	1975	1976	1977
Total value of production	2,684.9	2,513.1	3,234.6	4,300.6	5,063.0
DM million					
%					
Materials expenditure	50.8	53.9	52.8	51.5	51.8
Personnel costs	25.2	29.0	27.9	26.4	26.7
Depreciation	4.9	5.6	4.4	3.7	4.4
Net expense resulting from other expense and revenue items	9.8	8.9	10.0	10.8	9.8
Taxation	5.8	0.9	2.6	4.7	4.8
Net income	3.5	1.7	2.3	2.9	2.5

Personnel costs rose by DM 215.2 million (19%). Their share in the total value of production grew to 26.7% from 26.4% in the previous year. In this context, wages and salaries rose somewhat faster than expenditure on social contributions. This is mainly due to improved vacation rules under the new labor contract, special payments and higher personnel related costs such as paid holidays and paid convalescence. We have reported in detail on the composition and development of staff costs in the chapter on Personnel.

Depreciation of fixed assets rose as against the previous year by DM 62 million (38.6%). The reasons for this increase lay in the high volume of investment achieved in 1976, which for the first time came through in full to depreciations, the large investments made during the year under review and higher write-downs for special tools.

The increase in taxation on income, profits and on assets by DM 41.7 million is caused on the one hand by the improved pretax profits, and on the other by the increased corporate tax rates introduced under the reform of corporate taxation.

The item Miscellaneous Expenses includes, as in the past, expenditure on administration and distribution, warranty commitments, outgoing freights, insurance premiums and incidental personnel-related costs.

The remuneration of the active members of the Board in the business year 1977 amounted to DM 4,575,794, while that of former Board members and their dependents totalled DM 656,990. The total remuneration of the Supervisory Board in 1977 amounted to DM 480,000.

Balance-sheet Profit

The annual Financial Statement for the year ending 31 December 1977, which was prepared by the Board, approved by the Supervisory Board, and thus duly adopted, closes with a balance sheet profit of DM 65.34 million. By agreement with the Supervisory Board, it is proposed that this profit be utilized to pay a dividend of DM 9.00 per share of DM 50 nominal value on the DM 330 million capital stock entitled to full dividends (equivalent to a 18% dividend), as well as DM 4.50 per DM 50 share of the new shares which are entitled to dividends as from July 1, 1977, having a total nominal value of DM 66.0 million (equivalent to a dividend of 9%).

Munich, April 1978

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

as of

Balance Sheet of the BMW AG at December 31, 1977

with comparative figures for the previous year

Assets

	Position at Jan. 1, 1977	Additions	Transfers	Retir- ments	Depre- ciation	Position at Dec. 31, 1977	Position at Dec. 31, 1976
	DM	DM	DM	DM	DM	DM	DM
I. Fixed Assets							
Tangible and intangible fixed assets							
Land and other real estate with office, factory and other buildings	329,487,528	10,162,449	+ 18,419,578	573,540	17,024,790	340,471,225	329,487,528
Land with residential buildings	8,991,718	217,688	—	—	379,117	8,830,289	8,991,718
Land without buildings	22,487,403	343,953	— 4,860,831	734,223	—	17,236,302	22,487,403
Buildings on land not owned	26,746,897	3,485,463	+ 847,613	380	2,851,145	28,228,448	26,746,897
Plant and machinery	474,363,575	166,057,229	+ 78,338,253	1,012,907	163,217,308	554,528,842	474,363,575
Factory and office equipment	24,795,863	39,252,089	+ 4,075,558	867,919	33,759,090	33,496,501	24,795,863
Buildings and plant under construction and advance payments thereon	128,163,301	115,606,899	— 96,820,171	723,582	5,282,005	140,944,442	128,163,301
Patents	1	—	—	—	—	1	1
	1,015,036,286	335,125,770	—	3,912,551	222,513,455	1,123,736,050	1,015,036,286

Financial Assets

Investments in participations	97,454,396	11,699,874	—	8,238,872	—	100,915,398	97,454,396
Securities	29,210,999	44,030,300	—	5,000,000	—	68,241,299	29,210,999
Loans with a minimum term of four years	75,036,056	55,170,049	—	36,539,611	175,000	93,491,494	75,036,056
— thereof secured by liens on land: DM 1,093,086 —							
	201,701,451	110,900,223	—	49,778,483	175,000	262,648,191	201,701,451
						1,386,384,241	1,216,737,737

II. Current Assets

Inventories

Materials and supplies						153,054,392	118,282,972
Work in progress						100,007,155	68,076,050
Finished products, trading stocks						194,526,311	149,266,989
						447,587,858	335,626,011

Other current assets

Advance payments						1,378,473	5,865,413
Trade receivables						181,126,899	121,931,108
Bills of exchange — thereof rediscountable at Bundesbank: DM 1,144,819 —						3,508,726	3,560,835
Cash on hand, deposit at the Bundesbank and in postal checking accounts						1,020,389	429,080
Cash in banks						150,463,595	124,651,841
Securities						63,368,115	60,959,045
Receivable from group companies						198,832,829	183,108,887
Receivable from credits granted under Section 89, Public Companies Act						622,430	769,321
Other assets						155,061,534	143,479,922
						755,382,990	644,755,452
						1,202,970,848	980,381,463

III. Prepaid expenses

						765,321	1,016,893
--	--	--	--	--	--	---------	-----------

2,590,120,410 2,198,136,093

Shareholders' equity and Liabilities

		Position at Dec. 31, 1977 DM	Position at Dec. 31, 1976 DM
I. Capital		396,000,000	330,000,000
II. Reserves			
Statutory reserves		77,311,250	77,311,250
Retained earnings		254,188,750	
Transfer from net income for the financial year		60,000,000	254,188,750
		391,500,000	331,500,000
III. Special Items containing reserves under Sect. 6 b, Income Tax Act	Position at Jan. 1, 1977 DM	Written off DM	Position at Dec. 31, 1977 DM
Depreciation reserve for fixed assets			
Land without buildings	2,210,407	—	2,210,407
Office, factory and other buildings	25,345,030	1,009,980	24,335,050
Residential buildings	780,648	35,832	744,816
Investments in participations	5,746,503	—	5,746,503
	34,082,588	1,045,812	33,036,776
			33,036,776
IV. General provision for bad debts			8,141,172
V. Pension Fund Provisions and Liabilities			
Pension Fund provisions			223,631,644
Liabilities to BMW Benevolent Fund			39,680,000
			263,311,644
VI. Other Provisions			
Provisions for deferred maintenance work			7,500,000
Miscellaneous provisions			470,149,647
			477,649,647
VII. Liabilities with a term exceeding four years			
Loans against the company's notes — thereof secured by liens on land: DM 65,000,000 —			110,512,000
Liabilities to banks			315,376,356
— thereof secured by liens on land: DM 140,879,832			22,510,004
Sundry liabilities			21,463,000
Of Item VII, due in less than four years: DM 208,738,005			
			448,398,360
VIII. Other Liabilities			
Trade payables			320,153,286
Advance payments received			4,253,299
Liabilities to group companies			83,923,092
Miscellaneous liabilities			98,393,008
			506,722,685
IX. Deferred Income			20,126
X. Balance-Sheet Profit			65,340,000
		1977 DM	1976 DM
Liabilities on B/E — thereof B/E of group companies: DM —		56,065,377	42,273,427
Guarantees — thereof for associated companies: DM 20,268,003 —		20,268,003	16,532,219
Joint and several guarantee for sfr. loan of BMW Overseas Enterprises N.V., Curaçao		105,120,000	96,550,000
Liabilities under warranty contracts		2,715,847	13,153,896
— thereof in favor of group companies: DM —			
Liens on land to secure liabilities of third parties		450,000	450,000
			2,590,120,410
			2,198,136,093

Certificate of indebtedness

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gement*

Statement of Income of the BMW AG for the year ended at December 31, 1977

with comparative figures for the previous year

Sales (net)
Change in inventories of finished products and work in progress
Company-produced assets
Total value of production
Raw materials, auxiliaries, supplies and merchandise purchased
Gross income
Income from profit transfer agreements
Income from investments in participations
Income from other financial assets
Other interest and similar income
Gains on disposal of fixed and financial assets
Income from liquidation of provisions
Income from special items containing reserves under Sect. 6 b, Income Tax Act
— liquidation of depreciation reserve for fixed assets —
Other income — thereof extraordinary income: DM 2,747,333 —
Wages and salaries
Social security contributions
Expenditure for retirement and other benefits
Depreciation of tangible fixed assets
Writedown of financial assets
Losses from depreciation of current assets excluding inventories and
transfer to general provision for bad debts
Losses from disposal of fixed and financial assets
Interest and similar expenses
Taxes
on income, profits and property
other taxes
Miscellaneous expenses
Net income
Transfer from net income to retained earnings
Balance sheet profit

(transfer from net income)
82

dividend payable

Note in accordance with Sect. 159, Public Companies Act:
In the 1976 business year, we made payments of DM 2,859,573 for pensions;
in addition, a total of DM 7,315,517 was allocated to the BMW Benevolent Society.
In the next five years, pension payments will probably amount to 157% of the cited
amount in 1978, 190% in 1979, 231% in 1980, 270% in 1981, and 307% in 1982.
In future, the BMW Benevolent Society will receive no further allocations for new benefits
promised.

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

	1977		1976
DM	DM	DM	DM
	4,993,036,120		4,286,954,343
	+ 51,239,196		— 4,188,488
	5,044,275,316		4,282,765,855
	18,762,184		17,871,995
	5,063,037,500		4,300,637,850
	2,620,856,880		2,213,134,596
	2,442,180,620		2,087,503,254
	6,458,789		5,933,993
	221,876		8,363,511
	11,220,746		5,567,495
	23,825,183		27,272,206
	7,188,587		792,684
	15,161,290		6,305,862
	1,045,812		1,045,812
	31,737,853		41,053,664
	96,860,136		96,335,227
	2,539,040,756		2,183,838,481
	1,092,777,918		908,440,328
	155,684,004		133,717,283
	102,385,243		93,458,562
	222,513,455		160,508,229
	175,000		449,867
	5,864,808		23,213,524
	1,817,795		724,893
	50,663,074		55,677,233
242,136,880		200,525,598	
1,919,456	244,056,336	1,727,628	202,253,226
	537,763,123		479,395,336
	2,413,700,756		2,057,838,481
	125,340,000		126,000,000
	60,000,000		63,000,000
	65,340,000		63,000,000

We have duly examined the accounts, the annual financial statement and the annual report and are of the opinion that they comply with the requirements of the law and the articles of association.

Munich, April 26, 1978

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Clemm
CPA

von Lippmann
CPA

Consolidated Annual Report

As in the previous year, the BMW consolidated financial statement has been prepared pursuant to Section 329 of the Public Companies Act and the Annual Report of BMW Konzern has been drawn up pursuant to Section 334 of the same act.

Bavaria Autohaus GmbH, Frankfurt, has ceased to be a consolidated company as a result of integration with BMW AG. The relevant asset and capital items concerning this company have been included for 1977 in the financial report of BMW AG.

During the year under review we have included BMW Marine GmbH, which began operations in 1977, in the Consolidated Financial Statement.

The list of consolidated companies now includes the following firms in the Federal Republic of Germany:

Consolidated Companies	Nominal Capital DM million	Participation
Bayerische Motoren Werke AG, Munich (BMW AG)	396.00	
BMW Motorrad GmbH, Munich	12.00	100% BMW AG
BMW Motorsport GmbH, Munich	0.02	100% BMW AG
BMW Marine GmbH, Munich	3.00	100% BMW AG
Schorsch Meier GmbH, Munich	0.30	100% BMW AG
BMW Leasing GmbH, Munich	2.50	100% BMW AG
Bavaria Wirtschaftsagentur GmbH, Munich	0.20	100% BMW AG
BMW Maschinenfabrik Spandau GmbH, Berlin	6.00	100% BMW AG
Fahrzeug- und Maschinenfabrik GmbH Landshut, Landshut	0.30	100% Schorsch Meier GmbH
BMW Grundstücksgesellschaft Berlin GmbH, Berlin	0.02	95% BMW AG

Bavaria Verwaltungsgesellschaft mbH, Munich, is not included in the list of consolidated companies.	0.02	100% BMW AG
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The economic development of the BMW Konzern was decisively influenced during the year by the course of business at BMW AG.

In the chapter on Subsidiaries, we have reported on the trend of business at the other important companies. The main activity of BMW Motorrad GmbH is the production and sale of BMW motorcycles, while that of BMW Marine GmbH is the adaptation for navigable craft of BMW engines and their sale. The other companies are: Sales Companies: Schorsch Meier GmbH, BMW Leasing GmbH; Service Companies: BMW Motorsport GmbH, Bavaria Wirtschaftsagentur GmbH; Property Companies: BMW Maschinenfabrik Spandau GmbH, Fahrzeug- und Maschinenfabrik GmbH Landshut, BMW Grundstücksgesellschaft

Berlin GmbH. The following paragraphs comment on the main items concerning the consolidated financial statement.

Notes on the 1977 Financial Statement of the BMW Konzern

Consolidated Balance Sheet

In the consolidated balance, the 1977 balance sheets of BMW AG and the other consolidated companies have been integrated as though the BMW companies were legally a single entity. Accordingly, the assets and liabilities of the subsidiaries take the place of the share holdings of the parent company, while receivables and liabilities within the Konzern companies are omitted.

In striking the balance sheet values of investments in other companies (after deduction of the depreciation allowance pursuant to Section 6b of the Income Tax Act) against capital and the disclosed reserves of the subsidiaries, a difference of DM 15.9 million results. This figure arises on the one hand from the free reserves formed by subsidiary companies and the above-mentioned depreciation allowance, and on the other from the purchase of shares in subsidiaries at a premium. This resultant difference bears the character of a reserve, and has therefore been shown as Reserve derived from consolidation.

In the consolidated balance sheet, assets and liabilities have been entered as for the individual financial statements. But interim profits resulting from deliveries to inventories have been eliminated.

Fixed assets consist primarily of those of BMW AG, BMW Maschinenfabrik Spandau GmbH, BMW Motorrad GmbH, BMW Grundstücksgesellschaft Berlin GmbH, and BMW Leasing GmbH, together with BMW Motorsport GmbH.

The difference between the inventories of BMW AG and those of BMW Konzern consist mainly of the inventories of BMW Motorrad GmbH, BMW Motorsport GmbH, and Schorsch Meier GmbH taken together. The debit accounting items in the BMW Konzern are mainly due to the balancing of a type of financing, which is normal among leasing companies, at BMW Leasing GmbH.

The remaining consolidated balance sheet items are influenced mainly by BMW AG. For the corresponding explanations, reference should be made to the notes in the parent company's annual report.

Consolidated statement of income

In the consolidated statement of income, the statements of income of the subsidiaries in the consolidated financial statement have been integrated in such a way as to first add revenues and expenditures and then deduct the related items for supplies and services within the Konzern.

The consolidated statement of income therefore corresponds in content to the statement of income which would have had to be drawn up if the enterprises in the consolidated financial statement were to be legally regarded as a single company. It has been broken down in accordance with Section 333 of the Public Companies Act. The consolidated net income in 1977 of DM 127.6 million exceeds that of BMW AG (DM 125.3 million) by DM 2.3 million. This is mainly caused by dividends of consolidated companies which have not been paid to the parent company and by the elimination of inter-company profits which were primarily for inventories at Bavaria Autohaus GmbH, which in the previous year had been included in the consolidated financial statement.

Consolidated Balance Sheet at December 31, 1977

with comparative figures for the previous year

Assets

	Position at Dec. 31, 1977 DM	Position at Dec. 31, 1976 DM
I. Fixed Assets		
Tangible and intangible fixed assets		
Land and other real estatet with office, factory and other buildings	355,851,392	342,720,349
Land with residential buildings	8,830,289	8,991,718
Land without buildings	17,236,302	22,487,403
Buildings on land not owned	28,947,693	27,737,357
Plant and machinery	562,109,863	479,670,008
Factory and office equipment	102,450,801	58,439,220
Buildings and plant under construction and advance payments thereon	144,750,694	130,362,107
Patents	1	1
	1,220,177,035	1,070,408,163
Financial Assets		
Investments in participations	48,461,726	49,598,224
Securities	68,241,299	29,210,999
Loans with a minimum term of four years	93,499,255	75,044,216
— thereof secured by liens on land: DM 1,093,086 —		
	210,202,280	153,853,439
	1,430,379,315	1,224,261,602
II. Current Assets		
Inventories		
Materials and supplies	166,805,468	129,875,190
Work in progress	108,646,349	75,646,382
Finished products, trading stocks	215,010,741	170,176,374
	490,462,558	375,697,946
Other current assets		
Advance payments	1,502,880	7,816,820
Trade receivables	215,871,226	138,506,187
Bills of exchange — thereof rediscountable at Bundesbank: DM 1,196,631 —	4,477,459	8,215,429
Checks	—	3,430
Cash on hand, deposit at the Bundesbank and in postal checking accounts	1,305,886	710,460
Cash in banks	158,633,122	132,343,886
Securities	63,368,115	60,959,045
Receivables from group companies	148,346,156	142,971,659
Receivables from credits granted under Section 89, Public Companies Act	622,430	769,321
Other assets	162,864,550	147,458,233
	756,991,824	639,754,470
	1,247,454,382	1,015,452,416
III. Prepaid expenses	997,988	1,240,354
	2,678,831,685	2,240,954,372

Shareholders' equity and Liabilities

	Position at		Position at	
	Dec. 31, 1977		Dec. 31, 1976	
	DM	DM	DM	DM
I. Capital		396,000,000		330,000,000
II. Reserves				
Statutory reserves		77,311,250		77,311,250
Retained earnings		254,188,750		
Transfer from net income for the financial year		60,000,000	314,188,750	254,188,750
		391,500,000		331,500,000
III. Reserve deriving from consolidation		15,926,285		4,882,448
IV. Minority interests		4,201		2,419
— including DM 3,201 — interest in net income				
V. Special Items containing reserves under Sect. 6 b, Income Tax Act — Depreciation reserves		27,290,273		28,336,085
VI. General provision for bad debts		9,709,522		6,862,564
VII. Pension Fund Provisions and Liabilities				
Pension Fund provisions		232,504,558		132,500,815
Liabilities to BMW Benevolent Fund		39,680,000		35,212,000
		272,184,558		167,712,815
VIII. Other Provisions				
Provisions for deferred maintenance work		8,510,000		8,545,500
Miscellaneous provisions		486,385,631		404,831,887
		494,895,631		413,377,387
IX. Liabilities with a term exceeding four years				
Loans against the company's notes — thereof secured by liens on land: DM 65,000,000 —		110,512,000		80,002,309
Liabilities to banks		323,708,885		315,433,576
— thereof secured by liens on land: DM 142,795,360 —				
Sundry liabilities		22,510,004		21,463,000
Of item, IX. due in less than four years: DM 212,876,783				
		456,730,889		416,898,885
X. Other Liabilities				
Trade payables		340,413,307		299,769,175
Advance payments received		4,622,958		3,719,063
Liabilities to group companies		74,646,941		77,676,370
Miscellaneous liabilities		108,572,231		84,458,205
		528,255,437		465,622,813
XI. Deferred Income		17,054,932		91,986
XII. Consolidated Balance Sheet Profit		69,279,957		75,666,970
		1977		1976
		DM		DM
Liabilities on B/E — thereof B/E of associated companies: DM — —		64,086,598		54,662,556
Guarantees — thereof for associated companies: DM 20,268,003 —		20,268,003		16,532,219
Joint and several guarantee for sfr. loan of BMW Overseas Enterprises, Curaçao		105,120,000		96,550,000
Liabilities under warranty contracts		3,035,847		13,264,896
— thereof in favor of group companies: DM — —				
Liens on land to secure liabilities of third parties		450,000		450,000
		2,678,831,685		2,240,954,372

Consolidated Statement of Income for the year ended at December 31, 1977

with comparative figures for the previous year

Sales (excl. inter-Konzern sales)

Expenditures not required to be shown separately after offsetting
inventory changes and company-produced assets

Income from investments in unconsolidated
participations

Income from other financial assets

Other interest and similar income

Income from liquidation of provisions

Other income

Depreciation of tangible fixed assets

Write down of financial assets

Interest and similar expenses

Taxes

on income, profits and property

other taxes

Net income

Profit brought forward from the previous year

Transfer from net income to retained earnings

Minority interests in consolidated subsidiaries' net income

Consolidated balance sheet profit

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

	1977		1976
DM	DM	DM	DM
	5,223,244,867		4,490,276,019
	4,642,447,071		4,015,542,982
	580,797,796		474,733,037
	221,876		8,363,511
	11,220,746		5,469,883
	22,417,536		27,518,446
	16,002,163		6,696,313
	49,324,610		46,601,175
	99,186,931		94,649,328
	679,984,727		569,382,365
	255,053,903		179,822,990
	175,000		783,607
	49,777,419		55,400,884
244,863,123		203,547,832	
2,459,192	247,322,315	2,016,044	205,563,876
	552,328,637		441,571,357
	127,656,090		127,811,008
	1,627,068		10,857,381
	60,000,000		63,000,000
	3,201		1,419
	69,279,957		75,666,970

We have duly examined the consolidated, annual financial statement and report and are of the opinion that they comply with the requirements of the law.

Munich, April 26, 1978

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Saur
CPA

von Lippmann
CPA

BMW AG

Ten-Year Summary

		1968	1969	1970
Sales ¹⁾	DM million	1,032.4	1,443.4	1,724.4
Change	%	+18.6	+39.8	+19.5
Export share	%	40.0	40.6	36.1
Output-cars	units	116,547	147,841	161,165
Output-motorcycles	units	5,074	4,701	12,287
Car sales	units	122,971	144,788	158,850
Motorcycle sales	units	6,038	4,630	12,346
Investments in fixed assets	DM million	168.2	206.8	211.2
Additions to shareholdings	DM million	6.1	0.1	0.1
Depreciation of fixed assets	DM million	56.9	76.7	99.8
Personnel at end of year		18,040	21,316	22,913
wage-earners		13,525	15,952	16,874
salaried employees		3,831	4,653	5,222
Fixed assets	DM million	318.2	445.4	558.2
Current assets	DM million	252.2	348.9	440.4
Capital <i>Stock auf S. Innen</i>	DM million	100.0	100.0	200.0
Reserves including special items				
containing reserves	DM million	115.5	141.4	150.4
Shareholders' Equity		215.5	241.4	350.4
as % of fixed assets	DM million	67.7	54.2	62.8
Long-term borrowings ⁴⁾	DM million	143.2	247.0	253.9
Shareholders' Equity and long-term borrowings		358.7	488.4	604.3
as % of fixed assets	%	112.7	109.7	108.3
Balance-sheet total	DM million	570.4	794.3	998.6
Materials	DM million	559.0	794.2	944.2
as % of total value of production	%	54.3	53.5	53.5
Personnel costs ⁵⁾	DM million	231.2	310.9	403.0
as % of total value of production	%	22.5	21.0	22.8
Taxation on income, profits, and assets	DM million	39.7	60.8	45.2
Net income	DM million	34.1	45.7	34.2
		12.0	16.0	24.0
Dividend in %	%	12	12 + 4	12

¹⁾ without value added tax

²⁾ after allowing for write-downs

³⁾ including profit on merger with
Schorsch Meier Vermögensverwaltung
GmbH, Dingolfing

⁴⁾ Pension fund provisions, credit
balance of BMW Unterstützungs-
verein e. V., liabilities with a minimum
term of four years

⁵⁾ Wages and salaries, social security
contributions, expenditures on
retirement and fringe benefits

⁶⁾ Proposal of the management (the
dividend per new 50 DM share –
with dividend entitlement as of
July 1, 1977 – is DM 4.50 (9%))

1971	1972	1973	1974	1975	1976	1977
1,907.1	2,319.3	2,608.0	2,492.3	3,254.5	4,287.0	4,993.0
+10.6	+21.6	+12.5	-4.4	+30.6	+31.7	+16.5
40.8	42.9	46.2	46.6	40.7	47.3	47.0
164,701	182,858	197,446	188,965	221,298	275,022	290,236
18,772	21,122	20,856	23,160	25,566	28,209	31,515
166,354	185,188	193,978	184,330	226,688	275,596	288,260
18,898	21,045	19,918	25,189	25,553	28,171	31,231
153.6	250.3	250.0	159.4	167.3	320.8	335.1
1.5	5.3	9.6	6.4	47.0	32.4	3.4 ²⁾
112.7	123.4	128.2	139.4	142.8	160.5	222.5
23,307	24,750	27,737	25,805	28,989	30,192	33,398
17,051	17,945	20,079	18,338	21,043	21,554	23,804
5,336	5,769	6,522	6,385	6,590	6,979	7,786
598.2	720.5	884.6	903.3	986.0	1,216.7	1,386.4
455.8	562.6	681.0	589.7	710.3	981.4	1,203.7
250.0	250.0	275.0	300.0	300.0	330.0	396.0
204.3	255.9 ³⁾	273.2	284.7	303.6	365.6	424.5
454.3	505.9 ³⁾	548.2	584.7	603.6	695.6	820.5
75.9	70.2 ³⁾	62.0	64.7	61.2	57.2	59.2
313.0	311.2	399.6	402.5	520.5	582.2	711.7
767.3	817.1 ³⁾	947.8	987.2	1,124.1	1,277.8	1,532.2
28.3	113.4 ³⁾	107.1	109.3	114.0	105.0	110.5
1,054.0	1,283.7	1,566.1	1,493.7	1,697.2	2,198.1	2,590.1
1,028.3	1,176.4	1,363.4	1,356.2	1,709.3	2,213.1	2,620.9
54.0	50.6	50.8	53.9	52.8	51.5	51.8
451.8	539.6	678.0	728.0	902.7	1,135.6	1,350.8
23.7	23.2	25.2	29.0	27.9	26.4	26.7
39.7	147.7	153.5	22.7	84.4	200.5	242.2
32.2	92.9	93.2	42.0	74.0	126.0	125.3
27.0	40.0	49.5	42.0	54.0	63.0	65.3 ⁶⁾
12	16	18	14	18	20	18 ⁶⁾

Supervisory Board

Managing Board

Dr. h. c. Herbert Quandt
Chairman

Hans Graf von der Goltz
Deputy Chairman
Chairman of the Managing Board of
Varta AG

Kurt Golda*
Chairman of the General Works
Council of BMW AG

Joachim-Hans von Hinckeldey
Banker

Karl Theodor Jacob
President of Bayerische
Landesbank Girozentrale, ret'd

Erhardt Klausnitzer*
Member of the Works Council,
Munich plant of BMW AG

Hans-Jürgen Koppenberg
Attorney at law

Dr. Werner Uhde
Businessman

Johann Vilsmeier*
Chairman of the Works Council
Dingolfing plant of BMW AG.

* elected by the employees

Eberhard v. Kuenheim
Chairman

Dr. Erich Haiber
Finance and Management Economics

Hans Koch
Production

Dr. Karlheinz Radermacher
Research and Development

Dr. Eberhardt Sarfert
full member as of Oct. 1st, 1977
Personnel and Social Affairs

Dr. Helmut Schaefer
Purchasing and Logistics

Hans-Erdmann Schoenbeck
Sales

BMW AG

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