Annual Report 2007

Rolls-Royce
Motor Cars Limited

BMW Group

Facts and figures 2007

Contents

02 BMW Group in figures

04 Report of the Supervisory Board

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds in 2007
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Group Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on Financial Statements of BMW AG
62 Risk Management
68 Outlook

73 Group Financial Statements
73 Group and Sub-group Income Statements
74 Group and Sub-group Balance Sheets
76 Group and Sub-group Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes to the Group Financial Statements
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

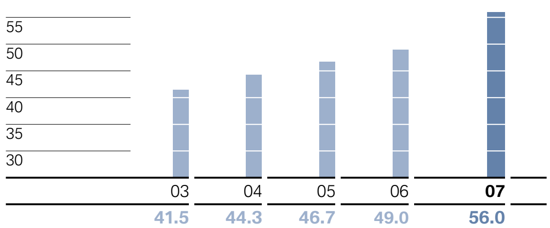
135 Responsibility Statement by Company's Legal Representatives
136 Auditors' Report

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report (Sub-section of Management Report)
146 Shareholdings of Members of the Board of Management and the Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to §161 AktG

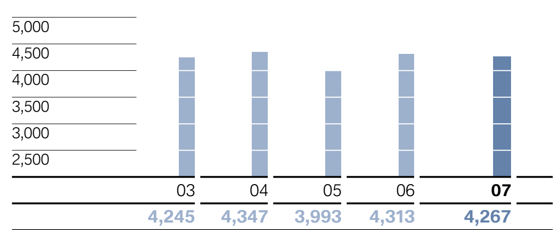
148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

BMW Group in figures

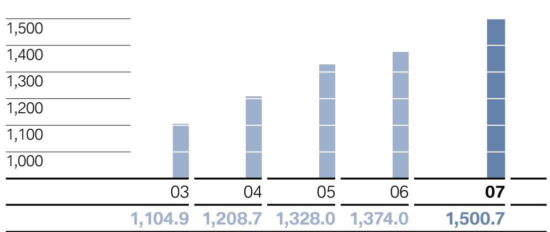
Revenues
in euro billion



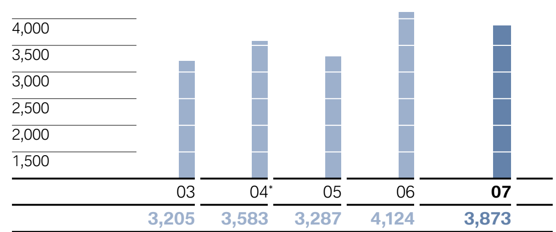
Capital expenditure
in euro million



Deliveries of automobiles
in thousand units



Profit before tax
in euro million



* adjusted for new accounting treatment of pension obligations

A portrait of the Company

Bayerische Motoren Werke G. m. b. H. came into being in 1917, having been founded in 1916 as “Bayerische Flugzeugwerke AG” (BFW); it became Bayerische Motoren Werke Aktiengesellschaft (“BMW AG”) in 1918.

Today, the BMW Group is one of the ten largest car manufacturers in the world and possesses, with its BMW, MINI and Rolls-Royce brands, three of the strongest premium brands in the car industry. The BMW Group also has a strong market position in the motorcycle sector and operates successfully in the area of financial services.

The Number ONE strategy, adopted in 2007, has set the BMW Group on course for a successful future. The business has been given a new strategic direction with the emphasis on profitability and long-term value growth. The BMW Group’s activities will remain firmly focused on the premium segments of the international automobile markets. The mission statement up to the year 2020 is clearly defined: the BMW Group is the world’s leading provider of premium products and premium services for individual mobility.

BMW Group in figures

	2003	2004	2005	2006	2007	Change in %
Vehicle production						
BMW	944,072	1,059,978	1,122,308	1,179,317	1,302,774	10.5
MINI	174,366	189,492	200,119	186,674	237,700	27.3
Rolls-Royce	502	875	692	847	1,029	21.5
Motorcycles [1]	89,745	93,836	92,012	103,759	104,396	0.6
Deliveries to customers						
BMW	928,151	1,023,583	1,126,768	1,185,088	1,276,793	7.7
MINI	176,465	184,357	200,428	188,077	222,875	18.5
Rolls-Royce	300	792	796	805	1,010	25.5
Motorcycles [2]	92,962	92,266	97,474	100,064	102,467	2.4
Workforce at end of year [3]	104,342	105,972	105,798	106,575 [4]	107,539	0.9

in euro million	2003	2004	2005	2006	2007	Change in %
Revenues	41,525	44,335	46,656	48,999	56,018	14.3
Capital expenditure	4,245	4,347	3,993	4,313	4,267	–1.1
Depreciation and amortisation	2,370	2,672	3,025	3,272	3,683	12.6
Operating cash flow [6]	4,970	6,157	6,184	5,373	6,340	18.0
Profit before tax	3,205	3,583 [5]	3,287	4,124	3,873	–6.1
Net profit	1,947	2,242 [5]	2,239	2,874	3,134	9.0

1] from 2006 including BMW G 650 X assembly by Piaggio S. p. A.
2] excluding C1, sales volume to 2003: 32,859 units
3] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
4] Including acquired entities, the comparable number of employees was 107,345 employees at 31 December 2006.
5] adjusted for new accounting treatment of pension obligations
6] In its financial statements for 2005, the BMW Group brought the cash flow computation into line with standards normally applied on the financial markets. Since then, the BMW Group discloses the figures for the cash flow from operating activities (operating cash flow), corresponding to the cash flow from Industrial Operations reported in the cash flow statement.

Joachim Milberg
Chairman of the
Supervisory Board

Ladies and Gentlemen,

The Supervisory Board monitored the business affairs and governance of the BMW Group continuously during the financial year 2007 and supported the Board of Management throughout in an advisory capacity.

Main focus of the work of the Supervisory Board

In a total of five meetings, the Supervisory Board deliberated at length on the performance and financial position of the BMW Group, corporate planning, the composition of the Board of Management and risk management issues. The Supervisory Board made use of regular business status reports to keep abreast of business performance, including the degree to which stated objectives have been achieved. It also selected a number of topics for more in-depth review and discussion based on reports and planning documents provided by the Board of Management. Two of the main areas of focus of the Supervisory Board in 2007 were currency management and the Board of Management's decisions concerning the future strategic direction of the BMW Group.

The Board of Management also kept the Supervisory Board informed of key performance indicators, personnel developments and other significant matters, both at scheduled meetings and at other times as the need arose. The Chairman of the Supervisory Board was also kept informed regularly and directly by the Chairman of the Board of Management of all major business transactions and projects.

The growing need to reduce CO_2 emissions in the transport sector, the challenges that this poses for the BMW Group as a premium car maker and the technical measures introduced by the Board of Management to reduce emissions and fuel consumption were reported on in detail by the Board of Management and discussed within the Supervisory Board. In the opinion of the Supervisory Board, the package of measures known as EfficientDynamics – designed to improve fuel economy whilst simultaneously emphasising agile and dynamic vehicle concepts – represents a clear competitive advantage for the BMW Group. For this reason, the Supervisory Board fully supports the Board of Management's strategy to extend the BMW Group's lead in this area. In this context, the Board of Management also reported to the Supervisory Board on one particular ground-breaking project which is looking, amongst other things, at new ways of achieving greater individual mobility in the world's megacities.

One meeting of the Supervisory Board was held at the Oxford plant, enabling the Supervisory Board to see at first hand the expansion measures undertaken at the plant. It was also given an insight into the integration of the new generation of MINI models into existing manufacturing structures and the benefits of the flexible working time model devised for the plant.

After detailed consideration of the BMW Group's long-term business plan, the Supervisory Board concurred with the Board of Management's conclusion that the plan is feasible and formally gave its approval to the plan.

As part of a special review of value-added and currency management within the BMW Group, the Board of Management provided the Supervisory Board with an overview of current and planned currency measures as well as natural hedging activities and explained the various alternatives available to the BMW Group. On the basis of this information, joint discussions were held on the future strategy in this area.

The Supervisory Board meeting in September 2007 primarily involved a discussion of the Board of Management's detailed report on the BMW Group's strategy process. At the same meeting, the Supervisory Board also deliberated on and made its decisions regarding the composition of the Board of Management.

The Supervisory Board was appreciative of the Board of Management's in-depth review of the current business model and its thorough analysis of the options open to the BMW Group to achieve continued long-term growth. From the perspective of the Supervisory Board, the results presented and the objectives set by the Board of Management on the basis of their analysis were convincing and well-founded. The Supervisory Board supports the strategic objective set by the Board of Management – to be the world's leading provider of premium products and premium services for individual mobility. The Supervisory Board agrees with the Board of Management that profitability and quality of earnings should play a central role in the Group's strategic realignment. It therefore encouraged the Board of Management to press ahead with the implementation of the stated strategy and gives its full backing to the measures and targets adopted by the Board of Management. This includes plans to generate some euro 6 billion of efficiency benefits by 2012 and to successively take pension obligations to employees in Germany off the balance sheet by creating external pension funds. The Supervisory Board believes that these measures will help to strengthen the Group's competitiveness in the long term.

To coincide with the BMW Group's strategic realignment, the Board of Management has formulated a set of core principles that are intended to serve as guidelines for managers and employees. In the opinion of the Supervisory Board, these core principles provide an excellent basis for open and objective-oriented cooperation throughout the Group.

The Supervisory Board carefully considered the annual budget for the financial year 2008 presented by the Board of Management and approved the planned measures to improve profitability. The Supervisory Board was also fully informed of solutions and specific measures discussed with staff representatives to reduce personnel expense.

The Board of Management also kept the Supervisory Board informed of the progress of the acquisition of the motorcycle company Husqvarna. This move complements the Group's activities in the single-cylinder segment and will appeal to younger customer groups in the off-road and supermoto segments.

In response to the increased complexity of tasks facing the Board of Management and with implementation of the new strategy in mind, the Supervisory Board decided to increase the size of the Board of Management by two members: Dr. Herbert Diess, who has been responsible for the Motorcycles segment since 2003, was appointed to the Board of Management with effect from 1 October 2007, taking over responsibility for the newly created Purchasing and Supplier Network division. Dr. Friedrich Eichiner, who has been responsible for Group planning since 2002, was also appointed to the Board of Management with effect from 1 October 2007 and now heads the newly created Corporate and Brand Development division. At his own request, Stefan Krause's mandate as member of the Board of Management came to an end on 13 March 2008. The Supervisory Board thanked Mr. Krause for the successful work that he performed on behalf of the BMW Group. At its meeting on 13 March 2008, the Supervisory Board appointed Ian Robertson with immediate effect as member of the Board of Management. Mr. Robertson thereupon took over board responsibility for sales and marketing. Since 2005, he has been Chairman and Chief Executive Officer of Rolls-Royce Motor Cars Ltd., a subsidiary of BMW AG.

Corporate governance and Declaration of Compliance

During the financial year 2007, the Supervisory Board and the Board of Management again discussed the subject of corporate governance in great detail and issued a joint Declaration of Compliance with the German Corporate Governance Code (GCGC) pursuant to § 161 AktG. The recommendations of the Government Commission on the German Corporate Governance contained in the revised code issued on 20 July 2007 will be complied with in the future except for one divergence: the discussion and regular review of the structure of the compensation system of the Board of Management is still performed by the Personnel Committee and not, additionally, by the Supervisory Board. This task has been delegated to the Personnel Committee which reports in detail to the full Supervisory Board. All other recommendations are being complied with.

A detailed report on the amount and structure of the compensation of the Board of Management and the Supervisory Board can be found in the corporate governance report. In conjunction with the code recommendations issued on 20 July 2007, the Supervisory Board decided to amend its own procedural rules regarding the remit of the Audit Committee, to create a Nomination Committee and to expand the reporting duties of the Board of Management.

The Supervisory Board sees it as an ongoing task to improve the quality of its work, both in plenum and at committee level, and in its collaboration with the Board of Management. The efficiency of the Supervisory Board's work is therefore not only assessed, as recommended by the GCGC, on the basis of written comments of all Supervisory Board members and open debate at year-end meetings, but also during the year in the context of personal dialogue, whereby the Chairman of the Supervisory Board plays a key role in proposing areas of improvement.

There was no indication during the past year of any conflicts of interest on the part of members of the Supervisory Board and Board of Management.

Description of Presiding Board activities and committee work

In a total of five meetings, the Presiding Board mainly focussed on preparing the plenum meetings, including the selection of special topics of report. During the past year, the Presiding Board took a close look at the Company's dividend policy and the Group's currency management. At a number of meetings during the course of the year, it also considered alternative concepts for the compensation of Supervisory Board work, culminating in the formulation of a proposed amendment to § 15 of the Articles of Incorporation that will be put forward for resolution at the Annual General Meeting.

In view of the fact that the tasks performed by the Audit Committee go well beyond accounting and financial reporting matters (e.g. in the field of compliance), the Audit Committee changed its name in German from Bilanzausschuss to Prüfungsausschuss, bringing it into line with the name already used in English. The Audit Committee convened three times during the period under report. One of these meetings served primarily to prepare for the Supervisory Board meeting in spring 2007, the main purpose of which was to consider the drafts of the Company and Group financial statements for the financial year 2006. Apart from examining the drafts, the Audit Committee also obtained a Declaration of Independence from the external auditors, determined areas of audit emphasis and, after the Annual General Meeting, issued the audit engagement letter for the financial year 2007. A further area of focus for the Audit Committee in 2007 was risk management. The Audit Committee was kept informed by the Board of Management of progress made to date to implement the Group's compliance programme which emphasises the vital role played by managers in ensuring compliance with existing law.

The six meetings of the Personnel Committee in 2007 were mainly dedicated to preparing for Board of Management appointment decisions, in particular pre-selecting candidates and deliberating on compensation matters. The Personnel Committee again reviewed the appropriateness of the compensation of the members of the Board of Management – including individually agreed upper limits – in view of the tasks performed, the financial condition of the Group and compensation levels within the automotive industry and at other DAX-listed companies. In individual cases, the Personnel Committee authorised the acceptance of external mandates by current and former members of the Board of Management.

In line with the recommendation of the German Corporate Governance Code, the Supervisory Board created a Nomination Committee in 2007 in addition to the existing committees. The Nomination Committee comprises the Chairman of the Supervisory Board (as chairman) and two further members of the Supervisory Board representing the interests of shareholders. The Nomination Committee is charged with the task of finding suitable candidates for election to the Supervisory Board and for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting. The Nomination Committee did not hold any meetings in 2007 but convened for the first time in January 2008 to propose candidates for the forthcoming elections at the Annual General Meeting 2008.

The statutory Mediation Committee (§27 (3) of the Law on Worker Participation) was not required to convene during the financial year 2007.

The Chairman reported regularly at Supervisory Board meetings on the status of Presiding Board and committee work.

Composition of the Supervisory Board, the Presiding Board and the committees

The names of the members of the Supervisory Board committees, including those of the newly created Nomination Committee, are shown in the corporate governance report.

There were no other changes in the composition of the Supervisory Board during the year under report. The mandates of Dr. Hans-Dietrich Winkhaus and Mr. Arthur L. Kelly come to an end at the close of the Annual General Meeting on 8 May 2008. The two members will not be standing for re-election due to the age limit applicable to Supervisory Board members. Mr. Konrad Gottinger resigned as member of the Supervisory Board with effect from 15 February 2008. Mr. Heinz-Joachim Neubürger resigned with effect from the close of the Annual General Meeting 2007. Both Mr. Gottinger and Dr. Winkhaus were elected to the Supervisory Board in 1999 and carried out important functions in the Presiding Board and in various committees. Mr. Kelly, who joined the Supervisory Board back in 1992, has provided valuable services to the BMW Group during his long period of office. The Supervisory Board would like to thank the members leaving office for the dedicated and commendable services they have performed in the interests of the BMW Group.

Examination of Company and Group financial statements and the proposed appropriation of profit

The Company and Group financial statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2007 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion. The Audit Committee examined these documents initially at its meeting on 3 March 2008, discussing matters in person with representatives of the external auditors. The Supervisory Board subsequently examined the relevant drafts of the Board of Management at its meeting on 13 March 2008, after hearing the chairman's report on the meeting of the Audit Committee. The external auditors were also present at this meeting to report on the main findings of their audit and to provide additional information as necessary. The long-form audit reports of the external auditors were made available to all members of the Supervisory Board in good time. The Supervisory Board concurred with the results of the external audit and approved the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2007 prepared by the Board of Management. The Company financial statements are therefore adopted. The Supervisory Board also reviewed the Board of Management's proposal for the appropriation of profit. The Supervisory Board considers the proposal appropriate and therefore concurs with it. In accordance with the conclusion reached on the Supervisory Board's examination, no objections were raised.

The Board of Management and employees of the BMW Group have once again enabled the BMW Group to post excellent earnings for the financial year 2007. The Board of Management has also defined a new strategic direction for the BMW Group which puts it on course for long-term success. The Supervisory Board wishes to thank the members of the Board of Management and indeed all employees of the BMW Group for their hard work and their contribution to the past year's performance.

Munich, 13 March 2008
The Supervisory Board

Yours,

Joachim Milberg
Chairman of the Supervisory Board

Group Management Report
A Review of the Financial Year

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

BMW Group on course despite difficult conditions

The BMW Group continued to perform successfully in 2007 despite difficult conditions. By achieving a sharp sales volume increase, the company has again confirmed its position as the leading provider within the premium segments of the automobile markets. External factors did, however, continue to affect reported figures adversely. The continuing weakness of the US dollar and the Japanese yen, the generally high cost of raw materials and less favourable financing conditions all continued to have a negative impact. This was exacerbated by costs of market launches for numerous new models.

In its automobile business, the BMW Group registered new sales volume records for all three brands in 2007. For the first time ever, sales volume exceeded 1.5 million units, with a total of 1,500,678 BMW, MINI and Rolls-Royce brand cars sold. This represented an increase of 9.2 % over the previous year. As expected, automobile business gained pace particularly during the second half of 2007 following the introduction of numerous new models.

The motorcycles business also remained firmly on course in 2007 despite divergent developments on the major motorcycle markets. In total, 102,467 BMW motorcycles were delivered to customers, representing a new sales volume record for the BMW Group (+2.4 %).

The Financial Services business continued to grow profitably in 2007, again making an important contribution to the overall performance of the BMW Group. As predicted, the general deterioration in business conditions in the face of higher financing costs and the intensely competitive market situation continued to have an adverse impact in 2007. These external factors were successfully countered by achieving dynamic growth with new products, pursuing a strategy of targeted regional expansion and exploiting synergy benefits wherever possible.

External factors again significantly influenced the amounts reported as Reconciliations in 2007. Settlement of the exchangeable bond on shares in Rolls-Royce plc, London, which was completed in 2007, resulted in a gain of euro 97 million in 2007, compared to one of euro 372 million in the previous year. In addition to this, losses had to be recognised on other derivative financial instruments, in particular on stand-alone interest rate derivatives. A changed market interest rate structure caused the fair values of these financial instruments to decrease.

Dynamic revenues growth, earnings targets achieved

Revenues of the BMW Group rose at an above-average rate on the back of a pleasing sales volume performance and thanks to the dynamic growth of its financial services business. Group revenues rose to euro 56,018 million in 2007 and were therefore up by 14.3 % on a year-on-year comparison. Excluding the exchange rate impact, revenues would have risen by 17.6 %. The BMW Group profit before tax, at euro 3,873 million, was 6.1 % below the record level achieved in the previous year. Excluding the effect of the settlement of the exchangeable bond on shares in Rolls-Royce plc, London, pre-tax earnings were, as forecasted, slightly above the previous year's level.

Automobile business revenues reached a new high level. They rose by 12.7 % to euro 53,818 million, underlining the overall strength of business operations. Despite the impact of adverse foreign exchange factors and high raw material prices, the Automobiles segment reported a profit before tax of euro 3,232 million, 7.3 % up on the previous year.

Motorcycles business revenues fell short of the previous year, dropping marginally to euro 1,228 million (– 2.9 %). However, process optimisation and efficiency improvement programmes implemented in the past continued to have a positive impact, enabling the segment to increase its profit before tax by 7.6 % to euro 71 million.

Financial services business continued to grow at an extremely dynamic pace, with revenues rising by 25.8 % to euro 13,940 million. This strong growth is reflected in the segment profit before tax which, at euro 743 million, was 8.5 % up on the previous year. Segment earnings improved despite increasingly difficult refinancing conditions.

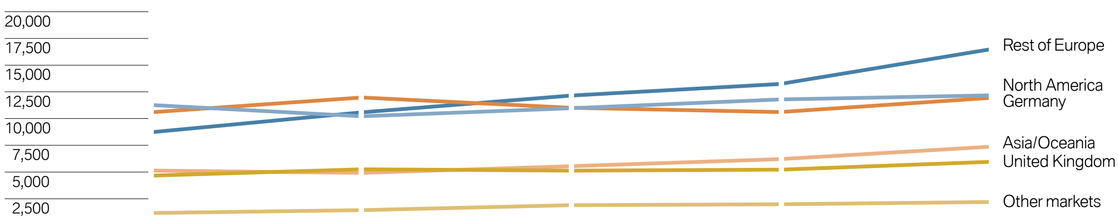
Business tax reform in Germany had a positive impact on earnings, reducing the tax expense sharply. The effective tax rate for 2007 fell by 11.2 percentage points to 19.1 % (2006: 30.3 %).

The Group net profit of euro 3,134 million attained a new high level, surpassing the previous year's figure by 9.0 %.

Increased dividend proposal

The Board of Management and the Supervisory Board will propose to shareholders at the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG, amounting to euro 694 million, to pay an increased dividend of euro 1.06

BMW Group Revenues by region
in euro million



	03	04	05	06	07
Rest of Europe	8,728	10,574	12,141	13,226	16,450
North America	11,252	10,205	10,957	11,779	12,161
Germany	10,590	11,961	11,001	10,601	11,918
Asia/Oceania	5,130	4,915	5,538	6,200	7,353
United Kingdom	4,661	5,249	5,125	5,214	5,945
Other markets	1,164	1,431	1,894	1,979	2,191

for each share of common stock (2006: euro 0.70/ + 51.4 %) and an increased dividend of euro 1.08 for each share of preferred stock (2006: euro 0.72/ + 50.0 %).

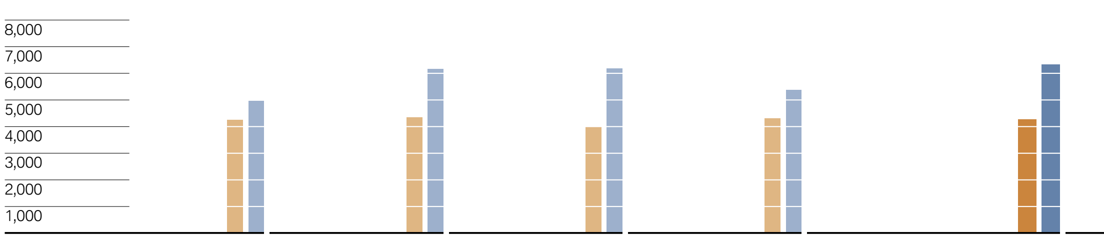
The significant increase in dividend proposed for the financial year 2007 demonstrates the BMW Group's commitment to a greater focus on the capital markets.

Capital expenditure remains at previous year's level

The capital expenditure volume, at euro 4,267 million, was roughly in line with the previous year's level. The main focus of capital expenditure in 2007 was again the continued expansion of the BMW Group's production and sales networks. 2007 saw the opening of the BMW Welt in Munich, the new event and delivery centre for the BMW brand. Other further major areas of capital expenditure were the continued expansion of the Spartanburg plant in the USA and investment in the Dingolfing site.

In 2007, the BMW Group invested a total of euro 2,934 million in property, plant and equipment and intangible assets, 5.7 % more than in the previous year. This includes goodwill of euro 97 million arising on the acquisition of DEKRA SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH) and that entity's subsidiaries.

BMW Group Capital expenditure and operating cash flow
in euro million



	03	04	05	06	07
Capital expenditure	4,245	4,347	3,993	4,313	4,267
Operating cash flow	4,970	6,157*	6,184	5,373	6,340

*adjusted for new accounting treatment of pension obligations

In its financial statements for 2005, the BMW Group brought the cash flow computation into line with standards normally applied on the financial markets. Since then, the BMW Group discloses the figures for the cash flow from operating activities (operating cash flow), corresponding to the cash flow from Industrial Operations reported in the cash flow statement.

10 Group Management Report
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13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
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52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

In addition, development expenditure of euro 1,333 million was recognised as assets in accordance with IAS 38 (2006: euro 1,536 million/–13.2%).

The decrease in capitalised development costs was due to the lower volume of series development projects required to be recognised as assets. The proportion of development costs recognised as assets went down from 47.9% in 2006 to 42.4% in 2007.

The capital expenditure ratio (i.e. the ratio of capital expenditure to revenues) accordingly decreased in 2007 to 7.6% (2006: 8.8%).

Strategic realignment of the BMW Group announced

At the end of September 2007, the BMW Group took on a new strategic direction. Up to the year 2020, the BMW Group intends to strengthen its position within the global premium automobile market by increasing volume of sales to more than two million units per annum. The mission statement is clearly defined: the BMW Group is the world's leading provider of premium products and premium services for individual mobility. This means that in addition to striving for organic growth in the core line of business, the BMW Group will also engage in new and profitable areas of activity throughout the automotive life-cycle and all the way along the value-added chain. At the same time, the BMW Group will invest substantially in future technologies, new vehicle concepts and pioneering drive systems. The new strategy, which has been given the name Number ONE, is aimed at profitability and increasing value over the long term. In order to achieve these objectives, two new areas of responsibility have been created within the Board of Management for the "Corporate and Brand Development" and "Purchasing and Supplier Network" divisions.

Economic developments in 2007

The global economy again grew strongly in 2007, albeit at a slightly slower pace than in the previous year. In addition to rising interest rates and the continuing high level of raw material prices, the main reason for this development was the weakening of the US residential property market and the resulting weaker economic growth in the USA. Although the credit crisis became acute from the middle of the year onwards, the effects it had on the economy in 2007 were relatively minor and mainly restricted to the USA. In other countries, primarily the financial markets were affected. In a number of instances, central banks were forced to take measures to ensure that sufficient liquid funds were available on the markets.

After a slow start at the beginning of the year, the US economy picked up pace again over the course of 2007, despite the enormous pressure coming from the residential property sector. Rising interest rates in recent years resulted in a large volume of bad debt losses, primarily in the area of subprime borrowers. As a consequence, investment on new residential property fell to an all-time low, with property prices dropping for the first time in more than 15 years. Despite these developments, private consumption nevertheless grew sharply due to the employment market remaining strong up to autumn. In the face of the weak residential property market, the rise in investment volumes was far lower than that of the previous year. On the back of a weaker US dollar, exports provided some momentum for the first time in years with the result that the USA's current account deficit decreased slightly. Overall, the USA's gross domestic product grew by 2.2 % in 2007.

The euro region also registered strong growth in 2007, albeit at a somewhat slower rate than in the previous year. Despite the positive changes evident on the employment market, consumers were more reluctant to spend than one year earlier, whereas investment activity continued to increase sharply. Exports grew despite the strong euro. The current balance of the region as a whole was slightly positive, although the results in individual countries varied considerably. Overall, the euro region's economy grew by 2.7 % in 2007.

Economic growth in Germany weakened slightly in 2007, reflecting the trend seen in the euro region as a whole. Investment and exports again contributed strongly to economic growth. By contrast, private consumption failed to match the mildly positive trends seen in previous years and stagnated in 2007. One of the main negative factors was the value-added tax increase that took effect in Germany at the beginning of the year. Although the employment market improved, and large numbers of new jobs were created, this did not motivate consumers to spend more. On top of this, from the summer onwards, the impetus generated by the construction industry tailed off sharply. Despite these adverse factors, the growth rate of 2.5 % was only marginally below the previous year's level.

The economies of the new EU member countries also continued to grow robustly in 2007. Private consumption and investment rose sharply in many countries, but in spite of the increase in exports, the current accounts of these countries remained, for the most part, negative and in some cases quite considerably so.

The Japanese economy remained on a stable growth course in 2007 with momentum coming from both domestic demand and exports. However, the persisting worry of deflation remained in 2007, resulting in price stagnation during the year. The general price level increased only marginally, almost entirely due to higher energy prices. The Japanese Central Bank was therefore only able to raise interest rates very slightly above zero. Overall, Japan's gross domestic product grew by approximately 2.1 % in 2007.

Alongside the emerging economies of Eastern Europe, the fastest growth rates were again recorded in 2007 by the markets in Latin America and East Asia. Once again, China was one of the fastest growing markets. The investment boom there continued in 2007 with the export surplus reaching a new record figure. The monetary policy measures taken, including higher interest rates, failed to hold down economic growth and a growth rate in excess of 11 % was registered for the year. In India, too, economic growth remained extremely strong at over 8 %. As in previous years, however, the Indian current account remained negative.

US dollar continues to lose value over the course of the year

The US dollar continued to lose value sharply over the course of 2007. After standing at US dollar 1.32 to the euro in January, it closed the year almost 10 % weaker at US dollar 1.46 to the euro. A rate of almost US dollar 1.50 to the euro was recorded at some stage during the period.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The British pound was slightly more volatile in 2007 than in preceding years. Following a healthy start, it lost in value over the course of the year, finishing at about GBP 0.73 to the euro.

The Japanese yen remained weak against the euro. After a short period of appreciation around the middle of the year 2007, the yen then went on to lose value and closed at yen 164 to the euro, some 4.5% lower than one year earlier.

Further increases in raw material prices

The average price of oil in 2007 was once again higher than in the previous year. After dropping to approximately US dollar 50 per barrel in January, the price almost doubled over the course of the year and by autumn it had risen to almost US dollar 100 per barrel. The average cost during the year was roughly US dollar 70 per barrel, up by more than 10% compared to 2006. The main reasons for this were ongoing shortages in oil production and processing capacities, supplies being held back by OPEC and the fact that some of the world's oil-producing countries are currently unstable. This situation was further exacerbated by rising demand, mainly from the emerging markets and also by a certain amount of speculation.

The price of steel again exceeded the level of the previous year. This was also largely due to a further sharp rise in demand coming mainly from the emerging markets. The prices of most precious metals have been rising continually for several years and this trend continued in 2007. In addition to increased demand, the loss in value of the US dollar has created additional demand for precious metals as investments, in particular in the emerging markets.

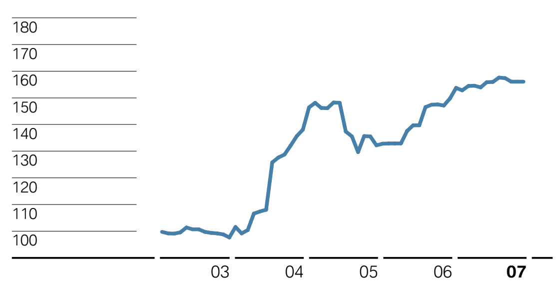
Automobile markets in 2007

The sale of cars rose worldwide by approximately 4% in 2007 and therefore slightly faster than in the previous year. As in the preceding years, the three main traditional car markets (the USA, Japan and Western Europe) did not show any significant momentum in terms of growth rates, whereas the car markets in Asian and Latin American emerging economies again grew strongly.

Sales of passenger cars in the USA fell again, this time by approximately 2.5% to 16.1 million units. Whereas in the previous year the market for light trucks had contracted drastically, the reduction in 2007 was spread across all segments of the market. The market share held by US manufacturers continued to decline and stood at just over 50%.

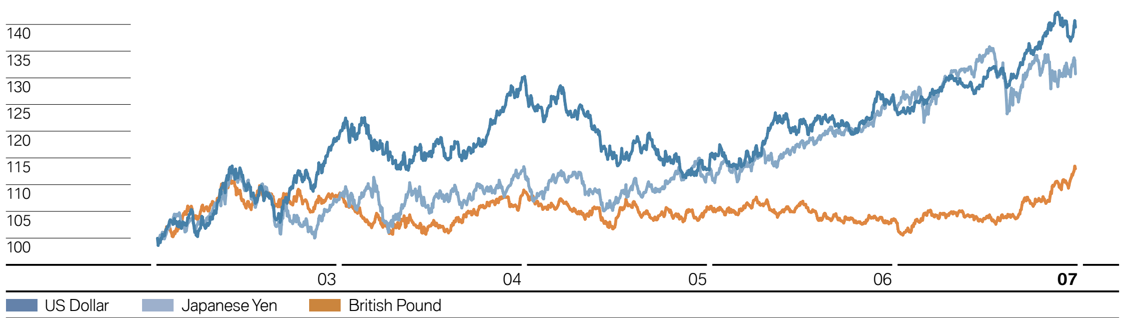
The number of cars sold in Western Europe was static with new vehicle registrations stagnating at around the 14.8 million mark. This was largely due to the sharp decrease in Germany, where car sales fell by more than 9% to below 3.2 million units.

Steel price trend
(Index: January 2003 = 100)



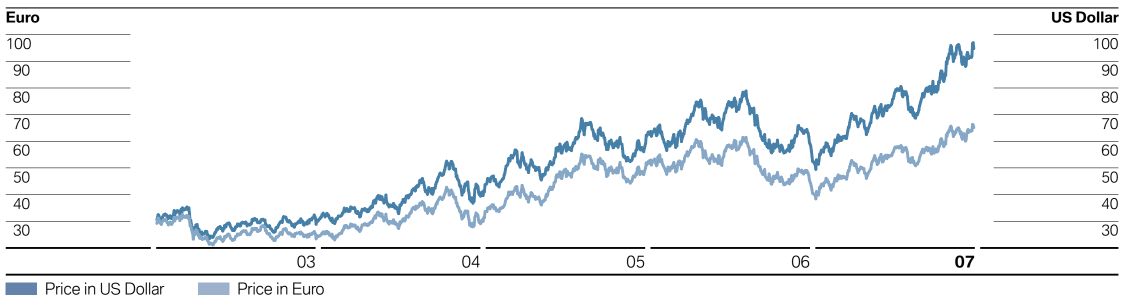
Source: German Federal Statistical Agency

Exchange rates compared to the Euro
(Index: 31 December 2002 = 100)



Source: Reuters

Oil price
Price per barrel of Brent Crude



Source: Reuters

The value-added tax increase, high fuel prices and the climate change debate all made themselves felt. Most of the other major European countries did, however, experience some growth, with new registrations up by almost 7 % in Italy, by 2.5 % in the United Kingdom and by more than 3 % in France. By contrast, the Spanish market contracted slightly by just over 1 %.

Eastern Europe registered strong growth for the first time in years. This was mainly due to a sharp increase in new car sales in Poland, where the number of new registrations rose by almost a quarter despite the continued high volume of used car imports. Russia again saw double-digit growth, with passenger car sales up by more than a quarter.

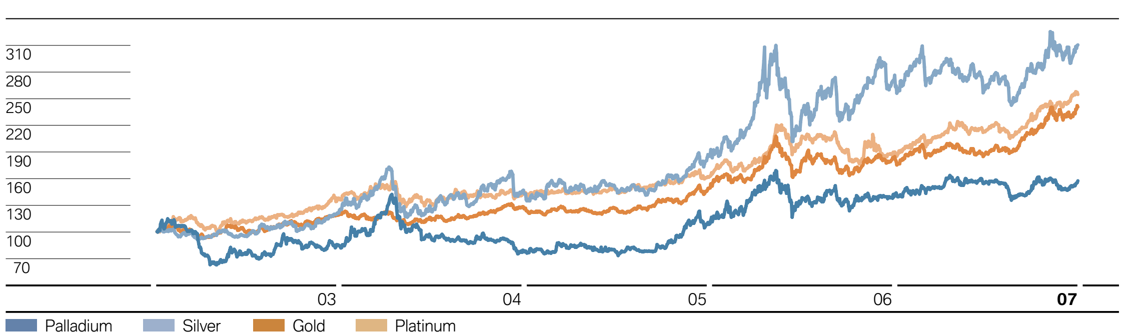
Unit sales again rose steeply in the emerging markets of Asia. The Chinese market grew at the fastest rate (26 %), while India recorded a growth rate of 15 %. The South Korean market grew by 7 %. By contrast, the Japanese car market failed once again to benefit from the general improvement in the economy and contracted by approximately 5 %.

The Latin American automobile markets again generated strong growth in 2007, with the Brazilian and Argentinian markets each growing by approximately 25 %. By contrast, the Mexican market contracted slightly.

Motorcycle markets in 2007

As in previous years, the motorcycle markets relevant for the BMW Group again developed divergently in 2007. Worldwide motorcycles sales in the 500 cc plus segment were 0.2 % down on the previous year. The drop was particularly pronounced in the USA where 4.1 % fewer motorcycles were sold. By contrast, the motorcycle markets relevant for the BMW Group grew by 3.0 % in Europe, although developments varied from one country to the next. Whereas the markets contracted in Germany (– 0.6 %) and Italy (– 4.9 %), there was growth in France (+ 0.4 %), Spain (+ 13.0 %) and the United Kingdom (+ 8.3 %). Motorcycle sales in Japan were down by 2.0 %.

Precious metals price trend
(Index: 31 December 2002 = 100)



Source: Reuters

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Business environment for financial services in 2007

As in the previous year, the financial services business during the first half of 2007 was influenced by high interest rate levels on the money and capital markets. The European Central Bank (ECB) continued to pursue the tighter monetary policies initiated in 2006, increasing the reference interest rate over the course of the year by a further 50 basis points to 4.00 %. By the middle of the year, the Bank of England (BoE) had also raised its reference interest rate by a further 75 basis points to 5.75 %, whereas the US Federal Reserve (Fed) kept its rate at the same level.

The second half of 2007 saw the onset of the subprime crisis on the US mortgage market and a resulting confidence crisis on the financial markets. The BMW Group has not been left unaffected by these developments. While the ECB decided not to change the reference interest rate, the BoE reduced its rate by 25 basis points. The Fed even reduced its rate by a total of 100 basis points. Despite these moves, refinancing conditions deteriorated significantly as credit spreads widened sharply across all sectors, thereby putting strain on the earnings of the financial services sector worldwide.

Competition on the market for automobile-related financial services increased in intensity. The trend is likely to continue due to products being offered by banks (private customer business) and other manufacturer-related financial service providers. The trend towards leasing-related products remains unchanged. These are being supplemented increasingly by other products such as insurance policies.

BMW Group remains best-selling premium manufacturer

The BMW Group registered new sales volume records in 2007 for all three brands. In total, 1,500,678 BMW, MINI and Rolls-Royce brand cars were sold during 2007, an increase of 9.2% compared to the previous year.

The number of BMW brand cars sold rose by 7.7% to 1,276,793 units. The MINI achieved a particularly encouraging increase. This brand recorded an 18.5% rise, with 222,875 units handed over to customers. The Rolls-Royce brand also reported strong volume growth (+25.5%) in 2007. With 1,010 units sold, it was able to surpass the 1,000 mark for the first time.

Sales volume increases on nearly all markets

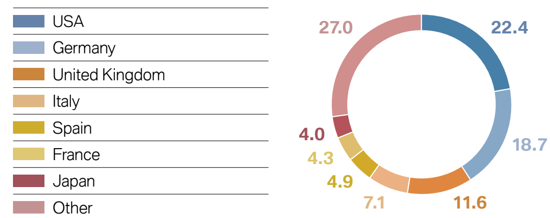
The car sales volume increase recorded by the BMW Group in 2007 was spread over practically all markets. Particularly high growth rates were achieved in the emerging markets of South America and Asia, notably China.

In North America, retail sales increased by 7.9% to 363,966 units. In total, 336,225 vehicles were sold in the USA, the BMW Group's largest single market, 7.1% more than in the previous year.

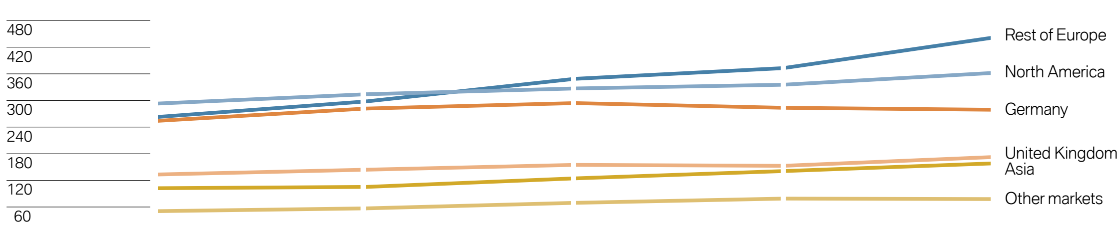
In Europe, the number of cars sold in 2007 increased by 10.0% to 898,339 units. Whereas the German market as a whole contracted by 9%, the number of cars delivered by the BMW Group fell by only 1.5% to 280,938 units. The BMW Group sold 173,818 units in the United Kingdom, up 12.8% compared to the previous year. In Italy, the 100,000 mark was surpassed for the first time. The sales volume there rose by 10.9% with 106,992 units sold. In Spain, the sales volume climbed by 15.6% to 72,853 units. The increase in France (+23.1%) was particularly sharp with a sales volume of 65,093 units. Sales also grew strongly in Poland (3,543 units/+65.0%) and in Russia (14,712 units/+54.5%).

A sales volume increase of 12.2% was recorded in Asia. In total, 159,508 vehicles were handed over to customers in this region. Strong growth was again recorded on the Chinese markets (China, Hong Kong, Taiwan), with 61,195 units sold (+36.7%). The 2.6% decrease in sales volume in Japan (60,488 units) should be seen in the light of the 5% contraction of the market as a whole. In India, where the BMW Group operates its own assembly plant since March 2007, sales were up five-fold to 1,398 units (+429.5%).

BMW Group – key automobile markets 2007
as a percentage of sales volume



BMW Group Deliveries of automobiles by region and market
in 1,000 units



	03	04	05	06	07
Rest of Europe	264.6	299.7	350.8	375.0	443.6
North America	294.9	315.9	329.0	337.4	364.0
Germany	255.8	283.6	295.9	285.3	280.9
United Kingdom	134.5	145.3	156.2	154.1	173.8
Asia	103.5	106.4	125.7	142.2	159.5
Other markets	51.6	57.9	70.4	80.0	78.9

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

BMW remains the most successful premium car brand in the world

In total, 1,276,793 BMW brand cars were sold in 2007, 7.7 % more than in the previous year, thereby creating a new retail sales volume record. No other premium automobile brand was selected by so many customers in 2007.

165,803 units of the BMW 1 Series (+ 9.1 %) were sold. This increase was driven in particular by the introduction of the three-door version in May 2007. Additional impetus came from the new BMW 1 Series Coupé towards the end of the year. The BMW 1 Series Convertible available from spring 2008 will further add to the appeal of this model series.

The BMW 3 Series with its Sedan, Touring, Coupé and Convertible versions was once again the best-selling BMW model series (43.5 %) and was also well ahead of its nearest competitors. Altogether, 555,219 units of this model series were sold, 9.2 % more than the previous year's figure. This includes 310,194 units of the BMW 3 Series Sedan (– 7.7 %) and 102,399 of the BMW 3 Series Touring model (– 2.9 %). Sales of the BMW 3 Series Coupé continued to make good progress in 2007, its first year of full availability. 89,572 units of the BMW 3 Series Coupé were handed over to customers, representing a 117.5 % increase over the previous year. The BMW 3 Series Convertible, available on the markets since March 2007, also enjoyed a similarly good performance with sales up by 109.9 % to 52,970 units.

The revised BMW 5 Series has been available since the end of March 2007. In total, 230,845 units were sold in 2007, slightly fewer (– 0.6 %) than the previous year's high level. Sales of the BMW 5 Series Sedan, at 181,534 units, were down 0.6 % on the previous year and the figure for the BMW 5 Series Touring was down by 0.7 % to 49,311 units.

Due to the fact that the revised BMW 6 Series did not become available until September 2007, the sales volume fell to 19,626 units (– 10.6 %) for model life-cycle reasons. This figure comprised 9,967 BMW 6 Series Coupés (– 16.5 %) and 9,659 BMW 6 Series Convertibles (– 3.5 %).

Now nearing the end of its product life-cycle, the sales performance of the BMW 7 Series was in line with expectations. In total, 44,421 units (– 11.6 %) of the BMW 7 Series were handed over to customers in 2007.

In its fourth year since market launch, sales of the BMW X3 Sports Activity Vehicle remained at a high level of 111,879 units (– 1.9 %).

The new BMW X5, on the North American markets since November 2006, has also been available in Europe and Asia since March 2007. Sales of the BMW X5 grew sharply in 2007 with a total of 120,617 units (+ 60.1 %) handed over to customers.

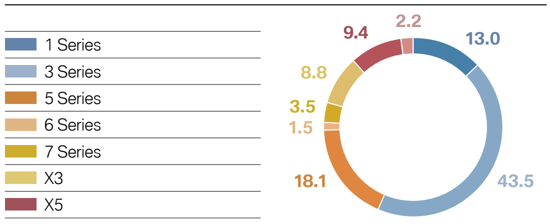
Now in its sixth year since market introduction, the BMW Z4 could not match the sales volume figure achieved in 2006. 28,383 units of the BMW Z4 were sold, down 8.4 % against the previous year.

Proportion of diesel-powered cars continues to rise

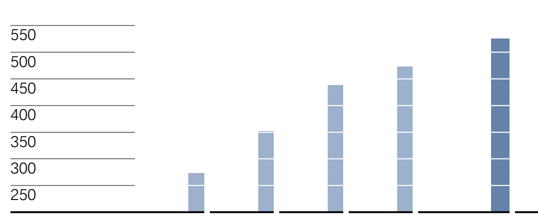
The BMW brand was the most successful supplier of diesel vehicles in the premium segment in 2007. In many European countries, the proportion of diesel-powered cars is significantly higher than the equivalent petrol-powered versions. The highest proportion (93 %) of BMW brand diesel vehicles was recorded in Portugal. Similarly high proportions were also recorded in France and Italy (both 89 %) and Belgium (including Luxembourg), where the proportion was 88 %. In Germany, the proportion of diesel-powered BMW brand cars rose by four percentage points in 2007 to 63 %.

Diesel-powered BMW brand cars will also be sold in the USA in future. This was confirmed by the BMW Group during the North American International

BMW brand cars in 2007 – analysis by series
as a percentage of total BMW brand sales volume



Deliveries of BMW diesel automobiles
in 1,000 units and as a percentage of total volume



	03	04	05	06	07
units	273.7	352.5	438.3	472.7	525.9
as a percentage of total volume	29	34	39	40	41

Auto Show in Detroit in January 2008. From autumn 2008 onwards, the BMW X5 and the BMW 335d, both powered by 3.0-litre in-line six-cylinder diesel engines will be available on the American market.

MINI models performing successfully

The new MINI has been available to customers since November 2006 and created significant momentum in 2007. Sales of MINI brand cars were up by 18.5% compared to the previous year, reaching a new retail sales volume record figure of 222,875 units. The new MINI Clubman was launched in November in the Cooper and Cooper S variants and has already achieved a sales volume of almost 5,000 units.

The high-value model mix of the MINI brand was raised even further in 2007. More than one half of customers (55.9%) opted for the MINI Cooper. The MINI Cooper S and the MINI One accounted for 29.9% and 14.2% respectively of the sales volume.

Rolls-Royce registers growth for the fourth time in succession

The Rolls-Royce brand was again market leader in its segment during the past year. With 1,010 vehicles handed over to customers, it posted a new sales volume record (+25.5%). The new Rolls-Royce Phantom Drophead Coupé also made a good contribution towards this performance. Since its sales launch in summer 2007 it has been purchased by 253 customers.

Preparations for the Coupé version announced in September 2007 are running according to plan. The first Phantom Coupés will be handed over to customers in the second half of 2008.

Car production volume at all-time high level

The BMW Group also increased its production volume figure, recording new high levels for all three brands. In total, 1,541,503 BMW, MINI and Rolls-Royce brand cars left the BMW Group plants in 2007 (+12.8%).

1,302,774 BMW brand cars were manufactured, 10.5% more than in the previous year. In addition, 237,700 MINI brand cars were manufactured in the MINI Production Triangle in the United Kingdom in 2007, representing a 27.3% production volume increase. 1,029 Rolls-Royce Phantoms were manufactured at Goodwood, England, during the year (+21.5%), including 300 Drophead Coupés.

Production network demonstrates high level of efficiency

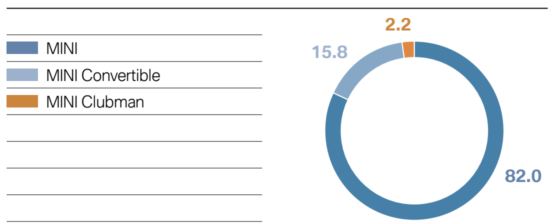
The BMW Group's production network again demonstrated its capabilities in 2007 by handling a total of 16 model start-ups (eight new and eight model revisions) and 13 start-ups for engines.

Productivity of the BMW Group's production network improved by well over 10% in 2007. One major contributing factor to this was the consistent ability to focus efforts on generating added value throughout the whole of the production process.

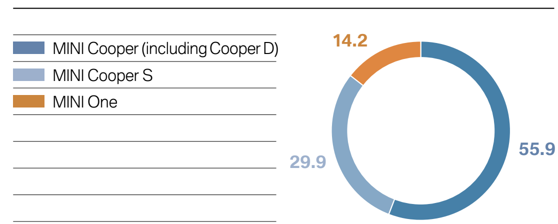
The BMW Group continued to expand its production network in 2007. A new assembly plant for BMW 3 Series and 5 Series production was officially opened in March 2007 in Chennai, India. This is part of the "production follows the market" strategy, creating opportunities to engage in markets with long-term growth potential. The first BMW 3 Series vehicle rolled off the assembly line in Chennai in February 2007 and production of BMW 5 Series vehicles commenced in May.

205,044 units of the BMW 3 Series Sedan and the BMW 3 Series Touring were produced at the BMW plant Munich in 2007. In October, the new visitors' walkway through the Munich plant – the so-called "production mile" – was commissioned to coincide with the opening of the BMW Welt. Visitors are able to obtain an insight into the production of

MINI brand cars in 2007 – analysis by model variant
as a percentage of total MINI brand sales volume



MINI brand cars in 2007 – analysis by engine variant
as a percentage of total MINI brand sales volume



10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

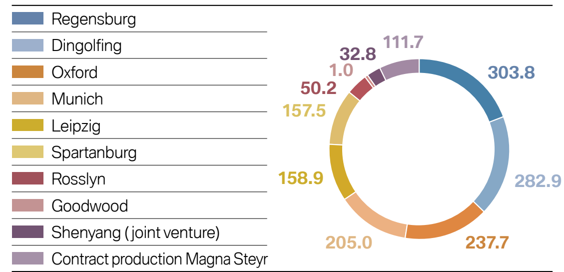
BMW cars during a two-hour visit. Since it opened, some 20 tours (with up to 30 visitors) take place each day. The production mile, which starts and finishes in the BMW Welt, runs through the pressing plant, chassis construction, paint shop, engine construction and assembly areas. This will enable up to 150,000 guests to visit the BMW plant in Munich each year.

The BMW plant Dingolfing celebrated its 40th anniversary in March 2007. More than seven million BMW brand cars have rolled off the production lines since it opened. In 2007, a total of 282,867 vehicles left the plant. In addition to the model revisions of the BMW 5 Series Sedan, the BMW 5 Series Touring and the two M5 models in March, the revised BMW 6 Series rolled off the production lines for the first time in September. Construction work began in mid-November on a new building in which, from 2009 onwards, a completely new method of pressing components will be introduced, namely hot forming. Compared to conventional techniques, hot forming increases the stability of components by a factor of two to three. Depending on the specifications for their intended functions, components can be made thinner and therefore lighter.

The BMW plant Landshut has also been operating as a BMW production site for 40 years, supplying innovative vehicle components to the production network. In January, a new highly automated production line was commissioned to produce the lightweight roof for the new BMW M3. The BMW Group is thus setting new standards in the industrialised production of vehicle components made of carbon reinforced plastic (CRP). Following completion of the second construction phase, the new replacement engine production facilities in Landshut were commissioned in May 2007. The new structures are enabling the process chain to be optimised further by eliminating activities which do not add value and by reducing set-up and throughput times. A new building for the production of car interior components for future models also went into operation towards the end of 2007.

The new Vocational and Further Training Centre at the BMW Landshut plant also took up activities in July 2007. Approximately 100 apprentices and their trainers at the plant now have access to a modern training workshop with additional space for teaching. The further training and adult education facilities comprise four training and seminar rooms. The new centre will ensure the long-term supply of suitably trained high-quality staff for the Landshut plant.

Automobile production of the BMW Group by plant in 2007
in 1,000 units



Three new start-ups were implemented at the BMW plant Regensburg in 2007, namely the model revision of the BMW 1 Series five-door version in March, the new M3 Coupé in June and the new M3 Sedan in December. In total, 303,766 BMW cars were manufactured at the site in the course of 2007. In August, the BMW plant Regensburg was presented the J.D. Power Plant Award for the best plant in Europe. In December, construction commenced on the extension of the pressing plant which will have 80% more capacity and will start operations at the end of 2009. This will increase the Group's own share of value-added to the vehicle and at the same time reduce logistics costs.

In total, 158,974 vehicles were produced at the BMW plant Leipzig in 2007. Following the production start-ups for the new BMW 1 Series models (three-door version, Coupé and Convertible), several model variants are now being manufactured at the Leipzig plant. Rapid and flexible processes have made it possible to achieve the planned daily production volume after only three months. In September, the decision was taken to expand the BMW plant Leipzig by the end of 2009 with a planned capital expenditure volume of approximately euro 100 million. Over the coming two years, a pressing plant and component manufacturing facilities for door, bonnet and boot panels will be built at the BMW site.

816,900 engines were built at the BMW Group's largest engine plant in Steyr, Austria, in 2007, two thirds (67%) of which were diesel engines. Since starting operations 25 years ago, more than ten million BMW engines have left the plant. January saw the start of production of the fourth generation of four-cylinder diesel engines, an important element in the overall package of measures labelled EfficientDynamics.

In February, the BMW Group announced that it would be investing euro 14 million to expand its diesel development centre in Steyr. The focus will be on increasing capacities in the area of vehicle measurement technology and function testing.

The Hams Hall engine plant is the only site within the production network that produces engines for both the BMW and MINI brands. In total, 367,000 engines left the plant in 2007, of which 172,600 units were intended for MINI vehicles and 194,400 units for BMW vehicles. In mid-April, the one-millionth engine came off the production lines since the Hams Hall plant was commissioned.

The first new-generation BMW four-cylinder petrol engine left the plant in January. It incorporates High Precision Injection technology and boasts significantly lower fuel consumption and CO_2 emission values.

The BMW plant Rosslyn in South Africa manufactures only BMW 3 Series Sedans. In 2007, a total of 50,168 vehicles left the plant. As part of the ongoing process of optimising logistics workflows, a nearby supplier was linked directly to the Rosslyn plant in 2007. This results in shorter and faster transport routes and reduces logistics costs. As further advantages, it is no longer necessary to use the public road system and environmental pollution is reduced.

In total, 157,530 units of the BMW X5 and Z4 Series left the BMW plant Spartanburg, USA, in 2007. As part of its strategic realignment, the BMW Group has announced that annual production capacity at the Spartanburg plant will be increased in the medium term to 240,000 units. It is planned that the X6 and a possible successor to the X3 will be built there alongside the BMW X5 and Z4. In February 2007 the US Environmental Protection Agency designated the BMW plant Spartanburg as "Energy Partner of the Year". The award was given in recognition of the fact that the Spartanburg plant had converted its energy supply for the paint shop to run on methane gas collected from a local waste disposal site, thereby avoiding some 59,000 tons of CO_2 emissions per annum.

The plant in Shenyang, North China, is operated by the distribution and production joint venture BMW Brilliance Automotive Ltd. In total, 32,760 units of the BMW 3 Series and 5 Series were produced there in 2007, including 21,192 units of the extended version of the BMW 5 Series Sedan. This model is only manufactured at the Shenyang plant and is intended exclusively for the Chinese market.

BMW cooperation partner Magna Steyr Fahrzeugtechnik, based in Graz, Austria, manufactured 111,665 units of the BMW X3 for the BMW Group in 2007. The decision to have the MINI brand Sports Activity Vehicle manufactured by Magna Steyr was taken in December.

One millionth MINI produced

Six years after going into production, the one-millionth MINI rolled off the production line at the Oxford plant at the beginning of April 2007. This specially equipped and uniquely painted MINI was added to the BMW Group Mobile Tradition collection.

In September, series production of the third model variant, the MINI Clubman, began at the MINI Production Triangle, comprising the Hams Hall, Oxford and Swindon plants. The BMW Group announced that annual production capacity at the Oxford plant will be increased in the medium term to 260,000 units without additional capital expenditure.

Successful production start for the Rolls-Royce Phantom Drophead Coupé

For the first time, more than 1,000 Rolls-Royce vehicles were manufactured in a single year at Goodwood, England. The first Rolls-Royce Drophead Coupé left the factory in June 2007.

In October 2007, Rolls-Royce Motor Cars announced that it would be increasing production capacity at the Goodwood plant. This step was necessary as a result of the decision to develop a further model in addition to the Phantom family and in the light of the high demand for existing models.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Motorcycles segment sets new sales volume record

With 102,467 BMW motorcycles sold in 2007, the BMW Group registered a new sales volume record, surpassing the previous year's figure by 2.4 %. An important contribution to this development was made by the new models of the G 650 X series which have been available on the markets since spring 2007.

BMW motorcycles sales develop divergently from country to country

The number of BMW motorcycles sold continued to develop divergently from one country to the next in 2007. The BMW Group sold 72,567 motorcycles in Europe, 1.7 % fewer than one year earlier. In Germany, sales of BMW motorcycles, at 21,507 units, were down by 8.9 % as the market continued to contract. By contrast, sales were up in Italy (14,424 units/+ 5.7 %) and Spain (10,384 units/+ 3.8 %).

In the USA, where the market also contracted, the number of BMW motorcycles sold fell by 5.7 % to 12,094 units.

Sales recorded in Japan, however, jumped by 25.2 % to 3,311 units, bolstered in particular by sales of the lighter models of the G 650 X series.

R 1200 GS remains the most popular BMW motorcycle

As in the previous year, the R 1200 GS (a long-distance enduro) was again the best-selling BMW motorcycle. Including the Adventure version, 30,077 units of this model were sold in 2007. The R 1200 RT touring bike came in second place with 12,201 units sold, followed by the F 650 GS, of which 10,461 units were sold (including the Dakar version).

Model initiative continued

The BMW Group's Motorcycles segment continued its model initiative in 2007. The K 1200 R Sport and the G 650 Xchallenge, G 650 Xmoto and G 650 Xcountry models were all introduced to the markets in spring 2007, followed by the HP2 Megamoto in June.

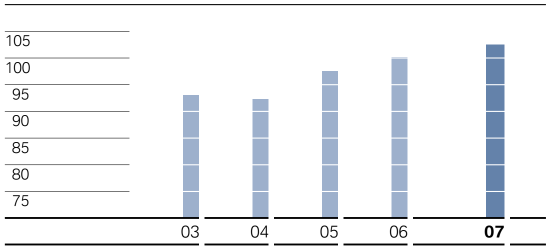
The new HP2 Sport was presented at the end of September at the motorcycle fair in Paris and will be available on the markets from March 2008 onwards. The HP2 Sport is the sportiest, most powerful, but also the lightest series Boxer to date and is designed primarily to attract ambitious, sports-minded motorcyclists.

Five new BMW motorcycles made their world debuts at the International Motorcycle Fair in Milan in November 2007. The R 1200 GS and R 1200 GS Adventure models have been available to customers since the end of January 2008. Both of these models have been enhanced and are now fitted with more powerful boxer engines, resulting in a 5 % better performance, and new gear ratios. These features result in a significant increase in both traction and acceleration.

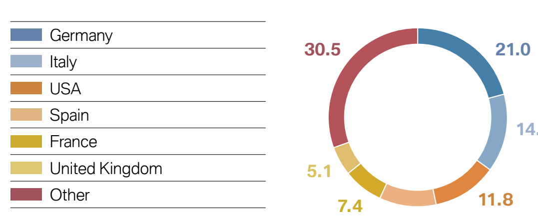
The new medium-class BMW F 800 GS long-distance enduro combines excellent off-road characteristics and above-average long-distance qualities. This motorcycle is powered by the two-cylinder engine from the F 800 Series. The related BMW F 650 GS model is another new addition. As an all-round variant for newcomers, this model is designed for easier control and mainly for use on roads and is also powered by the same two-cylinder engine with a somewhat lower performance capability. Both of these models will be available on the markets for the start of the 2008 season.

The BMW Group also presented the BMW G 450 X Sports Enduro as a fifth new product. This model, exclusively developed for enduro sports activities, will be launched in the second half of 2008.

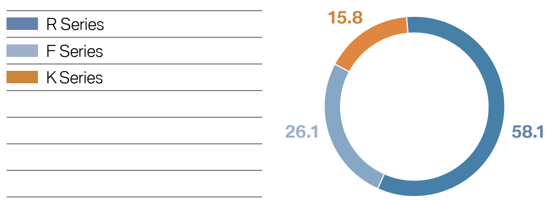
BMW motorcycles delivered
in 1,000 units



BMW Group – key motorcycle markets 2007
as a percentage of sales volume



BMW motorcycles in 2007 – analysis by series
as a percentage of sales volume



Motorcycle production volume at previous year's level

Motorcycle production volume in 2007, at 104,396 units, was 0.6 % above the previous year's level. 96,006 units were produced at the BMW plant Berlin and 8,390 units by the cooperation partner, Piaggio S.p.A. in Noale, Italy.

Four years after commencing production, the 100,000th R 1200 GS (including the Adventure version) left the BMW plant Berlin at the end of July 2007. Never before have so many units of one model been produced at the Berlin plant in such a short space of time.

Five new models came off the production line for the first time in 2007. Production of the BMW HP2 Megamoto commenced at the beginning of May. This was followed in October by the BMW R 1200 GS and the Adventure variant and in November by the BMW F 800 GS and the F 650 GS.

BMW Group acquires Husqvarna

The BMW Group completed the acquisition of the motorcycle manufacturer Husqvarna on 1 October. This company operates under the name Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno.*

The Husqvarna models are mainly intended for the competitive sports market. With this move, the BMW Group is therefore expanding its product range with a view to increasing its appeal to younger buyers and to covering the off-road and supermoto segments. The acquisition will also give the Motorcycles segment access to a worldwide sales network in the off-road segment.

*Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno, is not included in the consolidated financial statements for the financial year 2007.

Successful year for the Financial Services segment in 2007

The Financial Services business achieved further profitable growth in 2007 and again made an important contribution to the overall performance of the BMW Group. The total business volume as disclosed in the balance sheet increased by 16.5 % to euro 51,257 million. At the year-end, 2,629,949 lease and financing contracts were in place with dealers and retail customers, representing an increase of 15.8 % over the previous year. The proportion of new BMW Group vehicles leased or financed by the Financial Services segment was 44.7 %, 2.3 points above the percentage recorded in the previous year.

Regional presence expanded

The Financial Services segment continued its strategy of regional expansion by acquiring companies in Germany, Malaysia and Hong Kong, thereby opening up new opportunities for growth.

This was a further demonstration of the BMW Group's determination to broaden the international scope of its financial services business. The Financial Services segment now provides services to customers in more than 50 markets, either with its own companies and divisions or in the form of ventures based on cooperation agreements.

The BMW Group acquired DEKRA SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH) and that entity's subsidiaries at the beginning of April.

In mid-April, the BMW Group acquired Sime-Lease (Malaysia) Sdn Bhd and its subsidiary, Sime-Credit (Malaysia) Sdn Bhd. These entities are operating in the meantime as BMW Lease (Malaysia) Sdn Bhd and BMW Credit (Malaysia) Sdn Bhd. In October, the BMW Group acquired 51 % of the shares of CEC Finance Ltd. (renamed to: BMW Financial Services Hong Kong Limited), based in Hong Kong. These acquisitions in Malaysia and Hong Kong have opened up two further fast-growing markets in Asia.

The Financial Services segment set up a new company in Argentina in 2007. This entity offers financing and insurance products to retail customers and financing to dealers.

In addition, cooperation arrangements were put in place in the Czech Republic and Slovakia and organisational units created in Poland, Hungary and India during 2007.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Retail customer business remains strong
Finance and lease business with retail customers, the segment's largest line of business, was further expanded in 2007. New contracts were signed with retail customers to the value of euro 28,462 million, representing a 16.4 % increase over the previous year. The number of new contracts signed in a single year surpassed the one million mark for the first time and, at 1,086,493 contracts, exceeded the previous year's level by 18.6 %. Approximately 60 % of these contracts related to new vehicles manufactured by the BMW Group.

At 31 December 2007, leasing business accounted for 38.2 % of total new retail customer business, 0.8 percentage points above the proportion recorded one year earlier. Lease business grew by 21.0 % and credit financing increased by 17.2 % compared to the previous year.

The number of new contracts signed for used cars rose in 2007 by 15.0 %. Approximately three-quarters of these were related to the credit financing of used BMW and MINI brand cars.

At 31 December 2007, 2,401,208 contracts were in place with retail customers, 15.6 % more than one year earlier. The growth was spread across all regions. The portfolio of retail customer business contracts was up by 16.8 % in Germany, by 13.9 % in the remaining European markets and by 16.2 % for the markets in the Asia/Oceania/Africa region. There was another sharp rise (+ 16.0 %) in the Americas region, which, with 790,808 contracts, also accounts for the largest proportion of contracts in the retail customer business.

Multi-brand financing accelerates growth
Business with multi-brand financing continued to make good progress in 2007. Operations were extended during the period to Malaysia and Hong Kong. This means that credit financing and lease contracts are now being offered under the name "Alphera" and "up2drive" in 25 markets, either via multiple-brand dealerships or directly by Group companies. The "up2drive" brand name was introduced successfully in the area of direct business in order to meet differing marketing needs. Business via dealers continues to be transacted under the name "Alphera". One advantage of this is that it takes account of the trend amongst dealers to look for financing solutions with a single business partner. At the same time, it also takes into account the growing practise, particularly amongst younger customers, of obtaining financing via the internet.

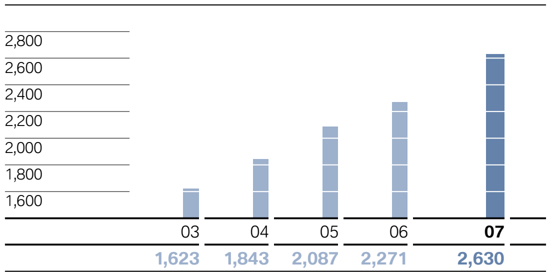
New business with multi-brand financing in 2007 was highly encouraging. In total, 124,556 new contracts were signed, more than doubling the number achieved in the previous year. The largest proportion of new contracts related to the Americas region.

Continuous growth in the area of dealer financing
The Financial Services segment supports the BMW Group dealer organisation with a comprehensive range of products. In addition to the financing of vehicle inventories held by dealerships, these activities also include real estate and equipment financing.

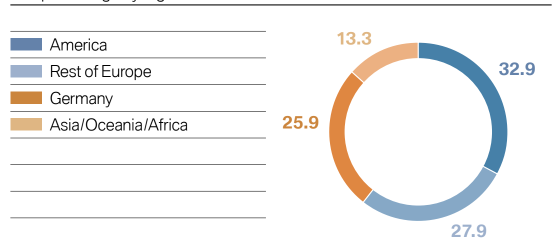
By the end of the period under report, dealer financing had attained a total business volume of euro 8,364 million, corresponding to a growth rate of 15.4 %. 228,741 dealer financing contracts were in place at 31 December 2007.

As in the previous year, organic growth generated within the multi-brand line of business and geographical expansion both contributed to this development.

Contract portfolio of BMW Group Financial Services
in 1,000 units



Contract portfolio retail customer financing of BMW Group Financial Services 2007
as a percentage by region



Fleet business activities attain new magnitude
The BMW Group operates internationally in the field of multi-brand fleet business via the Alphabet group of companies as a provider of financing, full-service leasing and fleet management services. Business volumes expanded rapidly in 2007 following the acquisition of DEKRA SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH) and as a result of continued organic growth. Alphabet has commenced operations in Mexico, thus establishing a foothold for the first time on the American continent. Operations have also been taken up in Denmark, which means that Alphabet is now represented throughout the whole of Scandinavia. The international customer base also grew significantly in the 15 countries where Alphabet operates. At the year-end, the contract portfolio covered 279,843 units, up by 55.6 % compared to the end of the previous year. Excluding the contracts taken over in conjunction with the acquisition of DEKRA SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH), the volume increased by 21.2 %. Thanks to organic growth and targeted acquisitions, a major provider of fleet business services has meanwhile emerged in Germany within the BMW Group stable. The BMW Group has also moved into a new magnitude in this dynamic business sector in international terms and is now one of the top ten fleet service providers in Europe.

Continued growth in the area of insurance business
In addition to credit financing and lease contracts, the Financial Services segment also operates as an agent for motor vehicle, residual liability and other vehicle-related insurance policies. These services are now being offered in more than 30 markets via cooperation arrangements entered into with local insurance companies. The segment continued its strategy of expanding insurance business with customers in international markets and entered into new cooperation agreements with partners in India, China, Greece, Hungary, Argentina and Portugal. The range of products on offer in existing markets was also expanded and new products launched on the markets in Italy and Spain.

These measures contributed to the fact that new insurance business grew by 12.2 % in 2007 with 395,039 insurance contracts signed. At the end of 2007, the Financial Services segment had a worldwide portfolio of 947,394 insurance contracts.

Deposit business influenced by increased competition
The intense level of competition in the area of deposit business remained evident in 2007. The segment's deposit volume worldwide at 31 December 2007 amounted to euro 5,732 million and therefore 0.8 % lower than the figure recorded one year earlier.

The main success factors for investment fund business were the exclusive certificates introduced in the previous year and the new fund-of-funds product concept "ComfortInvest". The unabated trend towards private old-age pension arrangements by making regular transfers to investment funds also had a positive impact. In order to meet the growing advisory needs of customers, the range of services on offer in Germany was expanded accordingly, including the opportunity for customers to obtain investment advice by telephone.

By the year-end, the number of customer deposit accounts had increased by 6.0 % to 31,801.

BMW and MINI Card activities increased worldwide in 2007. At the end of the year under report, the Financial Services segment serviced 393,741 credit card accounts, 15.9 % more than one year earlier. The BMW Card is available in eleven countries. The MINI Card is part of the product range offered in Germany, the USA, the United Kingdom and Japan.

Awards for service quality
The excellent cooperation between the Financial Services segment and the dealer organisation received recognition in 2007 with a number of awards won. The BMW Group was presented the J. D. Power and Associates "Dealer Satisfaction Award" in both the USA and Japan.

A strong, customer-friendly approach represents an important factor for the ongoing success of the BMW Financial Services segment in the area of retail customer business. This was documented in 2007 by the presentation of the J. D. Power and Associates "Customer Satisfaction Award" to BMW Group Financial Services in the USA.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Risk situation remains evenly balanced
During the financial year 2007, the credit risk for credit and lease financing activities remained, with the exception of the USA, at a similar level to that of 2006. There, the risk situation was negatively influenced by the credit crisis. Compared to the previous year, the bad debts ratio increased by 5 basis points to 0.46 %. The interest rate risk is managed using a risk-return approach. Diversified value-at-risk, as measured by the Financial Services segment to quantify the interest rate risk*, increased during the year from euro 34.9 million to euro 37.3 million.

*based on a 99 % confidence level and a holding period of ten days

Softlab changes name to Cirquent
The softlab Group offers consultancy and other services along the entire value-added chain, with its main focus on the banking, insurance, telecommunication and manufacturing sectors. In order to underline its strong position as an organisation offering first-class service under one single brand name, the softlab Group changed its name to Cirquent at the end of 2007.

Cirquent has continued to strengthen its market position over the past year. This is highlighted by the rise in revenues from euro 262 million in 2006 to euro 286 million in 2007. One of the cornerstones on which this growth has been built is the expansion consultancy business, including the Finance Transformation Unit, a new line of business which specialises in providing advisory services to finance departments of corporate enterprises.

In addition to sector-specific consultancy services, Cirquent also offers customer management, finance transformation, IT management, SAP consulting and application management services.

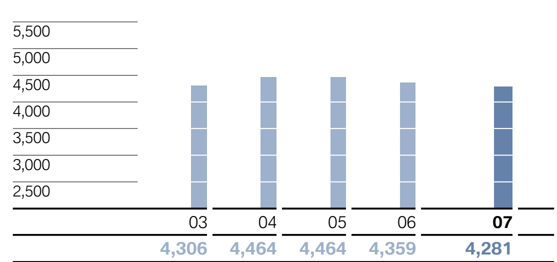
Workforce virtually unchanged
The BMW Group's workforce increased slightly (+0.9 %) during the financial year 2007 to stand at 107,539 employees at 31 December 2007. This was largely attributable to acquisitions made by the BMW Group in the financial services sector. Approximately 75 % of the Group workforce is employed in Germany, where the number of employees edged up by 232 in 2007.

The employee fluctuation ratio at the BMW Group has been at a low level for many years in comparison with other automobile manufacturers and with companies operating in other sectors. The BMW Group continues to recruit employees on a targeted basis in order to compensate for fluctuation. In addition to more than 1,200 new apprentices taken on, a total of 886 permanent jobs were advertised and filled externally by BMW AG.

High number of apprenticeships
1,214 young people commenced apprenticeships with the BMW Group at the start of the new training year. A total of 4,281 apprentices were undergoing their training with the BMW Group at the end of 2007, 1.8 % fewer than at the end of the previous year. This small decrease came about despite the steady number of apprentices recruited and reflects the fact that some apprentices were able to complete their vocational training early as a result of their above-average performance. These vacated positions cannot be replaced, however, until the next round of recruitment. This is also the reason why the apprentice ratio in Germany (i.e. the ratio of apprentices to the total workforce) fell by 0.1 percentage points in 2007 to a level of 4.8 %.

Starter programmes for high school leavers and university graduates are also in place to complement the range of opportunities available to those about

BMW Group apprentices at 31 December



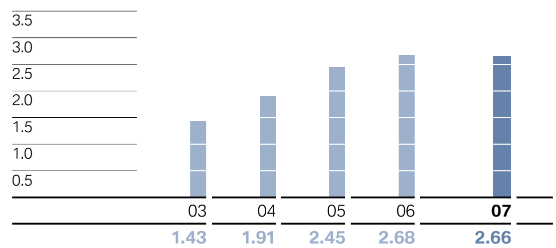
to begin their careers. This includes the "Fastlane" programme (a programme to help university and works students that have previously excelled on work experience with the BMW Group) and the "Drive" programme (a starter and development programme for university graduates with up to three years' professional experience).

Further training tailored to requirements
As a premium provider, the BMW Group attaches great importance to both the basic and the further training of its workforce. Further training is always tailored to suit requirements and carried out with specific objectives in mind. Further training activities in 2007 were therefore focused on specific priority topics and selected target groups. In 2007, the BMW Group invested a total of euro 181 million on basic and further training courses for its employees, 1.6 % less than in 2006.

Internationalisation supported by placements abroad
The international transfer of knowledge and networking at all levels are crucial factors for globally operating businesses such as the BMW Group. For example, key specialists are moved around between the various production sites as start-ups commence for new models, thus ensuring the same high quality each time.

In 2007, more than 750 BMW AG employees were deployed at foreign locations. The main target countries were again the Group's business locations in markets currently experiencing dynamic growth, in particular North America, the United Kingdom and Asia. Furthermore, approximately 175 employees from non-German locations were working in Germany or at other international locations away from their home countries. In the case of longer-term

Employee fluctuation ratio BMW AG*
as a percentage of workforce



* Number of employees on unlimited employment contracts leaving the company

placements, employees remain abroad for an average period of three years. This is a sufficient length of time for them to pass on process and technical know-how, receive further training while abroad and, at the same time, gain international experience which will stand them in good stead during the course of their subsequent careers. Apart from over 900 employees who have worked abroad for longer periods, more than 500 people were also called up for short-term international duty.

The BMW Group remains a highly attractive employer
Numerous studies and ranking lists in 2007 confirmed the BMW Group's reputation as an attractive company to work for. In the study "Germany's Most Popular Employers" (Trendence), young academics from both the business and engineering fields chose the BMW Group as the most popular employer for the sixth year running. As documented in the study "The Ideal Employer 2007" (Universum), engineers and business management graduate career beginners judge the BMW Group to be one of the most attractive employers. The BMW Group's excellent reputation as an employer helps greatly towards

BMW Group employees	31.12.2007	31.12.2006	Change in %
Automobiles	98,548	98,505	–
Motorcycles	2,989	2,782	7.4
Financial Services	4,097	3,478	17.8
Other	1,905	1,810	5.2
thereof consultancy/software	1,793	1,743	2.9
BMW Group	**107,539**	**106,575**	**0.9**
adjusted*	107,539	107,345	0.2

* Figure for end of previous year including acquired entities

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

attracting well-qualified newcomers to join the company. This special appeal as an employer is not restricted to the external perception of the company; it is also reflected in the outcome of the most recent employee survey carried out in 2007. Almost 90 % of employees stated that they were either satisfied or very satisfied with their working situation at the BMW Group. This means that employee satisfaction and identification with the company have remained at a consistently high level since 2002. This employee survey is carried out regularly on a worldwide basis every two years. It is a useful instrument for management, providing the basis for a continuous improvement process within the company.

Joint agreement for BMW AG's blue-collar and white-collar staff implemented

The new Remuneration Framework Agreement (Entgelt-Rahmen-Abkommen – ERA) came into force at BMW AG on 1 June 2007. Parallel to the introduction of ERA, a wide-ranging concept for improving company competitiveness was drawn up in cooperation with employee representatives. This new concept includes plans to provide financing for pre-retirement part-time working agreements even after the current legal requirement for such arrangements has expired. This ensures that employees will also be able to retire before reaching the statutory retirement age. BMW AG is the first company to put a model in place to follow the statutory regulations.

"Today for Tomorrow" project – seeing demographic change as an opportunity

The ageing of populations of many industrialised nations can no longer be avoided. This is having an impact on the economy as a whole as well as on each individual company.

In a few years' time, the BMW Group workforce will also be considerably older on average than it is at present. The ever-rising requirement for greater performance will have to be fulfilled by an on-average older workforce in future. Older employees also have quite specific advantages. They have a wealth of experience and are able to pass on their knowledge of the organisation and cultural values. The more decisive a company is in encouraging its employees to achieve and be engaged, the more successful it will be. The BMW Group is already taking appropriate action in anticipation of these future developments. The necessary overall framework and specific instruments are being developed in conjunction with the "Today for Tomorrow" project, which takes a comprehensive approach.

The BMW Group has defined five principal areas of action:

Health management and prophylaxis

Within the action area "health management", a prophylactic programme has been developed to encourage employees to adopt a responsible attitude towards their own health. A new concept has been devised for corporate health forums which are not confined to specific corporate locations. These forums will have an important part to play in the future. Any knowledge gained there will be used to identify areas where action needs to be taken. They will also be the basis for measures (such as weight loss programmes) that may need to be aimed at specific target groups. It should then be possible to monitor the long-term efficacy of any measures taken. So far, some 28,000 employees have participated in the company's health forums.

Information about healthy living is being offered both in seminars and in the health forum. The "Fit for Job" seminar is aimed at all employees, while the "Fit for Leadership" seminar is specifically tailored to the needs of managers. Both seminars show participants how they can pay more attention to healthy nutrition, physical fitness and mental equilibrium in their daily lives.

Another outcome is the newly designed rehabilitation network which has already supported over 800 employees with a shortened, effective rehabilitation programme.

Working environment

The action area "working environment" is mainly concerned with creating age-compatible working conditions in technical and organisational terms – with particular regard to workplaces, working hours and job structures. All of these factors can contribute enormously to maintaining and extending the working capacity of employees in the long term. A further objective is to improve the employment opportunities for personnel with health-related limitations.

A concept for systematic rotation is currently being drawn up for use in the production area with the aim of reducing repetitive physical strain and thus preserving employees' physical and mental flexibility.

Qualification and expertise

In the future, traditional training methods will be enhanced and to some extent replaced by "hands-on" learning. In the action area "qualification", studies are being carried out to identify how learning can best be promoted, both at the workplace and for specific functions. Based on the results of these studies, it should be possible to determine the most suitable (direct or indirect) methods of learning. These findings are also taken into account in the company's training concepts for employee and management staff development.

One of the functions of qualitative personnel planning is to examine how skills and expertise are likely to develop within the company. By analysing the requirements that result from a changed age structure of its workforce, the company will find clues as to when and what type of know-how it will require in the future as well as (and how and when) that know-how will disappear as employees leave the company.

Individual life-time working models

In spite of improvements in preventative care, some employees may not be able, or may not wish, to continue working until they reach the statutory retirement age. The BMW Group has, together with employee representatives, devised new retirement models which best suit the needs of those concerned.

These models are intended to fit in with each employee's future plans and with the company's requirements. The financial basis for these models is being set aside.

In order to give employees the opportunity to supplement any self-financed pension plan, an attractive deferred remuneration retirement scheme has been available to the workforce for several years now, allowing part of an employee's remuneration to be converted into pension provision.

Communication

Appropriate communication measures help to keep managers and employees aware of changes taking place in society and within the company. One example of this is the electronic portal "My Future Provision" which employees can access on the BMW Group Intranet. It is the first communication platform to be created specifically aimed at increasing employees' awareness of their responsibility to make personal provision for the future. It contains a wealth of information and some specific aids relating to training, health, working environment and personal provision. The BMW Group's internal media are regularly updated on different aspects of saving for the future and highlighting possible areas for action. This information is wholly aimed at encouraging employees to take a pro-active approach to making provision for their own future.

Competitive level of personnel expense

Within an intensely competitive environment, the management of personnel expense becomes increasingly significant. A competitive level of personnel expense contributes enormously to the success of the BMW Group. This is primarily concerned with bringing the idea of performance into the forefront rather than just a one-sided cost-oriented approach. The high degree of motivation amongst employees and the positive approach taken to the workforce are maintained by a combination of rewards determined individually on the basis of performance and success and with the aid of flexible working time models. Remuneration, working time arrangements and other benefits are reviewed and modified regularly and in close cooperation with employee representatives.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Design for recycling – EU directive on end-of-life vehicles

In 2007, the BMW Group pushed ahead with its strategy of designing vehicles with subsequent recycling in mind. One of the areas of focus during the year was the development of a recycling concept for hybrid vehicles.

Over the last few years, a network of recovery centres for end-of-life vehicles has been set up throughout the European Union. Since 1 January 2007, customers in the EU have been able to return their BMW, MINI or Rolls-Royce vehicles to these recovery centres to be recycled free of charge. During 2007, the BMW Group increased the number of end-of-life vehicle recovery centres by 7.8%.

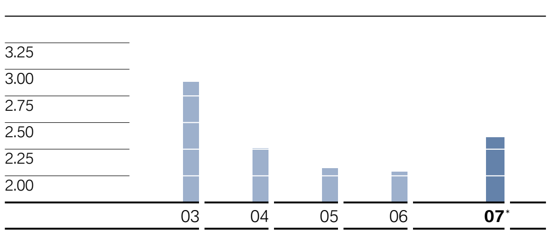
In order to meet the mandatory requirements resulting from the EU End-of-life Vehicles Directive, both in ecological and commercial terms, plans are underway to increase the use of so-called "Post Shredder Technology" (PST) in the future. After completion of the vehicle shredder process, shredder residue fractions are sorted and sifted into their various constituent materials such as metals, plastics and minerals, in preparation for further processing. On the basis of a large-scale trial performed in 2007 with approximately 500 vehicles from the current model range, the BMW Group was able to demonstrate that, with the aid of PST, it meets the mandatory requirements relating to the recycling of end-of-life vehicles.

The EU End-of-life Vehicles Directive also requires that recycled materials are used in new vehicles. This involves recycling waste materials from production processes or those won from end-of-life parts. In 2007, experts at the BMW Group succeeded in extending the use of recycled materials to other components, such as the mountings for bumpers and soundproofing covers for diesel engines. The use of recycled materials in individual models was also extended to other model series. For example, the wheel arch liners produced from recycled bumper fascia previously used in the BMW 1 Series and BMW 3 Series are also being used in the X5 from 2007 onwards.

Group-wide environmental protection measures set standards

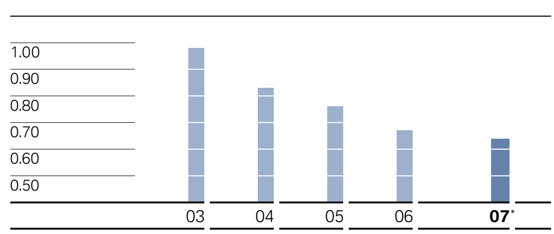
The BMW Group's "Clean Production" philosophy is based on the idea of preventative environmental protection. Certified environmental management systems throughout the BMW Group have been in place since 1996. These systems serve as the basis for coordinating and optimising the Group's environment protection activities and hence the careful consumption of resources. The certification audit of the production function, in accordance with DIN EN ISO 9001 and DIN EN ISO 14001, was successfully concluded in December 2007, once again confirming the high standards prevailing at all locations in the field of quality and environmental protection. Specialist external auditors (the German TÜV organisation) once again confirmed a very high standard in terms of quality and environmental performance, highlighting several processes as exemplary. A new objectives-based process was introduced for production in 2007, making it easier to measure and manage the effective use of resources. Performance indicators relevant to environmental protection, such as energy consumption and waste levels at the BMW Group production sites, are measured and reported on a monthly basis and a so-called "environment efficiency ratio" is calculated. The aim is to improve the efficiency ratio by 5% a year. The new "eco-facts" IT system was implemented in mid-2007. This system collates data for some 150 environmentally relevant performance indicators and is therefore an extremely useful tool for managing environmental protection activities. The introduction of "eco-facts" meant that

Volatile organic compounds (VOC) per unit produced
in kg/unit



* Basis for data expanded in 2007 from ten to 17 locations: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford and, since 2007, Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

Process waste water per unit produced
in m³/unit



* Basis for data expanded in 2007 from ten to 17 locations: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford and, since 2007, Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

the number of plants covered by the Group's environmental protection reporting system went up from ten to 17.

Compared to 2006, the BMW Group reduced energy consumption per unit produced by 4.1 % and CO_2 emissions by 10.6 %. These reductions were achieved by an array of innovative projects and measures:

– Combined heat and power generation facilities (80 % efficiency rate compared to 35 % efficiency rate of conventional energy production) generate electricity and heat at plants in Dingolfing, Landshut, Regensburg, Steyr, Oxford, Spartanburg and at the Research and Innovation Centre (FIZ) in Munich.
– A groundwater cooling system ensures environment-friendly air conditioning at the FIZ. This involves using near-surface ground water to cool parts of buildings, thus saving some 8,000 MWh of electricity and 5,000 tons of CO_2 annually.
– The BMW plant Spartanburg meets 63 % of its energy requirements by using methane gas from a nearby landfill site. The gas, which had previously gone unused, is used as a source of energy, thus reducing the consumption of natural gas. As a result, almost 59,000 tons of CO_2 emissions were avoided in the Spartanburg region in 2007.
– In autumn 2007, the BMW Group's second photovoltaic installation was put into operation at the BMW Welt in Munich, in addition to the smaller one already in place in Leipzig.

Over the past ten years, the BMW Group has succeeded in reducing emissions of solvents by nearly 37 %. However, due to the fact that the number of production sites now covered by the reporting system rose from ten to 17, solvent emissions per unit produced were higher in 2007 than in 2006. The emissions of the sites recently added to the system will be brought down in stages to the low emission levels already achieved by the longer-standing production sites.

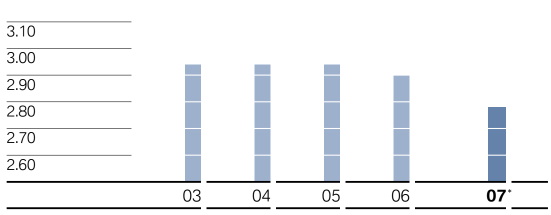
The plants in Regensburg, Dingolfing and Leipzig already use powder-based paint technology. The BMW plant Landshut set a new benchmark in 2007 by reducing solvent emissions in its light metal foundry operations. The sand grains needed for the casting process are no longer produced using synthetic resin binders. Instead, mineral binders are used which cause practically no smell or emissions. The BMW Group is the only automobile manufacturer in the world currently using this technology on motor components such as crankcases and cylinder heads. This process reduces the proportion of organic elements discharged into the air by 98 %.

Over the last five years, the BMW Group has also significantly reduced the volume of waste water it produces. During this period, the amount of water used per unit produced was cut by almost 35 %. The BMW Group accomplished this by using closed water circulation systems and by treating waste water created during the production process. For example, water used in the paint shop, in car washes and for waterproof testing on new vehicles is re-used. An innovative combination of membrane technologies has been in use at the BMW Steyr location since the beginning of 2007. At this plant, all waste water created during the production process is purified and fed back into the production system. This enabled the plant to save approximately 30 million litres of water in 2007.

Environment-friendly transportation solutions

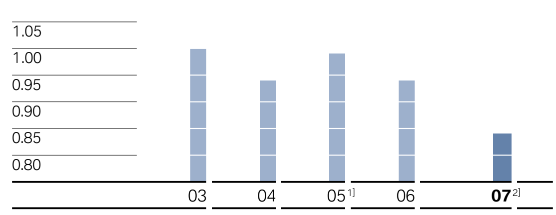
Logistics experts within the BMW Group analyse and optimise all flows of goods – from procurement through to delivery – with the objective of keeping environmental pollution caused by transportation to a minimum. The focus is on cutting down the volume of traffic, redeploying to more ecologically favourable

Energy consumed per unit produced
in MWh/unit



* Basis for data expanded in 2007 from ten to 17 locations: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford and, since 2007, Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

CO_2 emissions per unit produced
in tons/unit



1] The increase is attributable to a change in the energy mix.
2] Basis for data expanded in 2007 from ten to 17 locations: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford and, since 2007, Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

carrier forms and reducing the surface protection used on new cars.

A new procedure for transporting materials within the US market was introduced in July 2007 for the BMW plant Spartanburg, as a result of which billing is now based on performance. Since then, haulage contractors have only been remunerated on the basis of the volume carried, thus automatically providing an incentive to plan and use transport capacities more efficiently.

Transportation by sea accounted for 76.8% of the total volume transported in 2007, almost on par with the previous year's high level of 76.9%. By contrast, as a consequence of wage disputes at the Deutsche Bahn (German Railways), the proportion of goods transported by rail fell from 7.2% in 2006 to 6.9% in 2007.

Overall, 54.8% of all new vehicles left their respective production plants by rail, slightly down (–0.6%) on the previous year. In absolute terms, however, approximately 95,000 more vehicles left plants by rail than in the previous year. For the first time, the BMW plant Leipzig switched to rail on a major scale in 2007, supplying the British and Spanish markets from the beginning of 2007 onwards mainly by rail. As a result, the proportion of vehicles leaving the BMW plant Leipzig by rail jumped to 27% in a single year.

The BMW Group again significantly reduced the volume of wax or adhesive films used to protect the outside surfaces of vehicles. This also enabled the use of solvents and other chemicals to be reduced in 2007. In total, approximately 72% of vehicles were delivered without surface protection in 2007, compared to 53% in the previous year. In addition, some 3,500 tons of CO_2 emissions were avoided in 2007 by transporting vehicles without surface protection. This avoided extensive cleaning on arrival, causing 80% less CO_2 emissions.

Making progress towards sustainable mobility

The BMW Group is aware of its responsibility in the area of climate protection and has been working for many years on reducing the fuel consumption of its fleet. The strategy of working towards sustainable mobility comprises three main stages. The BMW Group is continuously improving fuel economy in its vehicles with a combination of highly efficient engines, optimised energy management, innovative light-construction design and improved aerodynamics. In the medium term, the BMW Group is working on achieving additional fuel economy benefits by various measures, from electrification of the drivetrain through to a wide range of hybrid solutions. In the long term, the BMW Group is committed to the use of hydrogen gained from various renewable energy sources.

Consistent CO_2 reduction at all levels

The efficient use of fuel is a fundamental criterion for every vehicle developed by the BMW Group. The status report produced for each vehicle project provides clear and transparent information on fuel consumption and CO_2 emissions, highlighting the degree to which emission reduction targets have been achieved.

The agreement between the European Automobile Manufacturers (ACEA) and the European Commission included a target of 140 g/km of CO_2 emissions for the combined new car fleet of all European car manufacturers for 2008. This represents a reduction of 25% compared to the base year, 1995. The BMW Group is also making its contribution and stands by its commitment to reduce CO_2 emissions for its own fleet by 25% during the period from 1995 to 2008.

The BMW Group has also cut back CO_2 emissions significantly outside Europe in recent years. A study by the US organisation Environmental Defense recently confirmed that the BMW Group takes top position in this area. The result of the study: of all automobile manufacturers represented in the USA, the BMW Group has made the best progress in terms of the reduction of CO_2 emissions for its vehicle fleet during the period from 1990 to 2005.

EfficientDynamics benefit entire vehicle fleet

Apart from the use of highly efficient petrol and diesel engines, the EfficientDynamics measures introduced by the BMW Group in 2007 also comprise energy management measures, weight reduction and improved aerodynamics. Examples of energy management improvements within the vehicle are Brake Energy Regeneration, the Auto Start Stop Function and the gear shift indicator. These innovations, which all help to reduce fuel consumption, were introduced on the BMW 1 Series, the BMW 5 Series and the new BMW 3 Series Convertible and Coupé models in March 2007. Since autumn 2007, model-specific EfficientDynamics packages also became standard in the BMW 3 Series Sedan, the BMW 3 Series Touring and the X models as well as in the revised BMW 6 Series Coupé and Convertible models. All MINI models apart from the convertible have been fitted with Brake Energy Regeneration, the Auto Start Stop Function and the gear shift indicator since autumn 2007.

Roadmap of the BMW Group for sustainable mobility

2000	2005	2006	2007	2008	2009	long-term
Adoption of the EfficientDynamics strategy.	BMW Group cuts fuel consumption in Germany pursuant to VDA agreement of 1990 by 2005 by almost 30%.	2006 BMW Hydrogen 7 is presented to the public.	2007 Introduction of EfficientDynamics measures in numerous BMW and MINI models.	About 40% of the BMW Group's new vehicles in Europe will be emitting a maximum of 140 g CO_2/km.	First BMW Group vehicles with hybrid drive.	Use of regenerative hydrogen as fuel in motor traffic.

The principle of introducing the EfficientDynamics innovations as standard for all cars manufactured by the BMW Group, and not just for niche models, is helping to reduce CO_2 emission levels across the whole fleet. This policy means that more than 450,000 BMW and MINI cars driving on Europe's roads were equipped with these fuel-saving innovations by the end of 2007. By spring 2008 emission levels for 26 BMW and MINI models will be at a maximum of 140 g/km CO_2.

Highly efficient engines for lower fuel consumption

The engine is one of the main areas where fuel consumption can be reduced. BMW's High Precision Injection system enables four- and six-cylinder petrol engines to achieve consumption levels during lean operation that had previously only been attained by diesel engines. BMW 1 and 5 Series vehicles sold in Europe have been equipped with this system since March 2007. In autumn 2007, this innovation also became available throughout Europe in the top-selling BMW 3 Series. In markets such as the USA, however, the sulphur-free fuel necessary for the lean operation of these engines is not yet on sale nationwide. On these markets, the efficient VALVETRONIC engines featuring fully variable valve drive help to reduce fuel consumption. The new BMW diesel engines, equipped with third-generation Common-Rail injection technology and employing injection pressures of up to 2,000 bar, now use less fuel whilst still delivering higher performance.

In autumn 2008, the BMW Group will launch the first diesel engines under the name "BMW AdvancedDiesel with BluePerformance" on the US and Canadian markets. An oxidation catalytic converter and a diesel particle filter will be responsible for optimising emission levels in these engines. An SCR (Selective Catalytic Reduction) system featuring urea injection will reduce nitric oxide emissions (NO_x). The use of this SCR system ensures that the particularly strict emission limits applicable in California and other US federal states are adhered to. It will enable nationwide introduction of BMW AdvancedDiesel with BluePerformance as a 50-state model (BIN5).

Comprehensive energy management within the car

Improved energy management has enabled the BMW Group to achieve far greater fuel economy throughout its latest range of models. The Auto Start Stop Function, which switches the engine off automatically when the vehicle comes to a halt, serves to save fuel. Brake Energy Regeneration technology makes use of both braking and acceleration phases to charge the vehicle's battery and reduces drag on the engine. During these phases, as soon as the driver stops accelerating, kinetic energy is automatically harnessed and fed into the battery. By contrast, the alternator is disengaged during acceleration. This results in lower fuel consumption and maximum thrust when accelerating. Electric steering assistance and the efficient, demand-controlled operation of fuel, coolant and oil pumps ensure that aggregates are only activated for as long as necessary. A gear shift indicator informs the driver of the optimum moment to change gear in terms of energy efficiency. Active aerodynamics measures enable air flaps at the front of the vehicle to be opened only for as long as the engine requires air from outside for cooling purposes. This helps to speed up the warming-up phase and improve aerodynamics at the same time.

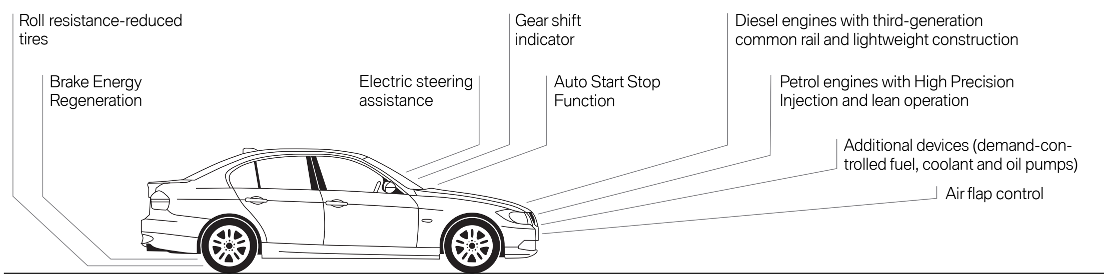
The BMW Group's EfficientDynamics concept was awarded numerous prizes in 2007. These include, among others, the "Grüne Lenkrad" prize awarded by the German Sunday newspaper "Bild am Sonntag" and the "Green Award" presented by the British motoring magazine "CAR".

Hybrid technology improves fuel economy

From the BMW Group's perspective, hybrid technology offers potential to further improve fuel economy. The Group's aim is to develop hybrid engines that not only reduce consumption in city traffic but also

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The BMW EfficientDynamics measures – an overview



offer benefits when driving on non-urban roads and motorways.

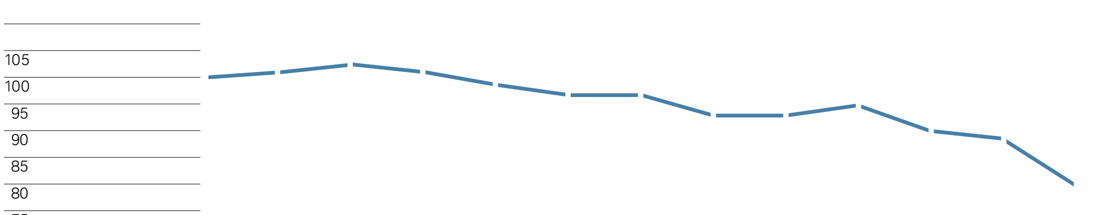
Since September 2005, the BMW Group has been working on a modular system for hybrid-driven vehicles in collaboration with Daimler, Chrysler and General Motors at a joint development centre near Detroit, USA. The objective of these cooperation arrangements is to bundle the extensive know-how held by each of the entities involved, exploit benefits and realise potential efficiency improvements.

In September 2007 the BMW Group presented its hybrid car, the BMW Concept X6 ActiveHybrid, at the Frankfurt International Motor Show (IAA) in Frankfurt. The drive concept of this vehicle, which will go into series production at the end of 2009, offers a far more dynamic driving performance than conventional hybrid cars. At the same time, the ActiveHybrid requires up to 20 % less fuel than a comparable car powered only by a combustion engine. With this development, EfficientDynamics is moving closer to its objective of sustainable mobility.

Shaping the future with hydrogen

In the third phase of its EfficientDynamics strategy, the BMW Group remains committed to the use of renewably produced hydrogen in combustion engines. Major milestones for the BMW Group were the commencement of series development of a hydrogen-powered vehicle in 2001 and the presentation of the BMW Hydrogen 7 at the end of 2006. The BMW Hydrogen 7 is the world's first hydrogen-driven luxury sedan designed for everyday use and is equipped with a bivalent combustion engine that can be fuelled by either petrol or hydrogen. This car has gone through the full series development process and has now been approved for road use. The Hydrogen 7 therefore meets all requirements stipulated for conventional road vehicles. The 100 cars of the BMW Hydrogen 7 small series have been made available to selected persons from politics, business and other areas of society for general daily use since April 2007 with the aim of creating a multiplier effect. In addition, numerous celebrities from the film world and show business are taking the opportunity to experience the future of mobility by taking a drive in a BMW Hydrogen 7. Within a few months, these "pioneers" of hydrogen technology have covered more than 2.7 million kilometres in Europe, the USA and other regions of the world with the BMW Hydrogen 7.

Development of CO_2 emissions of BMW Group cars in Europe (EU-15)
(Index: 1995 = 100; Basis: fleet consumption of newly registered cars in Europe (EU-15) measured on the basis of the New European Driving Cycle in accordance with the ACEA commitment)



95	96	97	98	99	00	01	02	03	04	05	06	**07**
100.0	101.0	102.4	101.0	98.6	96.7	96.7	92.9	92.9	94.8	90.0	88.6	**80.0**

Research and development expenditure reduced
In 2007, research and development expenditure amounted to euro 3,144 million, a 2.0 % reduction on the previous year. Further information regarding research and development expenditure is provided in Note [11] of the Group financial statements. The research and development expenditure ratio was 5.6 % (2006: 6.5 %).

The BMW Group's innovation network comprises ten sites in five countries with a total of 9,800 employees.

Leading position amongst premium manufacturers
The strength of the BMW Group's innovation network was again underlined with the receipt of numerous awards in 2007.

For the third consecutive time, the BMW Group took the main prize in the "International Engine of the Year Award" in 2007. The award went to the new BMW 3.0-litre Twin Turbo petrol engine which now powers the entire range of models in the BMW 3 Series. The BMW Group was the most successful car manufacturer in this competition and came out winner in seven of the twelve categories as well as gaining four second places and two third places.

The BMW Group won the prize for the design team of the year in the "red dot award 2007". This accolade was awarded for exceptional achievements for its overall performance in the field of design. Eight further awards were received for two cars, three motorcycles and three products created by BMW Group DesignworksUSA.

In November, the BMW Group won the newly introduced "Grüne Lenkrad" award from the German Sunday newspaper "Bild am Sonntag" in recognition of its EfficientDynamics measures package, which includes highly efficient petrol and diesel engines, Brake Energy Regeneration, the Auto Start Stop Function, active aerodynamics and intelligent lightweight construction innovations. EfficientDynamics is designed to boost performance while simultaneously improving fuel economy and reducing CO_2 emissions. The BMW Group offers EfficientDynamics as standard in all BMW models from the BMW 1 Series through to the BMW X5 and also in many of the MINI models. For the model year 2008, around 40 % of new cars sold by the BMW Group in Europe will emit a maximum of 140 g CO_2/km.

Third crash-test facility taken into operation
Approximately 350 to 400 tests are carried out annually at the Research and Innovation Centre (FIZ) as part of the vehicle development process. Tests are also carried out to ensure vehicles fulfil legal and consumer protection requirements.

The BMW Group's third crash-test facility was commissioned in mid-2007. Up to 100 tests will be carried out each year at the new facility near Munich. In a new building at the facility, all tests (including roll-over tests) can be carried out regardless of prevailing weather conditions.

The new test facility supplements the one built at the FIZ in 2005. An additional, smaller crash-test facility within the FIZ complex completes the company's crash-testing capability for testing at speeds of up to approximately 30 km/h. These additional capacities enable the Group's engineers to conduct time-consuming tests that had previously only been feasible at the facilities of third-party providers.

The three crash-test facilities now permit a higher number of tests and greater flexibility than the "all-in-one" solutions favoured by competitors, but which entail substantially higher costs. In addition, a wide range of modern computer-based crash simulation methods are employed, particularly during the early stages of vehicle development projects. Such methods cannot, however, replace real crash tests using prototypes.

Research to promote greater road safety
After a four-year period, the European Commission-backed research project PreVENT was concluded in 2007, in line with schedule. The project supports the target set by the European Commission to halve the number of accidents on European roads by 2010. The objective was to raise road safety standards even further through the use of preventative technologies. These applications, aimed at assisting the driver, are designed to prevent or at least minimise the consequences of accidents. The research shows that it will be possible to develop systems in the future that will be able, for example, to recognise the nature and urgency of a hazard whilst simul-

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

taneously taking the current condition of the driver into account. The BMW Group played a leading role in some of PreVENT's sub-projects.

Road safety research carried out by the BMW Group does not only focus on identifying solutions that will increase the safety of vehicle occupants. It is also aimed at benefiting other road users. Current research projects in the field of driver assistance systems include emergency braking to increase the safety of pedestrians, cross-traffic and traffic light assistance as well as information on wrong-way drivers and upcoming bends. However, the same basic principle remains valid for all systems – the responsibility always remains with the driver; it is the driver who has to make the decisions; and he or she must be able to override or even deactivate systems.

Expertise in driving dynamics expanded

The Dynamic Performance Control (DPC) developed by the BMW Group actively improves driving stability, whether under load, when coasting or when the clutch is engaged. This innovative system will be available in the new BMW X6 from 2008 onwards. DPC distributes the drive torque to the two drive wheels at the rear, irrespective of engine performance, thus improving steering behaviour and precision, straight-line stability and traction. This simultaneously improves steering response, thereby requiring far fewer steering corrections on the part of the driver or intervention from electronic stabilising systems.

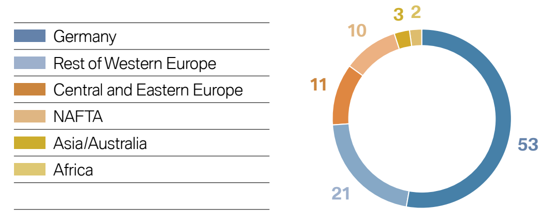
Further development to Dynamic Stability Control (DSC), now in combination with the xDrive four-wheel drive system, have also led to significant improvements in car handling characteristics and in active safety aspects, particularly on slippery road surfaces. This enhancement has been available in all four-wheel drive models of the BMW 5 Series since March 2007. Further BMW brand models and series will be equipped with this technology in the future.

Integrated on-board network technology offers numerous benefits

Up to five different bus systems operate in modern cars to transmit electronic data throughout the vehicle. When information from various systems is being used, the data must first be synchronised accordingly. The BMW Group is therefore conducting research on a standard language to simplify the "Automobile Network". The technical basis for this is the Internet Protocol (IP).

The new, IP-based vehicle on-board system adds flexibility to the car's infrastructure and also provides many other benefits. It will, for instance, enable the customer to use portable devices more easily in the car in the future. It will also make it easier for service staff to integrate new control units and/or new functions. It will no longer be necessary to install all applications permanently in the vehicle because the IP-based on-board network will keep systems connected to the internet. As far as driver assistance systems are concerned, the new developments in on-board network technology will create many opportunities, in particular for complex systems which access information from various sources such as sensors, cameras, etc.

Regional mix of BMW Group purchase volumes 2007
in %, basis: production material



New purchasing and supplier network corporate division

As part of its strategic realignment and in the light of the ever-increasing complexity of the supplier chain structure, the BMW Group created a new Purchasing and Supplier Network corporate division with effect from 1 October 2007. In addition to purchasing, the following functions have been assigned to the division: quality management of parts, logistics, vehicle components and systems. This new division has been charged with the task of achieving even further improvements in the areas of quality, supplier loyalty and costs. This will involve keeping the number of system interfaces to a minimum and optimising processes right from the raw material stage through to the finished product.

Purchase volume increased in Central and Eastern Europe

The BMW Group's purchase volume went up in 2007 in line with the expansion of production activities. Increased global sourcing activities as well as the successful implementation of a quality and cost initiative resulted in an increase in the volume of purchases sourced in Central and Eastern Europe. The purchase volume in Western Europe also increased, reflecting increased production of the MINI. The purchase volume in the NAFTA region was also up, due to the first full year of production of the new BMW X5 at the Spartanburg plant in the USA. The volume of purchases sourced in South America fell sharply due to the fact that the engine cooperation arrangements with TRITEC are wound down.

The proportion of production material purchases sourced in Germany was down in percentage terms and accounted for approximately one half of material procurements. In the remaining regions, volumes increased in line with production growth. The ratio of material procurements to the total purchase volume remained practically unchanged.

Situation on the commodity markets remains tense

The high price levels on the raw material markets once again represented a major challenge for the Group's purchasing departments in 2007. The additional costs were spread over the entire value-added chain with the BMW Group also bearing its share. Compared to the previous year, the average market prices of steel and plastics were up by 10% and 6% respectively in 2007. By contrast, the price of aluminium fell by 5% and that of copper by 1%.

Overall, the prices of industrial raw materials, non-ferrous metals and energy raw materials increased by 7%, 4% and 2% respectively in 2007. Compared to the previous year, the prices of precious metals relevant for the BMW Group went up in 2007 by rates of between 11% and 35%. In the case of precious metals (rhodium, palladium, platinum), purchase price hedges reduced the impact of sharp market price rises for the BMW Group.

Close cooperation with suppliers strengthens competitiveness

Given the high share of suppliers in the value-added, cooperating closely with them represents a major factor in improving products and processes. The BMW Group is involving its large system suppliers from the very initial stage of a development project even more intensively. Joint analyses are carried out to identify potential areas where efficiency can be improved and development and manufacturing costs reduced. Any solutions that these joint teams come up with are taken into account in current and future development projects.

Further investigations are made along the entire value-added chain to identify potential ways of achieving further product and/or process improvements. Ensuring that close networks are in place between internal and external partners has an important role to play here. Increasing the transparency of activities with suppliers is also seen as being vital for the BMW Group.

One of the main objectives of supplier management is to raise the quality of bought-in material. Suppliers to the Group are increasingly taking over responsibility in this respect. As part of the process of managing supplier performance and expertise,

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

the BMW Group provides its suppliers with supply quality performance indicators for all plants in real time. Similarly, data concerning customer complaints and warranty costs can also be called up by suppliers at any time.

International focus sharpened by regional purchasing centres
One of the main tasks taken on by the BMW Group's international purchasing centres in 2007 was to engage in new procurement markets and keep abreast of any innovations relevant for the BMW Group emerging from the procurement markets. Following the opening of new purchasing centres in India, Turkey and Hungary, the BMW Group now has a presence on all major procurement markets. The capacities of existing purchasing centres, such as in China and Singapore, were also increased. In 2007, the sphere of expertise of the Group's purchasing centres was also significantly expanded after they took over responsibility for parts quality management and for logistics. Amongst other benefits, this will help to ensure the quality and availability of parts.

Cost benefits have also been achieved, particularly in the emerging markets. The BMW Group takes a pro-active approach to the procurement markets and also encourages its suppliers to take full advantage of the available potential. The positive impact that this has on purchase prices helps to increase the competitiveness of the BMW Group.

High ecological and social standards expected of suppliers
The BMW Group is aware of its responsibility to ensure that its suppliers also adhere to social and ecological standards. Apart from dealing with quality targets and cost aspects, the BMW Group's national and international purchasing terms and conditions also stipulate social and ecological standards. The ability to adhere to these principles is taken into account when selecting potential suppliers.

Model initiative continued
The growth recorded by the BMW Group in 2007 was driven by the introduction of a wide range of new vehicles and model revisions. Ten new or revised models were introduced for the BMW brand alone. In addition to the new M5 Touring, model improvement measures were carried out for the BMW 5 and 6 Series as well as for the five-door version of the BMW 1 Series. The three-door version of the BMW 1 Series and the BMW 1 Series Coupé also came onto the market. The BMW 1 Series Convertible was presented to the public in autumn 2007 and will be on sale on the markets from spring 2008 onwards.

In spring 2007, the focus was on the introduction of the new BMW 3 Series Convertible, available for the first time with a hardtop option. The M version of the 3 Series Coupé followed later in the year and the M3 Sedan will celebrate its debut in 2008. The new BMW X5, which had already been launched in the USA in autumn 2006, reached dealers worldwide during the course of 2007.

The second generation of the MINI was also available on the market for the first time for a full year in 2007. The new MINI is repeating the success of its predecessor. A further step in expanding the MINI model family was taken in November with the launch of the MINI Clubman in Europe.

The Rolls-Royce convertible, the Phantom Drophead Coupé, has been available since summer 2007. The positive response received from media and customers alike was also reflected in the sales volume performance.

BMW Welt opened
The outstanding event for the BMW marketing department in 2007 was the opening of the BMW Welt in Munich. Since October, a wide range of experiences have been on offer there to customers, visitors and local inhabitants alike. With this building, which explores the limits of the technically feasible, the BMW Group has set a new architectural benchmark. The BMW Welt is the new home of the BMW brand. It stands for dynamism and elegance and reflects the premium standards of the BMW brand. The centrepiece of this multifunctional building is its individualised personal delivery centre. Each year, approximately 45,000 people from all over the world will come here to collect their vehicles. In addition to the exclusive presentation of all current car and motorcycle model series, multimedia shows and

exhibits will provide an insight into the research, development, design and production activities of the BMW Group, giving visitors the chance to enjoy an all-round experience of the BMW brand and of the company as a whole. The BMW Welt also boasts an events forum including state-of-the-art technology for staging all kinds of events, such as receptions and seminars, concerts, exhibitions, conferences and live transmissions. More than 500,000 people visited the BMW Welt within the first 100 days of opening.

Innovative marketing and investment in brands

Numerous vehicle presentations represented an important aspect of the BMW Group's marketing and communication activities in 2007. Marketing campaigns and similar activities, targeted purposefully at specific groups, ranged from international test-drive events for the launch of the BMW X5 through to enhanced activities on Web 2.0 to coincide with the launch of the BMW 1 Series Coupé.

Campaigns were run for both specific models and for the BMW Group's brands in general. In the European markets, the focus was primarily on communicating the benefits of BMW EfficientDynamics, the designation used to cover the whole range of measures adopted by the BMW Group in its bid to reduce fuel consumption and emissions.

For several years now, the BMW CleanEnergy project has not only been working on the reduction of emissions, but has also embraced the vision of emission-free driving based on the use of hydrogen. The Hydrogen 7 vehicle, based on the BMW 7 Series, was first presented to the public back in 2006. In 2007 the Hydrogen 7 was made available to selected persons from the worlds of politics, business, science and show business, thus bringing the so-called "Club of Pioneers" into being. The idea behind this is to accelerate the change towards a "hydrogen society", including the construction of an appropriate infrastructure.

One of BMW Marketing's responses to the up-and-coming trend towards new media was to set up BMW web.tv in 2007. Using this online TV platform, BMW now broadcasts reports and articles every week on brand-related issues, including some advertising content. Right from the outset, several hundred thousand videos were viewed each month on average via BMW web.tv.

BMW's sport sponsoring activities were focused on motor sports, golf and sailing in 2007. The event that created the greatest media attention around the world for BMW in 2007 was The America's Cup held in Valencia. The participation of the US American BMW Oracle Team clearly helped to raise the profile and awareness of the BMW brand. The BMW Sauber F1 Team firmly established itself as the third force in Formula One in 2007.

MINI pushed ahead with the creation of a global MINI Community. In this context, another MINI United Festival was held at Zandvoort, near Amsterdam, under the motto "Friends. Festival. Challenge." More than 8,000 visitors from 50 countries took part in the three-day event. The MINI Challenge, a special MINI club sports series, has become an established component of the Community idea, combining professional sport with modern lifestyle.

Marketing activities for the MINI in 2007 were mainly focused on the market launch of the MINI Clubman. The global marketing campaign with the slogan "The other MINI." fitted perfectly with the vehicle's claim to set new trends and created a few surprises with its snappy ads and "guerrilla" marketing approach.

At the forefront of marketing activities for the Rolls-Royce brand were the world premiere (in Detroit, USA) and the market launch (in L'Andana, Italy) of the Phantom Drophead Coupé. This exclusive convertible was presented at the Rolls-Royce dealerships in conjunction with numerous events. Rolls-Royce also set in motion a project for Rolls-Royce dealerships specifically aimed at attracting and providing services to customers in the ultra-luxury segment.

Sales network expanded further

The BMW Group intensified its sales activities in the established markets in 2007, whilst at the same time expanding activities in the growth markets.

The global presence of the BMW, MINI and Rolls-Royce brands was strengthened further during the past year with the opening of four new sales locations. A subsidiary was set up in India and a sales office opened in Slovenia on 1 January 2007, followed by sales offices in Rumania and Bulgaria on 1 July. As a result of this expansion, which has taken place mainly in the growth markets of Asia and Eastern Europe, the BMW Group is now represented by its own sales organisations in 41 markets.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The infrastructure and quality of the dealer organisation in China, where there are currently well over 100 dealerships, was further improved. The dealer network is also being expanded in India, a new market for the BMW Group.

Worldwide, more than 3,000 dealerships sell BMW brand cars. The MINI brand is sold at approximately 1,500 locations. In total, the dealerships which work with the BMW Group have some 100,000 employees worldwide. In addition, the BMW Group has its own branches at 37 locations in 14 countries.

Rolls-Royce cars are currently sold in 30 countries. The sales network for this brand has been expanded to 80 dealerships, including four in China.

Future plans of BMW Group's sales organisation are currently focused on the following:

- improving the infrastructure and quality of the dealer organisation in anticipation of further volume and model expansion,
- increasing marketing activities in the area of used car business,
- systematically developing relationships with customers and potential customers in all aspects.

Premium service also in customer services

Taking care of customers' needs throughout the whole of the product life-cycle is one of the BMW Group's main priorities. The objective is to provide premium quality services – not just to meet customers' expectations, but to exceed them. The quality of processes and structures in place in service reception areas and workshops is constantly under scrutiny.

Using its unique BMW TeleServices system, BMW is able to guarantee customers the highest levels of comfort and safety. Where necessary, a vehicle's details can be transmitted directly via a data link to the BMW service partner, for example to a dealership prior to a forthcoming inspection or to a mobile services unit in the case of a malfunction. This automated link between vehicle and BMW service partner reduces the length of time a customer's car needs to be kept at the service point and, in the event of a malfunction, allows immediate and expert help to be given on the spot.

The new BMW TeleServices system has been available since September 2007 in a number of markets (Germany, Austria and France) for all new BMW 1, 3, 5, 6 and X5 series vehicles.

Training centre network further expanded

The global initiative to improve skills within the BMW Group was successfully continued in 2007 as part of the premium service strategy. One of the tasks is to pass on knowledge quickly and directly to the markets. In 2007, for example, a train-the-trainer conference, attended by 160 trainers from 68 countries, was held in this vein for the new BMW 3 Series Convertible and the new BMW X5.

Training courses for dealers took place in San Diego, Newbury and Kyoto ahead of the launch of the Rolls-Royce Drophead Coupé.

In 2007 the BMW Group opened up new training centres in India, South Korea, Portugal, Denmark, Japan and Greece to ensure optimal training conditions for people working in the dealer organisations.

Internationalisation of distribution centres continued

The distribution centre in Krefeld was expanded and now supplies the markets in Belgium, the Netherlands and Luxembourg. In September 2007, the second of three planned regional distribution centres in China commenced operations in Shanghai. Parts are supplied directly from the centralised parts distribution centre in Dingolfing. Plans to supply parts to the new sales company and dealerships in India via the regional distribution centre in Mumbai are taking shape.

Crisis on US credit market has impact on world's stock exchanges

The world's stock markets were in general highly volatile in 2007. During the first half of the year, market prices benefited sharply from good corporate figures. In the second half, however, the markets were influenced by the credit crisis in the USA. The weakness of the US dollar against the euro also had an increasingly adverse impact on the share prices of European exporting companies.

The US dollar lost 9.5 % in value against the euro during the period, closing at US dollar 1.46 to the euro on the last day of trading (29 December 2006: US dollar 1.32 to the euro). In November 2007, the US dollar even dropped to US dollar 1.50 to the euro, thus reaching its record low value since introduction of the common European currency in 2002.

As the subprime crisis took hold in the USA, some of the gains recorded by the world's stock markets during the first half of the year were lost. On the last day of trading in 2007, the leading German stock index, the DAX, closed at 8,067.32 points, 22.3 % ahead for the year, but short of its record high level of 8,151 points in July 2007. The Dow Jones EURO STOXX 50 ended the year with a gain of 6.8 %. The Prime Automobile sector index performed very strongly over the year, gaining 37.9 % after closing at 785.54 points.

BMW common stock stood at euro 42.35 on the last day of trading, compared to a price of euro 43.51 one year earlier. With this 2.7 % drop, BMW common stock was unable in 2007 to repeat the gains made in preceding years. During the year under report, BMW preferred stock lost sharply in value, finishing the year 16.6 % lower at euro 36.30. The change in the price of preferred stock reflects a high degree of market price speculation during 2006 and 2007. According to media reports, one major German bank took up large-scale positions in BMW preferred stock, resulting in a sharp market price increase (+ 34.3 %) in 2006. The bank unwound these positions in 2007, thus significantly influencing the market price of BMW preferred stock in 2007.

Precious metal prices rose during the year, in some cases quite sharply. For the first time since 1980, the price of gold went above US dollar 800 per ounce, closing at the end of the year at US dollar 834.00 per ounce (+ 30.9 %). Oil prices developed similarly. The price for one barrel of Brent Crude at 31 December 2007 was US 94.33, well above (+ 61.2 %) its level one year earlier.

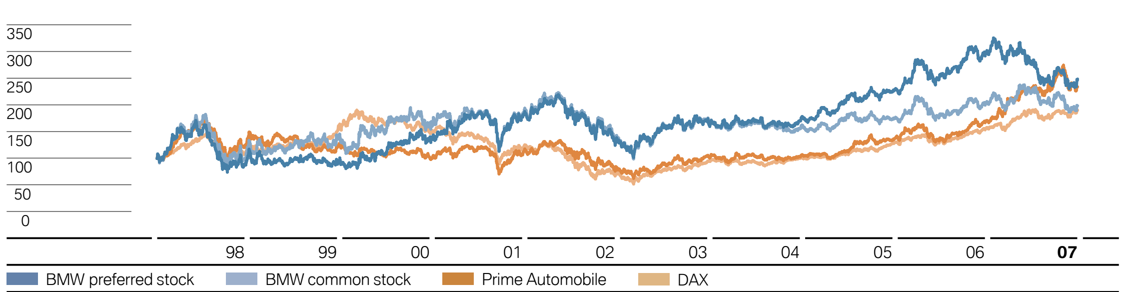
Programme to buy back shares of common stock

Following on from the buy-back and withdrawal from circulation of treasury shares in 2005 and 2006, a new authorisation was passed at the Annual General Meeting on 15 May 2007. On that date, the shareholders authorised the Board of Management to acquire up to a maximum of 10 % of the share capital in place at the date of the resolution and to withdraw these shares from circulation without any further resolution by the Annual General Meeting. At the same time, the authorisation from 16 May 2006 to acquire treasury shares was rescinded. The authorisation from 15 May 2007 is valid until 14 November 2008. There are currently no plans to exercise the authorisation. The option of a share buy-back does, however, remain open to BMW AG.

Buy-back of shares of preferred stock for employee stock plan

BMW AG has allowed employees to participate in its success for more than 30 years. In this context, employee participation was changed back in 1989 to an employee share scheme. In conjunction with this scheme, BMW AG purchased a total of 660,305 shares of preferred stock in 2007 via the stock exchange at an average price of euro 45.48 and issued these to employees.

Development of BMW stock compared to stock exchange indices
(Index: 30.12.1997 = 100)



10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The Board of Management of BMW AG has decided to continue this scheme in 2008. In order to be able to issue shares to employees, it is planned, from 1 January 2008 onwards, to buy back up to 1 million shares of preferred stock via the stock exchange. The BMW Group will report on the progress of the buy-back at its internet address www.bmwgroup.com/ir. The buy-back will be executed under the leadership of a number of securities houses or banks, which will be able to determine the timing of individual buy-backs independently of, and uninfluenced by, BMW AG. The buy-back will be carried out in compliance with the trading conditions contained in Article 5 of Regulation (EC) No. 2273/2003 of the European Commission dated 22 December 2003.

BMW Group as a successful bond issuer

In order to refinance the strong growth of the Financial Services segment, the BMW Group stepped up its activities in 2007 as an issuer of bonds and asset-backed securities (ABS).

During the year 2007, two benchmark bonds with a total issue volume of euro 2.4 billion were placed on the European capital markets. The BMW Group also issued bonds denominated in pounds sterling, Swiss franks and US dollars with a total volume of approximately euro 680 million.

It also issued a public ABS bond for the first time in the euro zone. The euro 800 million bond securitises trade receivables and leases.

The American capital market was used in 2007 primarily for ABS transactions and commercial paper. In October 2007, for instance, a public lease-securitised ABS bond with a total volume of US dollar 1.25 billion was issued in the USA.

Thanks to above-average ratings and regular provision of information to the capital markets, securities issued by the BMW Group were – as in previous years – highly sought after by institutional and private investors alike. Compared to 2006, refinancing conditions deteriorated slightly in the euro region over the course of 2007. With credit markets suffering under the effects of the subprime crisis in the USA during the second half of the year, the US Federal Reserve was forced, for the first time since 2003, to announce several interest rate reductions.

The difficult market conditions – particularly in the second half of 2007 as a result of the credit crisis in the USA – did not in any way impair the issuing activities of the BMW Group. The underlying strength of the BMW Group as one of the world's leading suppliers of premium vehicles is therefore also reflected in its dealings with the international capital markets.

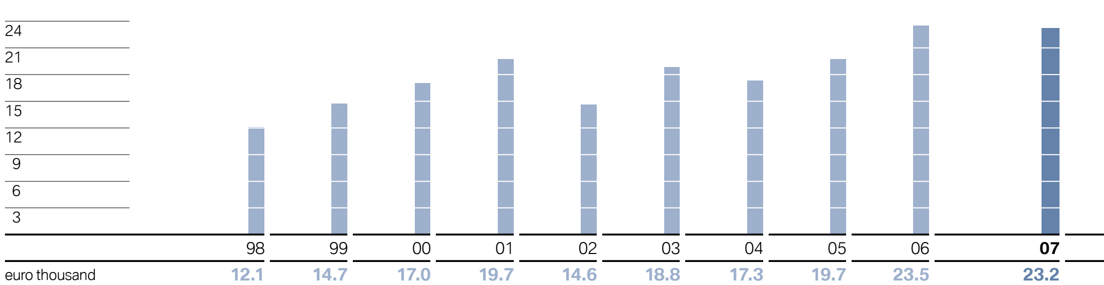
Using the internet to communicate with the capital markets

The internet plays a key role for the BMW Group in the process of communicating financial information. The nature and detail of information provided is therefore continually being improved and expanded (www.bmwgroup.com/ir). Alongside much information aimed at shareholders, all of the BMW Group's financial publications, presentations and additional material on financial statements are available for download at the Group's corporate website. For several years now, recordings of annual and quarterly financial reporting conferences have also been available as audio or video files.

Sustainability growing in significance

Sustainability plays an increasingly important role in investors' decisions. For this reason, socially responsible investment (SRI) became an even more important issue in the context of the company's capital

Development in the value of a BMW stock investment in euro thousand
Investment of euro 10,000 at 1.1.1998, including dividends and proceeds from subscription rights, values at end of year



market communication activities. Regular communication with sustainability investors and analysts was supplemented by roadshows in London and Paris.

In September 2007, the BMW Group was again included (as in 2005 and 2006) as sector leader in the Dow Jones Sustainability Indexes. The BMW Group is therefore the only company in the sector to have been included in this important group of indices for sustainable investment for the ninth time in succession. It has also been included for six consecutive years in the relevant FTSE4Good indices published by the London Stock Exchange and the Financial Times. In 2007, the BMW Group was also taken into the FTSE4Good Environmental Leaders Europe 40 Index. This index comprises European companies with leading environmental practices. In December 2007, the BMW Group took third place overall (as the best automobile company) in the DAX 30 sustainability ratings compiled by Scoris.

The BMW Group keeps the public informed of its commitment and the progress made in the field of sustainable business in its Sustainable Value Report, which is published once every two years. The current Sustainable Value Report 2007/2008 was presented to the public in mid-September to coincide with the IAA. The report can be downloaded from the internet at www.bmwgroup.com/sustainability. A printed version can also be ordered at that address.

BMW stock	2007	2006	2005	2004	2003
Common stock					
Number of shares in 1,000	601,995	601,995	622,228	622,228	622,228
Shares bought back at the reporting date	–	–	13,488	–	–
Stock exchange price in euro [1]					
Year-end closing price	42.35	43.51	37.05	33.20	36.75
High	50.73	46.47	39.97	37.44	38.40
Low	39.81	35.52	32.04	31.78	21.12
Preferred stock					
Number of shares in 1,000	52,196	52,196	52,196	52,196	52,196
Stock exchange price in euro [1]					
Year-end closing price	36.30	43.52	33.00	24.80	24.65
High	47.52	45.91	33.98	26.20	26.25
Low	33.64	31.80	24.48	22.86	14.86

	2007	2006	2005	2004 [5]	2003
Key data per share in euro					
Dividend					
Common stock	1.06 [2]	0.70	0.64	0.62	0.58
Preferred stock	1.08 [2]	0.72	0.66	0.64	0.60
Earnings per share of common stock [3]	4.78	4.38	3.33	3.33	2.89
Earnings per share of preferred stock [4]	4.80	4.40	3.35	3.35	2.91
Cash flow [6]	9.70	8.21	9.17	9.13	7.37
Equity	33.24	29.24	25.17	24.52	23.95

1] Xetra closing prices
2] proposed by management
3] annual average weighted amount
4] stock weighted according to dividend entitlements
5] adjusted for new accounting treatment of pension obligations
6] calculated on the basis of operating cash flow

Disclosures relating to Takeover Regulations to § 289 (4) HGB and § 315 (4) HGB and Explanatory Report

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The share capital of BMW AG, totalling euro 654,191,358 is, pursuant to Article 4 (1) of the Articles of Incorporation, sub-divided into 601,995,196 shares of common stock and 52,196,162 non-voting shares of preferred stock, each with a par value of euro 1. The shares are issued to bearer. The rights and duties of shareholders derive from the German Stock Corporation Act (AktG) in conjunction with the Company's Articles of Incorporation, the full text of which is available at www.bmwgroup.com. The voting power attached to each share corresponds to its par value. Each euro 1 of par value of share capital represented in a vote is entitled to one vote (Article 18 (1) of the Articles of Incorporation). The Company's shares of preferred stock are non-voting within the meaning of § 139 AktG et seq., i.e. they only confer voting rights in exceptional cases stipulated by law such as when the preference amount has not been paid or has not been fully paid in one year and the arrears are not paid in the subsequent year. Except for voting rights, shares of preferred stock give the same rights as shares of common stock. Article 24 of the Articles of Incorporation confers preferential treatment to the non-voting shares of preferred stock with regard to the appropriation of the Company's unappropriated profit. Accordingly, the unappropriated profit is required to be appropriated in the following order:

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

The right of shareholders to have their shares evidenced in writing is excluded.

Shareholders are only entitled to participate at the Annual General Meeting and exercise their voting rights if, prior to the meeting, they have given notice (in the written form prescribed by § 126b of the German Civil Code), either in German or English, of their intention to participate at the meeting. Shareholders are also required to provide evidence of their entitlement to participate and exercise their voting rights at the Annual General Meeting. For this purpose, documentary evidence of the shareholding, issued by the custodian bank (in the written form prescribed by § 126b BGB), in either German or English, is required. Votes may also be exercised by proxy. The Company may determine that proxy authorisations may be granted electronically or by fax, and may stipulate the specific rules for granting proxy authorisations (see Article 17 of the Articles of Incorporation). The chairperson may determine a reasonable time limit with respect to the right of shareholders to raise questions and speak (Article 19 (2) of the Articles of Incorporation).

When the Company issues shares to employees in conjunction with its employee share scheme, the shares are subject to a company-imposed vesting period of four years, during which time the shares may not be sold. The shares issued in conjunction with the employee share scheme are shares of non-voting preferred stock which are transferred solely and directly to employees.

Based on the information available to the Company, the following direct or indirect holdings exceeding 10 % of the voting rights were held at the date stated:

	Direct share of voting rights (%)	Indirect share of voting rights (%)	Date
Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe	15.4		1.4.2002*
Johanna Quandt, Bad Homburg v. d. Höhe	1.3	15.4	1.4.2002*
Susanne Klatten GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe	11.5		1.4.2002
Susanne Klatten, Munich	1.0	11.5	1.4.2002
Stefan Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe	16.1		1.4.2002*
Stefan Quandt, Bad Homburg v. d. Höhe	1.3	16.1	1.4.2002*

* Confirmed by notifications as at 20 January 2007.

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

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

The appointment and removal of members of the Board of Management are based on the rules contained in § 84 et seq. AktG in conjunction with § 31 of the German Co-Determination Law (MitbestG). In accordance with Article 7 of the Articles of Incorporation, the Board of Management consists of two or more members. The Supervisory Board determines the number of the members of the Board of Management. It is responsible for appointing members to the Board of Management and for revoking appointments. It also designates one of the members as the Chairman of the Board of Management.

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

In accordance with the resolution passed at the Annual General Meeting on 15 May 2007, the Board of Management is authorised, up to 14 November 2008 and subject to the price limits stipulated in the resolution, to acquire shares of common and/or non-voting preferred stock via the stock exchange, up to a maximum of 10 % of the share capital in place at the date of the resolution. The Board of Management is also authorised, without any further resolution by the Annual General Meeting, to withdraw from circulation the treasury shares (common and/or non-voting preferred stock) acquired in accordance with the authorisation described above. Furthermore, the Board of Management is authorised to buy back shares and sell bought-back shares in situations specified in § 71 AktG, e.g. to avert serious and imminent damage to the Company or for the purposes of an employee share scheme. There is no authorised or conditional capital at the reporting date.

The BMW AG is party to the following significant agreements which contain special provisions for the event of a change in control or the acquisition of control which could arise, for example, from a takeover offer:

– An agreement, concluded with an international consortium of banks relating to a syndicated credit line (which was not being utilised at the balance sheet date), entitles the lending banks to give extraordinary notice to terminate the credit line (such that all outstanding amounts, including interest, would fall due immediately) if one or more parties jointly acquire direct or indirect control of BMW AG. The term "control" is defined as the acquisition of more than 50 % of the share capital of BMW AG, the right to receive more than 50 % of the dividend or the right to direct the affairs of the Company or appoint the majority of members of the Supervisory Board.
– A cooperation agreement concluded with Peugeot SA relating to the joint development and production of a new family of small (1 to 1.6-litre) petrol-driven engines entitles each of the cooperation partners to give extraordinary notification of termination in the event of a competitor acquiring control over the other contractual party and if any concerns of the other contractual party concerning the impact of the change of control on the cooperation arrangements are not allayed during the subsequent discussion process.
– Under the terms of a contractual agreement with Daimler, Chrysler and General Motors, BMW AG acquires intellectual property rights in conjunction with a cooperation for the development of a hybrid propulsion system. The cooperation can be terminated with immediate effect by either party if a change of control occurs with respect to any other contractual party or an affiliate of another contractual party. Examples of change of control are the acquisition of beneficial ownership of securities which confer the majority of voting power or the acquisition of beneficial ownership of securities which confer 20 % of the voting power provided

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

that within 18 months a majority of the shareholder-elected members of the Supervisory Board are the nominees of the new beneficial owner as well as certain merger transactions and the transfer of all or substantially all of the assets involved in the performance of the cooperation agreement.

- BMW AG acts as the guarantor for all of the obligations arising from the joint venture agreement relating to BMW Brilliance Automotive Ltd. in China. This agreement grants an extraordinary right of termination to either joint venture partner in the event that, either directly or indirectly, more than 25% of the shares of the other party are acquired by a third party or the other party is merged with another legal entity. The termination of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.
- Regarding the trading of derivative financial instruments, framework agreements are in place with financial institutions and banks (ISDA Master Agreements), each of which contain extraordinary rights of termination which trigger the immediate settlement of all current transactions, in the event that the creditworthiness of the respective party is materially weaker following the direct or indirect acquisition of beneficial ownership of equity securities having the power to elect a majority of the Supervisory Board of a contractual party or any other ownership interest enabling the acquirer to exercise control of a contractual party or a merger or transfer of assets.

The BMW Group has not concluded any compensation agreements with members of the Board of Management or with employees for situations involving a takeover offer.

Group internal management system

The underlying long-term objective of the Group's internal management system is to increase the value of the BMW Group. The targets set for the Automobiles, Motorcycles and Financial Services segments all stem from this objective. Within the Automobiles and Motorcycles segments, this approach is put into practise for specific product, process and structure-related projects. By contrast, the Financial Services segment is primarily concerned with cash flows and risk positions resulting from its credit and lease portfolio.

Minimum rate of return derived from cost of capital

The cornerstone of the value-added management of the BMW Group is the entity-specific minimum rate of return, derived from capital market data, and based on the weighted average cost of capital:

$$\text{WACC} = \frac{\text{Cost of equity capital x market value of equity capital}}{\text{Market value of equity and debt capital}} + \frac{\text{Cost of debt capital x market value of debt capital}}{\text{Market value of equity and debt capital}}$$

The cost of equity capital is measured using the Capital Asset Pricing Model (CAPM). The cost of debt capital is partly based on the average interest rate paid for long-term external debt and partly on the interest rate applicable for pension obligations.

Value management in the context of project control

The strategies set for each segment (and also the ensuing project decisions) give rise to the areas of strategic emphasis which are then implemented at a functional level. The overall project development process becomes more targeted as a result of the closer link between the strategies defined for each segment and the objectives defined for specific projects. Once a project decision has been reached, the task is to manage each individual project over time. Projects are therefore monitored continuously and resources reallocated according to requirements.

The project decision and related project selection are therefore important aspects of value-based management. Net present values (NPVs) and rates of return are computed as part of the decision-making process. This involves computing the present value of cash flows and the internal project rate of return (or model rate of return in the case of vehicle projects) which are expected to be generated by a project decision and comparing them with the minimum rate of return derived from capital market data.

Using this method, the amount by which a project will contribute to the total value of the segment can be documented when the project decision is taken. Targets and performance are controlled using project-related target NPVs and individual cash flow related parameters which have an impact on those values.

The NPV of a project programme is computed by aggregating the amounts for all projects and discounting them back to a specific date. This value serves as an important target for the Automobiles and Motorcycles segments. The business value of each segment is then computed by deducting the market value of debt capital. For both of these segments, the objective is to increase business value, as computed above, on a continuous basis.

Return on capital used to measure value on a periodic basis

The management of product projects and product programmes is subject to basic conditions which result from periodic planning. The aim here is to

Return on Capital Employed	Profit before financial result in euro million		Capital employed in euro million		Return on Capital Employed in %	
	2007	2006	2007	2006	2007	2006
Automobiles	3,450	3,055	15,108	14,056	22.8	21.7
Motorcycles	80	75	440	423	18.2	17.7

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Capital employed by automobiles segment in euro million	2007	2006
Assets employed	28,515	27,227
less: Non-interest bearing liabilities	– 13,407	– 13,171
Capital employed	**15,108**	**14,056**

monitor and manage periodic targets on a long-term basis in order to ensure that the BMW Group's earnings performance can develop at a steady pace. Periodic performance is managed in the light of defined accounting policies and external financial reporting requirements. The BMW Group primarily uses profit before tax and segment-specific rates of return as the key indicator figures by which it manages operating performance.

For example, return on capital employed is used as the main performance indicator for the Automobiles and Motorcycles segments. Return on sales is also used as a performance indicator. The return on assets is used for the Group as a whole. In addition to the return on assets, the Financial Services segment also manages its business using risk-based performance indicators such as value-at-risk.

$$\textbf{ROCE} = \frac{\textbf{Profit before financial result}}{\textbf{Capital employed}}$$

$$\textbf{ROA Group} = \frac{\textbf{Profit before interest expense and taxes}}{\textbf{Balance sheet total}}$$

$$\textbf{ROA Financial Services} = \frac{\textbf{Profit before tax}}{\textbf{Operating assets}}$$

The ROCE is derived by dividing segment operating profit by segment capital employed. The latter comprises all current and non-current operational assets of the segment, less liabilities used operationally and which are not subject to interest e.g. trade payables. This net amount is the capital employed.

The ROCE target value for the Automobiles segment (i.e. the minimum required rate of return derived from the cost of capital) is at least 26 %.

Return on Assets	Profit before tax / Profit before interest expense and taxes in euro million		Operating assets / Total assets in euro million		Return on Assets in %	
	2007	2006	2007	2006	2007	2006
Financial Services	743	685	59,040	50,529	1.3	1.4
BMW Group	4,721	4,979	88,997	79,057	5.3	6.3

Key performance indicators in %	2007	2006	2005	2004*	2003
Return on Capital Employed					
Automobiles	22.8	21.7	23.2	25.4	23.8
Motorcycles	18.2	17.7	17.8	10.4	16.7
Return on Assets					
Financial Services	1.3	1.4	1.3	1.4	1.4
BMW Group	5.3	6.3	5.6	6.5	6.6

* adjusted for new accounting treatment of pension obligations

Long-term creation of value

The overall target set for earnings is continuous growth, whereby the relevant performance indicators are measured against the Group's minimum rate of return. These periodic targets are supplementary to project and programme targets.

In order to implement this comprehensive target and management system, whilst at the same time satisfying periodic reporting and accounting requirements, the model analyses show for each project decision reached the impact of cash flows on the NPV and on the model rate of return as well as the impact on periodic earnings. This approach enables the BMW Group to analyse the effect of each project-based decision on business value (quantified in terms of the NPV of the project programme) as well as on earnings and rates of return. "Multi-project planning" data gleaned from these procedures allows ongoing comparison between dynamic multi-period targets and periodic performance.

Strategic realignment

The BMW Group's strategic realignment will also bring with it changes to the Group internal management system. In future, the BMW Group intends to focus even more on profitability and increasing business value in the long-term. This means that the efficient use of capital at a project, segment and Group level will play an even greater role.

Earnings Performance

The BMW Group recorded a net profit of euro 3,134 million (2006: euro 2,874 million) for the financial year 2007. The post-tax return on sales was 5.6 % (2006: 5.9 %). Earnings per share of common and preferred stock were euro 4.78 and euro 4.80 respectively.

Group revenues rose by 14.3 % compared to the previous year. Excluding exchange rate factors, Group revenues would have increased by 17.6 % or euro 8,397 million. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars went up by 11.8 %. Revenues from motorcycles business fell by 2.5 %. Revenues from financial services business climbed by 26.5 % on the back of volume growth. Revenues from other activities of the Group amounted to euro 214 million and related mainly to the Cirquent Group (previously: softlab Group). The comparable figure for the previous year was euro 193 million.

Revenue growth was spread across all regions. Group revenues increased by 12.4 % in Germany and by 21.4 % in the rest of Europe. Revenues for the Americas region rose by 5.5 %. For the Africa, Asia and Oceania regions, they grew in total by 14.0 %, mainly as a result of the sharp sales volume increase recorded in China. Cost of sales went up 2.1 percentage points faster than revenues. This development reflected the impact of additional costs which the BMW Group has reported on since the beginning of 2007, namely the effect of less favourable exchange rates and higher raw material prices. Despite these adverse factors, gross profit increased in absolute terms by 7.5 %, giving a gross profit percentage of 21.8 % (2006: 23.1 %). The gross profit percentage for Industrial Operations was down by 0.5 percentage points and that of Financial Operations by 1.1 percentage points. Information regarding the composition of these sub-groups is provided in Note [1].

Sales and administrative costs increased by 5.7 % due to the high level of business volumes; the increase was, however, lower than that of revenues. They represented 9.4 % of revenues and were therefore 0.7 percentage points lower on a year-to-year comparison.

Research and development costs were 14.8 % higher than in 2006, unchanged as a percentage of revenues at 5.2 %. They include amortisation of capitalised development costs amounting to euro 1,109 million (2006: euro 872 million). Total research and development costs amounted to euro 3,144 million (2006: euro 3,208 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for 2007 was 5.6 % (2006: 6.5 %).

Depreciation and amortisation of property, plant and equipment and intangible assets included in cost of sales, sales and administrative costs and research and development costs amounted to euro 3,683 million (2006: euro 3,272 million).

Pension obligations decreased as a result of the Retirement Age Amendment Act passed in 2007 which raised the statutory retirement age for the state pension scheme in Germany. The euro 103 million positive impact on earnings is spread over the relevant income statement cost lines by function.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Group Income Statement

in euro million	2007	2006
Revenues	56,018	48,999
Cost of sales	–43,832	–37,660
Gross profit	**12,186**	**11,339**
Sales and administrative costs	–5,254	–4,972
Research and development costs	–2,920	–2,544
Other operating income	730	744
Other operating expenses	–530	–517
Profit before financial result	**4,212**	**4,050**
Result from equity accounted investments	11	–25
Other financial result	–350	99
Financial result	–339	74
Profit before tax	**3,873**	**4,124**
Income taxes	–739	–1,250
Net profit	**3,134**	**2,874**

The positive net amount from other operating income and expenses fell by 11.9% compared to the previous year. Other operating income decreased primarily as a result of lower income from the reversal of provisions. Other operating expenses increased slightly by euro 13 million or 2.5%.

The profit before financial result increased by euro 162 million (4.0%) against the previous year and therefore reached a new high level.

The financial result deteriorated by euro 413 million, of which euro 445 million relates to the line "Other financial result". As stated above, earnings in 2006 included a gain of euro 372 million resulting from the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Further conversions in 2007 gave rise to a gain of euro 97 million. The bond was completely settled by the end of 2007. In addition to the gain on the exchangeable bond, other financial result also includes losses on other derivative financial instruments, in particular stand-alone interest-rate derivatives. A changed market interest rate structure caused the fair values of these financial instruments to decrease. The net result from using the equity method improved by euro 36 million. This was primarily attributable to an impairment loss recognised in the previous year on the BMW Group investment in TRITEC Motors Ltda., Campo Largo. These shares were sold to the Chrysler Group in 2007. The net positive result from investments decreased by euro 35 million. Net interest expense improved by euro 31 million. Within the net interest result, the net negative amount resulting from unwinding the discounting on pension obligations and recognising income for the expected return on pension plan assets improved by 3.8% on a year-on-year basis.

As a result of the changes in the financial result described above, profit before tax fell by 6.1% compared to the previous year. The pre-tax return on sales was 6.9% (2006: 8.4%). Excluding the impact of the settlement of the exchangeable bond on shares in Rolls-Royce plc, London, and the fair market loss on the option obligation, the profit before tax improved by 0.6% to euro 3,776 million.

The Group net profit was euro 260 million or 9.0% above the figure reported in the previous year. The significantly lower effective tax rate is due to effect of the Business Tax Reform Act 2008 and the resulting decrease in deferred taxes.

The Automobiles segment recorded a 9.2% increase in sales volume and a 12.7% increase in revenues. Segment profit improved by 7.3% to euro

3,232 million despite the adverse factors described above.

Revenues of the Motorcycles segment fell by 2.9%. Ongoing efficiency improvements nevertheless allowed the segment result to improve. The segment profit before tax, at euro 71 million, improved by 7.6% compared to the previous year.

The Financial Services segment was again able to expand its business successfully in 2007, enabling the segment profit to be improved by 8.5% on a year-on-year comparison. Reconciliations to the Group profit from ordinary activities were again negative in 2007, with a net expense of euro 173 million; this represented a deterioration of euro 534 million compared to the previous year. This was largely due to the higher gain recognised in the previous year on the settlement of the exchangeable bond on shares in Rolls-Royce plc, London, and to fair value losses recognised on derivative financial instruments.

Financial Position

The Group cash flow statement shows the sources and applications of cash flows for the financial years 2007 and 2006, classified into cash flows from operating, investing and financing activities.

Cash flows from operating activities are determined indirectly starting with the Group net profit. By contrast, cash flows from investing and financing activities are based on actual payments and receipts. Cash and cash equivalents in the cash flow statement correspond to the amount disclosed in the balance sheet.

Operating activities of the BMW Group generated a positive cash flow of euro 11,794 million in 2007, an increase of euro 1,814 million or 18.2% compared to the previous year. Changes in net current assets during 2007 generated a cash inflow of euro 204 million (2006: euro 174 million). The cash outflow for investing activities amounted to euro 17,248 million and was therefore euro 3,578 million higher than in 2006. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 46 million on a year-on-year comparison. The cash outflow for net investments in financial services activities rose steeply and was euro 3,604 million higher than in the previous year.

Financing activities in 2007 generated a positive cash flow of euro 6,557 million (2006: euro 3,323 million). Cash inflows from the issue of bonds to-

Revenues by segment

in euro million	2007	2006
Automobiles	53,818	47,767
Motorcycles	1,228	1,265
Financial Services	13,940	11,079
Reconciliations	–12,968	–11,112
Group	**56,018**	**48,999**

Profit before tax by segment

in euro million	2007	2006
Automobiles	3,232	3,012
Motorcycles	71	66
Financial Services	743	685
Reconciliations	–173	361
Group	**3,873**	**4,124**

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

talled euro 6,038 million (2006: euro 6,876 million), and euro 4,152 million (2006: euro 4,491 million) was used to repay bonds. The dividend payment in 2007 totalled euro 458 million. The cash inflow from other financial liabilities and commercial paper increased by euro 3,519 million.

68.4 % (2006: 73.0 %) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The cash flow statement for Industrial Operations shows that the cash outflow for operating activities exceeded the cash inflow from investing activities by 56.6 % (2006: 21.6 %). As expected, the cash flow statement for Financial Operations shows that cash inflow from operating activities did not cover the cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing. The shortfall was 58.7 % (2006: 50.2 %).

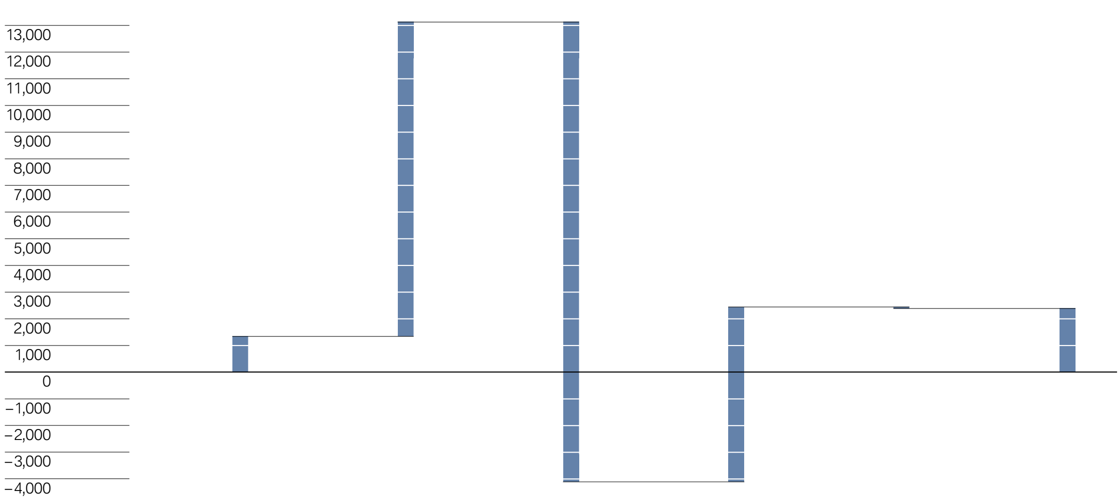
After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group amounting to a negative amount of euro 46 million (2006: positive amount of euro 82 million), the various cash flows resulted in an increase in cash and cash equivalents of euro 1,057 million (2006: decrease of euro 285 million).

Net interest-bearing assets relating to Industrial Operations (including receivables from Financial Operations) amounted to euro 7,052 million at the year-end, representing an increase of euro 1,667 million since 31 December 2006. Net interest-bearing assets relating to Industrial Operations comprise cash and cash equivalents (euro 1,887 million), marketable securities relating to Industrial Operations (euro 1,933 million) and receivables from the Financial Operations (euro 5,910 million) less financial liabilities of Industrial Operations. Excluding interest and currency derivatives, the latter amounts to euro 2,678 million.

Net Assets Position

The Group balance sheet total increased by euro 9,940 million or 12.6 % to euro 88,997 million. Currency effects, largely attributable to a weaker US dollar, again held down the increase in the balance sheet total in 2007. Adjusted for changes in exchange rates, the balance sheet total would have increased by 16.7 % to euro 12,703 million. The main factors behind the increase on the assets side were the increased level of leased products (+ 24.7 %), financial assets (+ 21.4 %), cash and

Change in cash and cash equivalents
in euro million



Cash and cash equivalents 31.12.2006	Cash inflow from operating activities	Cash outflow from investing activities	Cash inflow from financing activities	Currency translation, changes in Group composition	Cash and cash equivalents 31.12.2007
1,336	**+ 11,794**	**– 17,248**	**+ 6,557**	**– 46**	**2,393**

cash equivalents (+79.1%) and receivables from sales financing (+12.8%). On the equity and liabilities side of the balance sheet, the main increases related to equity (+13.7%) and financial liabilities (+20.5%).

Intangible assets increased by 6.7% to euro 5,670 million. Within intangible assets, capitalised development costs went up by 4.7% to euro 5,034 million. Development costs recognised as assets during the year under report amounted to euro 1,333 million (–13.2%), equivalent to a capitalisation ratio of 42.4% (2006: 47.9%). The lower level of additions to capitalised development costs in 2007 was due to the smaller number of projects in the series development phase. Amortisation on intangible assets amounted to euro 1,109 million (+27.2%).

The carrying amount of property, plant and equipment decreased slightly (–1.6%) to euro 11,108 million. The bulk of capital expenditure related to further expansion of the worldwide production and sales networks. Capital expenditure on property, plant and equipment was euro 2,684 million or 1.1% more than in the previous year. Depreciation on property, plant and equipment totalled euro 2,471 million (+6.8%). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 5 million. Capital expenditure on intangible assets and property, plant and equipment totalled euro 4,267 million (–1.1%), which, as in the previous year, was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 7.6% (2006: 8.8%).

As a result of the growth of financial services business, the total carrying amount of leased products increased sharply by 24.7% to euro 17,013 million. Adjusted for changes in exchange rates, leased products would have risen by 33.2%.

The carrying amount of other investments decreased by 47.9% to euro 209 million, mainly as a result of the settlement of the exchangeable bond on the investment in Rolls-Royce plc, London, completed in 2007. The BMW Group no longer holds any shares in Rolls-Royce plc, London.

Receivables from sales financing were up by 12.8% to euro 34,244 million due to higher business volumes. Of this amount, retail customer and dealer financing accounted for euro 26,181 million (+13.6%) and finance leases accounted for euro 8,063 million (+10.0%). Inventories increased by euro 555 million or 8.2% to euro 7,349 million, mainly due to higher business volumes. Trade receivables went up by 18.3% compared to one year earlier.

Financial assets increased by 21.4% to euro 4,795 million, mainly as a result of higher fair values of derivative financial instruments.

Liquid funds increased by 29.1% to euro 4,352 million. Whereas marketable securities were roughly at the previous year's level, cash and cash equivalents increased by euro 1,057 million compared to one year earlier.

On the equity and liabilities side of the balance sheet, equity grew by 13.7% to euro 21,744 million. The profit for the year attributable to shareholders of BMW AG increased equity by euro 3,126 million. Fair value changes recognised directly in other accumulated equity reduced equity by euro 61 million (2006: reduction of euro 43 million). The latter comprises translation differences, fair value gains and losses on financial instruments and available-for-sale securities as well as actuarial gains and losses for pension provisions. The increase in the discount factor applied, especially in Germany, in 2007 gave rise to actuarial gains totalling euro 528 million. The carrying amounts of investments decreased, mainly reflecting the settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Translation differences reduced accumulated other equity by a further euro 384 million. By contrast, derivative financial instruments increased by euro 366 million. Deferred taxes on fair value gains and losses recognised directly in equity corresponded to a negative amount of euro 388 million at 31 December 2007.

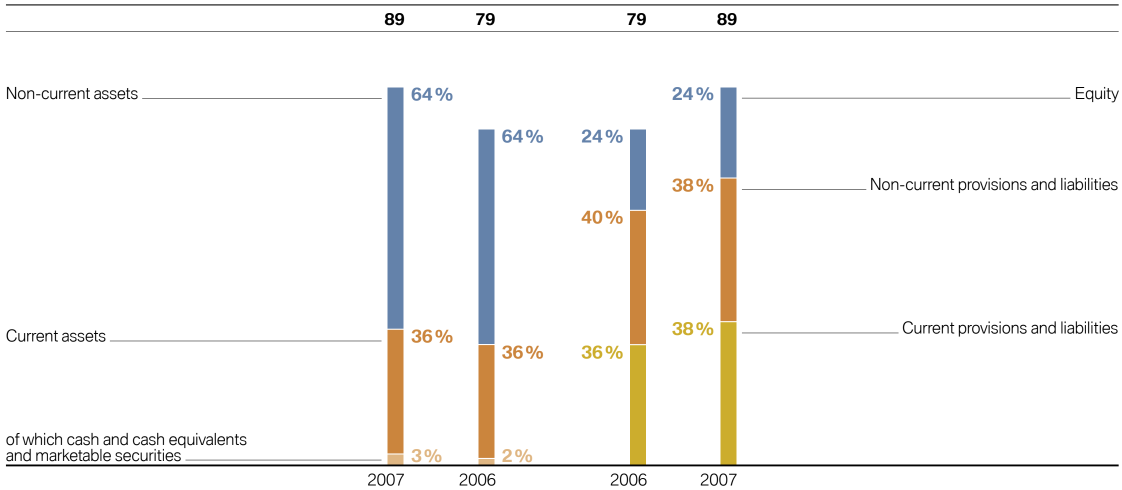
Minority interests amounted to euro 11 million. The equity ratio of the BMW Group therefore improved by 0.2 percentage points to 24.4%.

The equity ratio for Industrial Operations was 43.8% compared to 40.6% at the end of the previous year. The equity ratio for Financial Operations fell from 10.4% at the end of the previous year to 9.2% at 31 December 2007.

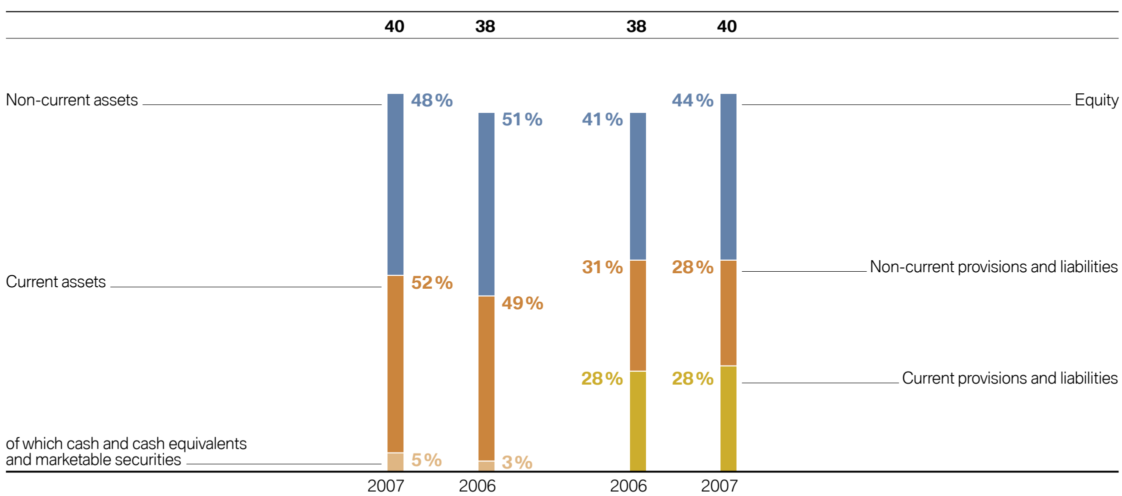
The amount recognised in the balance sheet for pension obligations decreased by 7.8% to euro 4,627 million. As in the previous year, the amount reported under pension provisions corresponds to the full defined benefit obligation (DBO). In the case of pension plans with fund assets, the fair value of fund assets is offset against the defined benefit obligation. The decrease in pension obligations was attributable principally to the higher discount factor in Germany.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Balance sheet structure Group
in euro billion



Balance sheet structure Industrial Operations
in euro billion



Other provisions went down slightly (– 0.6 %) to euro 5,502 million. Deferred tax liabilities were down by euro 44 million to euro 2,714 million, whereby the deferred tax effects of the Business Tax Reform Act, fair value gains and losses recognised directly in equity and translation differences largely offset each other. Financial liabilities went up by 20.5 %, reflecting the strong growth of the financial services business. Within financial liabilities, bonds increased by 12.0 % to euro 18,383 million. Liabilities to banks, asset backed financing obligations and commercial paper were all also up.

Trade payables amounted to euro 3,551 million and were thus 5.0 % lower than one year earlier.

Other liabilities were 4.7 % higher at euro 6,130 million, mainly due to the increase in deferred income relating to service and repair contracts and lease financing.

Compensation Report

The compensation of the Board of Management comprises fixed and variable remuneration components. In addition, benefits are also payable at the end of members' mandates, primarily in the form of pension benefits. Further details, including an analysis of remuneration by individual, are disclosed in the Compensation Report which can be found in the "Corporate Governance" section of the Annual Report on pages 142 to 145. The Compensation Report is a sub-section of the Management Report.

Subsequent Events Report

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

Value Added Statement

The value added statement shows the value of work performed less the value of work bought in by the BMW Group during the financial year. Depreciation and amortisation, cost of materials and other expenses are treated as bought-in costs in the value added calculation. The allocation statement applies value added to each of the participants involved in the value added process. It should be noted that the gross value added treats depreciation as a component of value added which, in the allocation statement, is treated as internal financing.

Net value added by the BMW Group in 2007 increased by 3.8 % to euro 14,096 million. The increase over the previous year was largely attributable to the higher level of revenues. The increase in gross value added, at 9.5 %, was even more pronounced since it is not affected by depreciation and amortisation, which are higher than in the previous year.

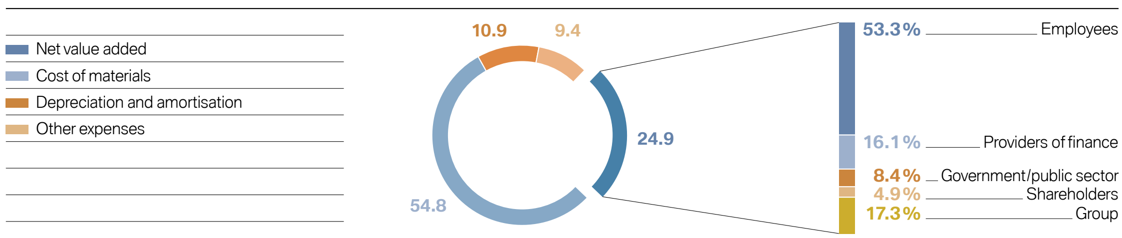
The bulk of the net value added (53.3 %) is applied to employees. The amount applied to providers of finance increased to 16.1 % as a result of the higher funding volume required for financial services business. The government/public sector (including deferred tax expense) accounted for 8.4 %. The proportion of net value added applied to shareholders, at 4.9 %, was higher than in the previous year. The remaining proportion of net value added (17.3 %) will be retained in the Group to finance future operations. It decreased by 0.4 percentage points compared to one year earlier.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

BMW Group value added statement

in euro million	2007	2007 in %	2006	2006 in %	Change in %
Work performed					
Revenues	56,018	98.9	48,999	97.7	
Financial income	–114	–0.2	393	0.8	
Other income	730	1.3	744	1.5	
Total output	**56,634**	**100.0**	**50,136**	**100.0**	**13.0**
Cost of materials	31,019	54.8	26,598	53.1	
Other expenses	5,355	9.4	5,037	10.0	
Bought-in costs	**36,374**	**64.2**	**31,635**	**63.1**	**15.0**
Gross value added	**20,260**	**35.8**	**18,501**	**36.9**	**9.5**
Depreciation and amortisation	6,164	10.9	4,916	9.8	
Net value added	**14,096**	**24.9**	**13,585**	**27.1**	**3.8**
Applied to:					
Employees	7,511	53.3	7,448	54.9	0.8
Providers of finance	2,270	16.1	1,627	12.0	39.5
Government/public sector	1,181	8.4	1,636	12.0	27.8
Shareholders	694	4.9	458	3.4	51.5
Group	2,432	17.3	2,410	17.7	0.9
Minority interest	8	–	6	–	33.3
Net value added	**14,096**	**100.0**	**13,585**	**100.0**	**3.8**

BMW Group value added 2007
in %



Key Performance Figures

		2007	2006
Gross margin	%	21.8	23.1
EBITDA margin	%	14.1	14.9
EBIT margin	%	7.5	8.3
Pre-tax return on sales	%	6.9	8.4
Post-tax return on sales	%	5.6	5.9
Pre-tax return on equity	%	20.2	24.3
Post-tax return on equity	%	16.4	16.9
Equity ratio – Group	%	24.4	24.2
Industrial Operations	%	43.8	40.6
Financial Operations	%	9.2	10.4
Coverage of intangible assets, property, plant and equipment by equity	%	129.6	115.3
Return on Assets			
BMW Group	%	5.3	6.3
Financial Services	%	1.3	1.4
Return on Capital Employed			
Automobiles	%	22.8	21.7
Motorcycles	%	18.2	17.7
Cash inflow from operating activities	euro million	11,794	9,980
Cash outflow from investing activities	euro million	17,248	13,670
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	68.4	73.0
Net financial assets of Industrial Operations	euro million	7,052	5,385

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Comments on the financial statements of BMW AG

Whereas the Group financial statements are drawn up in accordance with IFRSs issued by the IASB, the financial statements of BMW AG are drawn up in accordance with the provisions of the German Commercial Code (HGB). Where it is permitted and considered sensible, the principles and policies of IFRSs are also applied in the individual company financial statements. The pension provision in the individual company financial statements, for example, is also determined in accordance with IAS 19 and the full defined benefit obligation recognised. In numerous other cases, however, the accounting principles and policies in the individual company financial statements of BMW AG differ from those applied in the Group financial statements. The main differences relate to the recognition of intangible assets, depreciation and amortisation methods, the measurement of inventories and provisions as well as the treatment of financial assets.

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself and foreign subsidiaries. These vehicles are sold through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2007 rose by 12.8% to 1,541,503 units. At 31 December 2007, BMW AG had 76,064 employees, 92 fewer than one year earlier. Wage earners account for approximately 53% of the workforce.

In 2007, revenues were 13.9% higher than in the previous year. Sales to foreign Group sales companies accounted for euro 36.0 billion or approximately 74.5% of the total revenues of euro 48.3 billion. Cost of sales increased slightly faster than revenues. In absolute terms, gross profit improved by euro 0.8 billion (+13.4%) and amounted to euro 6.9 billion.

Adverse currency factors in the area of the US dollar and Japanese yen as well as continued intense competition on the automobile markets had a negative impact on BMW AG's earnings. The change in the interest rate used to discount the pension provision (raised from 4.40% in 2006 to 5.50% in 2007) and the new Retirement Age Amendment Act both had a positive impact on earnings.

Capital expenditure on intangible assets and property, plant and equipment was increased by 26.1% to euro 1,670 million (2006: euro 1,324 million), with the increase mainly attributable to the high level of product and infrastructure investments made at the Dingolfing plant. Depreciation and amortisation amounted to euro 1,791 million.

Equity rose by euro 727 million to euro 5,648 million. The existing authorisation to acquire treasury shares was not exercised during the financial year 2007. The equity ratio increased from 23.4% to 25.0%. Long-term external capital (registered profit-sharing certificates, special untaxed reserves, pension provisions, the liability to the BMW Unterstützungsverein e.V. and liabilities due after one year) decreased by 15.0% to euro 4,068 million.

A special untaxed reserve pursuant to §6b (3) German Income Tax Act (EStG) was recognised in 2007.

As in previous years, the cash inflow from BMW AG's operating activities was utilised in 2007 to finance the operations of affiliated companies.

BMW AG **Balance Sheet at 31 December** in euro million	2007	2006
Assets		
Intangible assets	109	80
Property, plant and equipment	4,986	5,268
Investments	4,814	4,823
Tangible, intangible and investment assets	**9,909**	**10,171**
Inventories	2,654	2,866
Trade receivables	1,218	1,075
Receivables from subsidiaries	5,937	4,478
Other receivables and other assets	644	693
Marketable securities	1,763	1,583
Cash and cash equivalents	436	106
Current assets	**12,652**	**10,801**
Prepayments	**55**	**73**
Total assets	**22,616**	**21,045**

Equity and liabilities		
Subscribed capital	654	654
Capital reserves	1,991	1,991
Revenue reserves	2,309	1,818
Unappropriated profit available for distribution	694	458
Equity	**5,648**	**4,921**
Registered profit-sharing certificates	**34**	**34**
Special untaxed reserve for emission rights granted free of charge	**–**	**1**
Special untaxed reserves	**34**	**–**
Pension provisions	3,793	4,347
Other provisions	6,292	6,131
Provisions	**10,085**	**10,478**
Liabilities to banks	394	607
Trade payables	1,716	2,046
Liabilities to subsidiaries	2,597	1,618
Other liabilities	2,094	1,313
Liabilities	**6,801**	**5,584**
Deferred income	**14**	**27**
Total equity and liabilities	**22,616**	**21,045**

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

BMW AG **Income Statement** in euro million	2007	2006
Revenues	48,310	42,417
Cost of sales	–41,448	–36,364
Gross profit	**6,862**	**6,053**
Sales costs	–2,786	–2,560
Administrative costs	–881	–917
Research and development costs	–2,828	–2,966
Other operating income and expenses	731	654
Result on investments	255	304
Net interest result	–38	–8
Profit from ordinary activities	**1,315**	**560**
Income taxes	–115	–60
Other taxes	–16	–15
Net profit	**1,184**	**485**
Profit carried over from previous year	1	4
Transfer to revenue reserves	–491	–31
Unappropriated profit available for distribution	**694**	**458**

Revenues from the sale of vehicles to car rental companies are not recognised when there is an obligation to take back the vehicles. In accordance with the draft financial reporting pronouncement "Specific Issues relating to the Transfer of Beneficial Ownership and Profit Realisation in accordance with HGB" (IDW ERS HFA 13 revised version dated 29 November 2006) issued by the German Institute of Public Accountants (IDW), vehicles remain on the balance sheet, measured at amortised cost, because, on the basis of the criteria set out in the pronouncement, beneficial ownership has not been transferred to the car rental companies.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The BMW AG Financial Statements and Management Report for the financial year 2007 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. These financial statements are available from BMW AG, 80788 Munich, Germany.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Risk management in the BMW Group

All entrepreneurial activities involve an element of risk. Some of those risks can be quite substantial. They may arise in conjunction with business operations or they may affect a company as a result of external factors. Other risks arise as business becomes more international. As a globally operating enterprise, the BMW Group is confronted with numerous risks. Price fluctuations on the global currency, money, capital and commodity markets as well as shorter innovation cycles result in an ever-rising complexity which places great demands on enterprises with international operations.

The BMW Group has long been founded on the idea of consciously taking reasonable (measurable) risks and making full use of the opportunities relating to those risks. As part of the risk reporting system, the Board of Management and the Supervisory Board are regularly informed about risks which could have a significant impact on business development.

The BMW Group has an integrated risk management system which provides it with the information to be prepared for changes in market and other conditions. The system also enables it to manage the value-added process within the Group. Business decisions are reached after consideration of in-depth project analyses which present potential risks and opportunities in detail. In addition, as part of the long-term planning strategy and short-term forecasting procedures, the risks and opportunities attached to specific business activities are evaluated and used as the basis for setting targets and implementing appropriate risk-mitigation measures.

The risk management process ensures that risks are identified at an early stage and that suitable instruments are employed for both the management and monitoring of those risks. The risk management system comprises a wide range of organisational and methodological components that are all finely tuned with each other. The system's decentralised structure also encourages a balanced approach to risks at all organisational levels.

The Group reporting system provides the decision makers with comprehensive, up-to-date information on performance against targets and on new developments with regard to the market and competitors. Critical success factors are monitored continuously to ensure that unfavourable developments are identified at an early stage so that appropriate countermeasures can be implemented.

Overall risk management within the BMW Group is managed centrally and is reviewed for its appropriateness and effectiveness by external auditors and by the Group's internal audit department. The findings reached serve as the basis for further improvements.

A network of risk managers is in place throughout the Group, regularly carrying out risk reviews in which significant risks are recorded, systematically identified, measured and reported upon on a timely basis. The reviews cover general economic, legal and compliance risks as well as risks specific to the automobile sector and to internal processes. Risk managers are allocated to predefined areas to carry out reviews for the risk network. The network can draw on experts with specialist knowledge in specific risk areas. Based on the BMW Group's set of risk principles, decisions are made as to whether risks should be avoided, reduced, insured against or entered into if there are potential business opportunities.

For the basis for an organisation that is permanently learning, standardised rules are in place, which are consistently applied throughout the Group. Risk management is an ongoing task, since changes in the legal, economic or regulatory environment or changes within the Group itself could lead to new risks or to known risks being assessed differently. By regularly sharing experiences with other companies, the BMW Group ensures that innovative ideas and approaches flow into the risk management system and that risk management is subjected to continual improvement. Regular training sessions, continued education measures and information events are invaluable ways of preparing people for new or additional requirements with regard to the processes in which they are involved.

At present, no risks have been identified which could threaten the existence of the BMW Group or which could have a materially adverse impact on the net assets, financial position or results of operations of the Group. However, risks can never be entirely ruled out.

In the course of its business activities, the BMW Group is exposed to various types of risk which are addressed below. Additional comments on risks in conjunction with financial instruments are provided in note [38] of the consolidated financial statements.

Risks relating to the general economic environment

As a globally operating enterprise, the BMW Group is affected by global economic factors such as changes in currency parities and changes on the financial markets. The US dollar is particularly important for the development of Group revenues and earnings and represents the greatest individual risk within the BMW Group's foreign currency portfolio. Exchange rate fluctuations of the Japanese yen, the British pound and the Chinese renminbi in relation to the euro can also have a material impact on earnings. Based on Group forecasts, these four currencies account for some 75% of the foreign currency exposure of the BMW Group.

The BMW Group manages currency risks at both a strategic and an operating level. From a strategic point of view, i.e. in the medium and long term, the BMW Group endeavours to manage foreign exchange risks by "natural hedging", in other words by increasing the volume of purchases denominated in foreign currency or increasing the volume of local production. In the short to medium term (i.e. for operative purposes), currency risks are hedged on the financial markets. Hedging transactions are entered into only with financial partners of first-class credit standing. The nature and scope of such measures are set out in guidelines applicable throughout the BMW Group. A cash-flow-at-risk model and scenario analyses are used to measure exchange rate risks. These instruments are also used as part of the process of currency management for the purpose of taking business decisions.

The BMW Group reduces currency risk by refinancing its financing and lease business as a general rule in the currency of the relevant market. If funds are raised in a foreign currency, swap contracts are concluded immediately afterwards in the corresponding local currency in order to reduce the risk exposure.

Liquidity and interest-rate risks are managed within the BMW Group by raising refinancing funds with matching maturities and by employing derivative financial instruments. Interest-rate risks are measured and limited both at a country and Group level on the basis of the value-at-risk concept. The risk-return ratio is also measured regularly using simulated computations in conjunction with a present value-based interest-rate management system. Sensitivity analyses, which contain stress scenarios and show the potential impact of interest rate changes on earnings, are also used as tools to manage interest-rate risks. Credit lines with various banks and the use of various financing instruments ensure sufficient liquid funds are available to the Group. Liquidity risk is continuously monitored at a separate entity level and documented in a rolling cash flow forecasting system.

A major part of financing and lease business within the Financial Services segment is refinanced on the capital markets. As a result of its good credit standing, reflected in the long standing first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is able to obtain competitive conditions. The long-term ratings for the BMW Group published by Standard&Poor's and Moody's in September 2005 remain unchanged, also helping the BMW Group to obtain competitive conditions. Moody's issued an A1 rating and S&P an A+ rating, both with stable outlook. As a consequence of the general crisis of confidence on the financial markets, financing conditions also deteriorated for the BMW Group in the second half of 2007, despite the good ratings that it enjoys.

Changes in the international raw material markets also have an impact on the business development of the BMW Group. In order to safeguard the supply of production materials and to minimise the cost risk, the commodity markets relevant for the BMW Group are closely monitored. The market price trend of precious metals such as platinum, palladium and rhodium, for which appropriate hedging strategies are decided upon by the Raw Materials Committee, is also important in this context.

Changes in the price of crude oil, which is an important basic material in the manufacture of components, have an indirect impact on production costs. As a manufacturing enterprise, the BMW Group is also affected by changes in energy prices, caused by both market factors and tax legislation.

Cyclical economic fluctuations also represent risk factors for future business development. Unfore-

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

seeable interventionist economic policies can also impair the BMW Group's performance in specific markets. The BMW Group anticipates these risks by monitoring the markets in detail and by observing early warning indicators. The BMW Group's worldwide operations also have the effect of spreading risk. At the same time, determined engagement in new markets and segments with both existing and new products creates significant opportunities for the BMW Group to strengthen its competitive position.

An escalation of political tensions, terrorist activities or possible pandemics could have a negative impact on the general economic situation, the international capital markets and hence the business development of the BMW Group.

Specific industry risks
Fuel prices, whether influenced by market or governmental tax policies, and increasingly stringent requirements to reduce vehicle fuel consumption and emissions, all set high demands on the BMW Group's engine and product development activities. One manifest result of this has been the reduction of consumption and emissions achieved with the BMW Group's EfficientDynamics strategy.

The issue of CO_2 emission limits based on the unladen weight of a vehicle has been taken up by the European Commission. This involves setting differentiated CO_2 emission limits on the basis of predefined vehicle classes. The proposal requires significantly higher CO_2 reductions for larger vehicle classes than for smaller ones. Consumption efficiency requirements and proposals have also been put forward in the USA. The proposed rules for CO_2 emissions and fuel economy could have a materially adverse effect on the business development of the Automobiles segment and consequently on the Group's earnings performance.

The BMW Group is confronting these challenges by rigorously applying its technological expertise and innovative strength to reduce the CO_2 emissions of its vehicles. The EfficientDynamics strategy was adopted back in 2000: a combination of highly efficient engines, improved aerodynamics, lightweight construction and energy management reduces the average fuel consumption of the vehicle fleet. In the medium term, the BMW Group is working on achieving additional fuel economy by a wide range of measures from electrification of the drivetrain through to hybrid solutions. In the long-term, the BMW Group is committed to the use of hydrogen gained from various renewable sources to power engines. The need to reduce consumption and emissions is fully integrated into the Group's product innovation process. A specialist department is studying the interplay of energy management, aerodynamics, lightweight construction, drive performance and CO_2 emissions. The BMW Group advocates the use of differentiated CO_2 limits for different vehicle classes. These limits should be set at levels that are transparent and therefore meet customers' expectations. Achieving real improvements for the environment requires measures to be applied fairly to all vehicle classes. The BMW Group therefore supports the current debate as to how ecological improvements can be achieved that take all factors into account.

Operating risks
Risks arising from business interruption and loss of production are insured up to economically reasonable levels. The BMW Group's highly flexible production network and working time models also help to reduce operating risks.

Close cooperation between manufacturers and suppliers is normal in the automotive sector, and whilst this provides economic benefits, it also creates a degree of mutual dependence. Some suppliers have become very important for the production activities of the BMW Group. Delivery delays, cancellations, strikes or poor quality can lead to production stoppages, and thus have a negative impact on profitability. The Group mitigates this risk by employing extensive procedures for selecting, monitoring and handling suppliers. Before selection, for example, both the technical competence and the financial strength of potential suppliers are appraised. A comprehensive Supplier Relationship Management system, which also takes account of social and ecological aspects, helps to reduce risk exposure.

Risks relating to the provision of financial services
As a consequence of the ongoing successful growth in lease business, the BMW Group also faces

a volume-induced increase in the residual value risk on vehicles returned to the Group at the end of lease contracts. Residual values of BMW Group vehicles on the used car markets are continuously monitored over time, and future developments forecasted. External market observations are also used in this context. The overall risk exposure is measured each quarter by comparing forecasted market values and contractual values according to model and market and the return ratio computed. Thanks to active lifecycle management for current models and measures aimed at optimising the process of international reselling, residual value risks remained at a stable, albeit low, level compared to the previous year. Identified risks are covered in the balance sheet either by provisions or by write-downs on the lease vehicles concerned. Market forecasts also confirm the stable trend for lease residuals of the Group's car lease portfolio. Internal and external forecasts as well as actual prices achieved on the market, broadly document high residual values for cars manufactured by the BMW Group.

Operational risks relating to the financial services business include the risk of damage caused by inappropriate or failed internal procedures and systems, human error or external factors. The scope of procedures applied in each country to manage operational risks is set out in a Group manual which, amongst other things, addresses the requirements of the Basle II accord. This manual stipulates the rules for identifying and measuring potential risk scenarios and for computing key risk indicators on an ongoing basis. It also sets out the Group's systematic approach to recording losses and the nature of any agreed risk mitigation measures. Both qualitative and quantitative aspects are required to be taken into account in the decision process. The latter is backed up by various system-based solutions, all of which follow the principles of operational risk management, such as separation of duties, dual control and the documentation of system changes. In addition, the effectiveness and efficiency of the internal control system are tested regularly.

Credit risks affecting the retail customer business (leasing, financing) on the one hand and the commercial customer financing business (dealers, fleet customers, importers) on the other, are continually monitored, assessed and measured, and where necessary, risk mitigating measures put into place. In line with the Group's own mandatory risk guidelines and the stringent requirements imposed by Basle II, the main risk measurement methods used are customer scoring (retail customer business) and credit rating (commercial customer business). Close contacts with borrowers, a good understanding of the leased or financed vehicles involved, prudent measurement of collateral and the use of local credit audits all help to prevent losses. For risk management purposes, the BMW Group reverts to normal good banking practises, such as the use of maximum unsecured risks for each rating category. Risk criteria such as arrears and bad debt ratios are analysed quarterly and used to actively manage the credit portfolio and improve portfolio quality. The credit decision process comprises up to three phases. Depending on the credit volume applied for and the credit risk rating of the party involved, financing applications for international dealers, importers and fleet customers are presented to the local, regional or global credit committees for approval. The dual control and segregation of duties principles apply worldwide and are rigorously implemented. In order to minimise risk further, the BMW Group is continuously making efforts to standardise its credit-decision processes and the quality of credit applications, and to ensure that uniform and transparent rating systems are in place worldwide. Provisions are recognised in the balance sheet to cover identified risks.

Legal risks

The BMW Group is currently not involved in any court or arbitration proceedings which could have a significant impact on its financial condition.

Compliance with the law is a basic prerequisite for the success of the BMW Group. Current law provides the binding framework for the BMW Group's various business activities around the world. The growing international scale of business and the huge number of complex legal regulations increase the risk of laws being broken simply because they are not known or fully understood. The BMW Group takes all necessary measures to ensure that its management bodies, managers and staff act lawfully. It is essential for all employees to know and to comply with current legal regulations. The extent of

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

those legal regulations is set out in corporate guidelines and in the BMW Group's stated set of core principles. However, wrongdoing by individuals can never be entirely ruled out. It is the BMW Group's objective to keep such risks to a minimum and to systematically uncover any cases of corruption, bribery or blackmail. The BMW Group set up a Compliance Committee in 2007 which reports directly to, and advises, the Board of Management of BMW AG.

Like all enterprises, the BMW Group is exposed to the risk of warranty claims. Adequate provisions have been recognised in the balance sheet to cover such claims. Part of the risk, especially where the American market is concerned, has been insured externally up to economically acceptable levels. The high quality of BMW Group products, additionally ensured by regular quality audits and ongoing improvement measures, helps to reduce this risk. In comparison with competitors, this can give rise to benefits and opportunities for the BMW Group.

Changes in the regulatory environment may impair the sales volume, revenues and earnings performance of the BMW Group in individual markets or economic regions. Further information is given in the section on sector-specific risks.

Personnel risks

As an attractive employer, the BMW Group has found itself in a favourable position for many years in the intense competition for qualified technical and management staff. Employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift. The BMW Group's attractiveness as an employer also helps to ensure that appropriately qualified staff can be recruited, particularly in conjunction with the implementation of the Group's new strategy.

An ageing and shrinking population in Germany will have a lasting impact on the conditions prevailing in the labour, product, services and financial markets. Demographic change will give rise to risks and opportunities which will affect enterprises more and more in the coming years. The BMW Group sees demographic change as one of its main challenges and is actively involved in planning for its effect on operations. The focus is on the following areas of action, aimed at creating and retaining a motivated workforce in the long-term:

(1) the creation of a working environment for the future
(2) promotion and maintenance of the workforce's ability to perform with the appropriate set of skills
(3) appropriate levels of qualification
(4) increasing employees' awareness of their responsibility to make personal provisions for their future
(5) individual employee working life-time models

The BMW Group's pension obligations to its employees resulting from defined benefit plans are measured on the basis of actuarial reports. In accordance with IAS 19, future pension payments are discounted by reference to market yields on high-quality corporate bonds. These yields are subject to market fluctuation and influence the level of pension obligations. Furthermore, changes in other factors, such as longer life expectancies, can also have an impact on pension obligations. In the United Kingdom, the USA and a number of other countries, funds intended to cover pension entitlements are held in pension funds which are kept separate from corporate assets and are mainly invested in fixed-income securities (with a high level of creditworthiness), equities and property. In Germany, by contrast, the funds remain part of the enterprise's assets.

Risks affecting pension funds are monitored continuously and managed from a risk and yield perspective. Regular asset-liability studies are performed and used to match the maturities of interest-generating investments with future pension payments, thereby reducing the interest rate risk attached to each pension fund. Investments are broadly spread in order to reduce risk. In addition, risk limits for investment activities have been defined for each pension fund and are monitored continuously.

Risk indicators (e.g. value-at-risk) are regularly computed in order to identify risks at an early stage. Risk mitigation measures are put into place as soon as predefined risk limits are reached. Worst-case analyses are also carried out regularly to assess the potential impact on the Group of unexpectedly high market fluctuations.

From 2008 onwards, in a measure to reduce risks further, the BMW Group intends to set up pension funds for all of its pension commitments that are not already externally funded. This will take place over the coming years in three stages.

Information and IT risks
Great importance is attached in the BMW Group to the protection of data, business secrets and innovative development against unauthorised access, damage and misuse. The protection of information and data is an integral component of business processes and is achieved within the BMW Group by applying international security standards. Employees, process design and information technology each play a role in the Group's comprehensive security concept. The Group's procedures are documented in regularly updated manuals, guidelines and process descriptions. All of these require employees to handle information appropriately and ensure that information systems are properly used. Purposeful communication and training measures create a high degree of security awareness on the part of all people involved. The technical data protection procedures used by the BMW Group include process-specific security measures as well as standard activities such as virus scanners, firewall systems and access controls at operating system and application level. Further measures include internal testing procedures and the regular back-up of data. A security network is in place throughout the Group to ensure compliance with security specifications. Regular analyses and rigorous security management ensure high-quality protection. This includes the activities of the BMW Group's Security Operations Centre which is responsible for the security of internal network communications. The Group's core process "Product development" and the related IT infrastructure have been audited and certified to international security standard ISO 27001/17799. Protecting BMW Group-specific know-how is also treated as a major issue as far as cooperation arrangements and relationships with partner companies are concerned. The BMW Group protects its intellectual property by ensuring that the relevant departments have clear instructions regarding data protection and the use of information technology. Information underlying key areas of expertise is subject to particularly stringent security measures. In addition, employees working in such functions are increasingly receiving specific training in the area of data protection.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

The economic environment in 2008

The BMW Group forecasts that the global economy will again lose some of its momentum in 2008, but will nevertheless continue to grow. The pace will again be set by the emerging markets in Asia, Latin America and Eastern Europe, whereas growth in North America and the rest of Europe is likely to be robust, but nowhere near as high. From today's perspective, the US credit crisis is not expected to result in massive global economic upheaval. It could, however, hold down domestic demand somewhat, particularly in the USA itself, without causing a recession there.

The US growth rate in 2008 will again remain below the average registered in recent years. The impact of the property and credit crisis is not likely to tail off until the second half of the year at the earliest. The US Federal Reserve will no doubt endeavour to stimulate the economy with further interest rate cuts. It is nevertheless likely that consumers will be much more reluctant to spend than they were a year ago. Overall, the growth rate should remain at roughly the same level as in the previous year.

By contrast, a slowdown in growth is forecasted for Europe in 2008. Firstly, higher interest rates will take their toll and hold down investment volumes. Secondly, export growth is likely to weaken once again. The sharp increase in the inflation rate at the turn of the year will probably deter the European Central Bank from lowering interest rates significantly.

The growth rate for Germany will also weaken. Whereas private consumption is forecasted to remain buoyant, exports and particularly investments are likely to grow at a much slower pace.

The Japanese economy should grow in 2008 at a somewhat lower pace to that of 2007, with momentum still coming from both the domestic market and abroad. The recent sharp rise in consumer prices – mostly due to higher energy prices – should make it easier for the Japanese central bank to increase interest rates in small steps.

The emerging economies of Asia, Latin America and Eastern Europe will continue to expand rapidly with growth rates only marginally down on the previous year.

A generally strong euro expected

The euro again appreciated sharply against the US dollar in the course of 2007. Lower interest rates, weaker growth and the USA's high current account deficit all suggest that the US dollar is likely to remain weak in the near future.

Although the British pound fell steeply during the second half of 2007, it is not expected to suffer any further significant loss in value.

The Japanese yen also depreciated sharply in 2007. The fact that interest rates are still on the low side in Japan means that the yen is likely to remain undervalued for the time being.

Risks affecting economic growth

Energy and commodity prices will remain high in 2008, reflecting the fact that demand – in particular from the emerging economies – will continue to grow strongly. With the global economy still enjoying robust growth and the US dollar weakening, commodities are likely to remain in demand as an investment in the near future. As a result of the extremely tense situation on the markets, the risk of speculative price rises remains present for the foreseeable future. The most significant risk emanates from the credit crisis in the USA. Should the crisis become more serious in the USA or spill over into other markets, this could result in a significantly lower global growth rate. All in all, the credit crisis causes forecasts for 2008 to be subject to a high degree of uncertainty.

Economic outlook for the automobile industry in 2008

The global automotive economy will again be driven by the emerging economies of Asia, Eastern Europe and Latin America, whereas sales on the three main traditional markets (Japan, the USA and Western Europe) are likely to stagnate.

Double-digit growth is again forecasted for China and India in 2008. The forecast for Russia and some of the Latin American markets is on a similar scale. Growth will also remain strong overall in Eastern Europe.

By contrast, the car markets in the USA, Japan and Western Europe are still not generating any momentum. At best, the markets there will stagnate. Car sales will decrease slightly in the USA in the wake of the credit crisis. Japan is also unlikely to see any significant upturn. This also applies to Western Europe taken as a whole. A slight recovery is, however, forecasted for Germany.

Motorcycle markets will continue to develop divergently

The divergent development of the international motorcycle markets will continue in 2008. The BMW Group forecasts that the overall market for motorcycle sales in the 500 cc plus segment should be close to the previous year's level.

Whereas the US market is forecasted to contract slightly, the markets in Europe and Asia should remain stable overall, with European markets in particular again developing divergently.

More difficult environment for the financial services sector

The current market environment is having an adverse impact on the refinancing and liquidity situation and on credit risk within the financial services sector. In combination with a stronger euro, this will put a strain on profitability within the sector.

Outlook for the BMW Group in 2008

In the light of the general economic environment discussed above, the BMW Group believes that it will continue to perform successfully in the financial year 2008 with the initial benefits of the Group's new strategic direction already becoming visible.

With the Number ONE strategy, the BMW Group will lay the foundation in 2008 for the planned improvement in profitability. This will involve measures on both the revenue and expenditure side. In total, the BMW Group is aiming to achieve cumulative improvements of some euro 6 billion compared to the original forecasts by 2012. The greatest potential for savings is seen in the cost of materials, the largest block of costs for the business.

As the basis for its continuing success, the BMW Group is also aiming for sales volume records with all three brands and is confident of being able to retain its position as the world's leading premium manufacturer. Further expansion of the product range and targeted engagement on new markets will also help it to achieve these objectives. Against the background of these aims, the BMW Group forecasts that business will grow faster in the first half of 2008 and more moderately in the second.

The BMW Group is also working hard to improve cost efficiency in order to achieve its profitability targets. This focus on costs, which needs to start during the development phase, involves avoiding unnecessary complexity, focusing firmly on achieving value for the customer and creating synergy benefits by the increased use of modular components.

One of the objectives is to reduce research and development expenditure for new products and technologies as efficiently as possible, based on the principle "More output from less input". This will enable the BMW Group to set the R&D ratio to a level of approximately 5.0% – 5.5% of revenues and still meet the same high standards.

In this context, the BMW Group is also setting new targets for the ratio of internal and external input in strategically important technological areas. Further opportunities for better profitability will also come from more efficiently designed interfaces within the Group's supplier network. In future, for example, suppliers will be involved at an even earlier stage in the decision-making process within product and technology projects. In future, wherever it makes commercial sense and the appropriate economies of scale can be realised, the BMW Group will enter into more cooperation arrangements.

The BMW Group believes that, compared to the levels invested in the past, it will be able to reduce its capital expenditure ratio over the coming years whilst, at the same time, still remaining fully prepared to face any future challenges. The plan is to scale down the capital expenditure ratio to below 7.0% of revenues.

10 Group Management Report
10 A Review of the Financial Year
13 General Economic Environment
17 Review of Operations
41 BMW Stock and Bonds
44 Disclosures relating to Takeover Regulations and Explanatory Report
47 Financial Analysis
47 – Internal Management System
49 – Earnings Performance
51 – Financial Position
52 – Net Assets Position
55 – Subsequent Events Report
55 – Value Added Statement
57 – Key Performance Figures
58 – Comments on BMW AG
62 Risk Management
68 Outlook

Within an intensely competitive environment, personnel expense management takes on an ever-greater significance. Substantial efficiency improvements, particularly in production, will enable personnel capacities to be reduced, resulting in lower personnel expenditure. In this context, any opportunities to improve flexibility are made use of in close cooperation with employee representatives. This includes reducing the number of temporary personnel, the use of early retirement models and fluctuation.

In addition to the earnings factors described above, the BMW Group also intends to achieve better capital efficiency – return on capital employed – as part of its strategy to increase the value of the business in the long term. The BMW Group is therefore committed to making more use of performance indicators that allow better management of capital employed.

Segments all expected to perform well

In the coming years, the BMW Group will continue to take full advantage of opportunities to achieve profitable growth in all segments.

Adverse external factors caused by unfavourable exchange rates and high commodity prices will again affect the Automobiles segment's earnings during the financial year 2008. Nonetheless, the BMW Group is targeting a further improvement in segment earnings, with sales volumes continuing to develop positively and the efficiency improvement measures described above beginning to bear fruit. The segment should also achieve a higher return on capital employed.

The BMW Group's Motorcycles segment will continue with its model initiative in 2008. An increase in motorcycle sales is forecasted for all regions. This includes a reversal of the negative trends previously witnessed in Germany and the USA. Segment revenues and earnings will be slightly higher than in 2007.

The Financial Services segment will continue to grow in 2008. Market activities in the segment's established lines of business will be intensified by expanding the product range and paying even greater attention to the needs of dealers, dealer groups and retail customers. The process of geographical expansion will also be continued, particularly in Eastern Europe and Asia.

Multi-brand financial services business will be strengthened, particularly in the area of direct channel operations. In this context, the “up2drive” brand name will be additionally promoted. Within the fleet business, the integration of the acquired fleet management company, DEKRA SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH), will be completed and organic growth continued. All lines of business will continue to be developed in 2008, building on the high quality of service offered by the Financial Services segment in order to strengthen its outstanding market position. The various measures described above will result in a further increase in the volume of financial services business. Simultaneously, continuous measures will be implemented in conjunction with a global project to improve process efficiency. All of these factors give good reason to expect a further increase in segment earnings in 2008.

Overall positive outlook for 2008

External factors will continue to have an adverse impact on the BMW Group's earnings during the financial year 2008. Currency factors (in particular the continuing weakness of the US dollar and the Japanese yen), higher raw material costs and less favourable refinancing conditions as a consequence of the credit crisis still remain the principal challenges to future earnings.

By contrast, the efficiency and productivity improvements described above will have a positive impact on Group earnings. On top of this, the BMW Group forecasts further stable growth for its operating segments which will, in turn, create further impetus for earnings in 2008. Overall, the BMW Group is aiming to improve the quality of earnings in 2008.

This will also be reflected in the key performance figures such as return on sales and return on capital that are used to manage the BMW Group.

Adjusted for the exceptional gain on the Rolls-Royce exchangeable bond in 2007, the BMW Group aims to achieve higher pre-tax earnings for the financial year 2008 than one year earlier.

Numerous projects have already been initiated in conjunction with the Group's strategic realignment, aimed at raising the quality of future earnings. By 2012, the BMW Group's Automobiles segment is aiming to achieve a return on capital employed in excess of 26% and a return on sales in a range of 8% to 10%.

Contents

Group Financial Statements	
Group and Sub-group Income Statements	73
Group and Sub-group Balance Sheets at 31 December	74
Group and Sub-group Cash Flow Statements	76
Group Statement of Changes in Equity	78
Statement of Income and Expenses recognised directly in Equity	79
Notes to the Group Financial Statements	
Accounting Principles and Policies	80
Notes to the Income Statement	89
Notes to the Balance Sheet	96
Other Disclosures	117
Segment Information	131
Responsibility Statement by the Company's Legal Representatives	135
Auditors' Report	136

in euro million	Notes	Group 2007	Group 2006	Industrial Operations* 2007	Industrial Operations* 2006	Financial Operations* 2007	Financial Operations* 2006
Revenues	[8]	56,018	48,999	55,263	49,227	14,349	11,349
Cost of sales	[9]	–43,832	–37,660	–44,331	–39,238	–12,877	–10,050
Gross profit		**12,186**	**11,339**	**10,932**	**9,989**	**1,472**	**1,299**
Sales and administrative costs	[10]	–5,254	–4,972	–4,647	–4,464	–609	–535
Research and development costs	[11]	–2,920	–2,544	–2,920	–2,544	–	–
Other operating income	[12]	730	744	594	626	194	175
Other operating expenses	[12]	–530	–517	–430	–450	–167	–125
Profit before financial result		**4,212**	**4,050**	**3,529**	**3,157**	**890**	**814**
Result from equity accounted investments	[13]	11	–25	11	–25	–	–
Other financial result	[14]	–350	99	–81	383	–139	–33
Financial result		–339	74	–70	358	–139	–33
Profit before tax		**3,873**	**4,124**	**3,459**	**3,515**	**751**	**781**
Income taxes	[15]	–739	–1,250	–496	–1,066	–327	–246
Net profit		**3,134**	**2,874**	**2,963**	**2,449**	**424**	**535**
Attributable to minority interest		8	6	8	6	–	–
Attributable to shareholders of BMW AG		**3,126**	**2,868**	**2,955**	**2,443**	**424**	**535**
Earnings per share of common stock in euro	[16]	4.78	4.38				
Earnings per share of preferred stock in euro	[16]	4.80	4.40				

*before consolidation of transactions between the sub-groups; unaudited

BMW Group
Group and Sub-group Balance Sheets at 31 December

Assets in euro million	Notes	Group 2007	2006	Industrial Operations* 2007	2006	Financial Operations* 2007	2006
Intangible assets	[19]	5,670	5,312	5,550	5,276	120	36
Property, plant and equipment	[20]	11,108	11,285	11,083	11,260	25	25
Leased products	[21]	17,013	13,642	254	254	19,911	16,364
Investments accounted for using the equity method	[22]	63	60	63	60	–	–
Other investments	[22]	209	401	186	388	23	13
Receivables from sales financing	[23]	20,248	17,865	–	–	20,248	17,865
Financial assets	[24]	1,173	816	81	61	1,092	755
Deferred tax	[25]	720	755	1,201	1,192	–1,952	–1,828
Other assets	[26]	415	378	892	875	344	255
Non-current assets		**56,619**	**50,514**	**19,310**	**19,366**	**39,811**	**33,485**
Inventories	[27]	7,349	6,794	7,340	6,784	9	10
Trade receivables	[28]	2,672	2,258	2,592	2,214	80	44
Receivables from sales financing	[23]	13,996	12,503	–	–	13,996	12,503
Financial assets	[24]	3,622	3,134	2,213	2,348	1,409	786
Current tax	[25]	237	246	225	222	12	24
Other assets	[26]	2,109	2,272	6,932	5,574	863	772
Cash and cash equivalents	[29]	2,393	1,336	1,887	1,235	506	101
Current assets		**32,378**	**28,543**	**21,189**	**18,377**	**16,875**	**14,240**
Total assets		**88,997**	**79,057**	**40,499**	**37,743**	**56,686**	**47,725**
Total assets adjusted for asset backed financing transactions		82,651	74,556	–	–	50,340	43,224

*before consolidation of transactions between the sub-groups; unaudited

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Equity and liabilities in euro million	Notes	Group 2007	Group 2006	Industrial Operations* 2007	Industrial Operations* 2006	Financial Operations* 2007	Financial Operations* 2006
Subscribed capital		654	654				
Capital reserves		1,911	1,911				
Revenue reserves		20,789	18,121				
Accumulated other equity		–1,621	–1,560				
Minority interest		11	4				
Equity	[30]	**21,744**	**19,130**	**17,755**	**15,315**	**5,197**	**4,965**
Pension provisions	[31]	4,627	5,017	4,595	4,983	32	34
Other provisions	[32]	2,676	2,865	2,417	2,462	259	403
Deferred tax	[33]	2,714	2,758	2,067	2,012	369	464
Financial liabilities	[34]	21,428	18,800	716	882	20,712	17,918
Other liabilities	[35]	2,024	1,932	1,514	1,458	1,843	1,732
Non-current provisions and liabilities		**33,469**	**31,372**	**11,309**	**11,797**	**23,215**	**20,551**
Other provisions	[32]	2,826	2,671	2,673	2,489	178	207
Current tax	[33]	808	567	654	437	154	130
Financial liabilities	[34]	22,493	17,656	2,090	1,407	20,403	16,249
Trade payables	[36]	3,551	3,737	2,938	3,288	613	449
Other liabilities	[35]	4,106	3,924	3,080	3,010	6,926	5,174
Current provisions and liabilities		**33,784**	**28,555**	**11,435**	**10,631**	**28,274**	**22,209**
Total equity and liabilities		**88,997**	**79,057**	**40,499**	**37,743**	**56,686**	**47,725**
Total equity and liabilities adjusted for asset backed financing transactions		82,651	74,556	–	–	50,340	43,224

* before consolidation of transactions between the sub-groups; unaudited

BMW Group
Group and Sub-group Cash Flow Statements

in euro million	Notes[3]	Group 2007	Group 2006[2]
Net profit		3,134	2,874
Reconciliation of net profit to cash inflow from operating activities			
Current tax		1,002	993
Depreciation of leased products		4,698	3,808
Depreciation and amortisation of tangible, intangible and investment assets		3,689	3,340
Change in provisions		221	–346
Change in deferred taxes		–256	242
Other non-cash income and expense items		111	–329
Gain/loss on disposal of non-current assets and marketable securities		–181	–68
Result from equity accounted investments		–11	25
Changes in current assets and current liabilities			
Change in inventories		–700	–265
Change in receivables		10	–611
Change in liabilities		894	1,050
Income taxes paid		–817	–733
Cash inflow from operating activities	[39]	**11,794**	**9,980**
Investment in intangible assets and property, plant and equipment		–4,267	–4,313
Proceeds from the disposal of intangible assets and property, plant and equipment		272	39
Expenditure for investments		–44	–29
Proceeds from the disposal of investments		16	110
Investment in leased products		–13,261	–10,754
Disposals of leased products		4,917	3,719
Additions to receivables from sales financing		–54,573	–50,313
Payments received on receivables from sales financing		49,813	47,848
Investment in marketable securities		–2,698	–2,654
Proceeds from marketable securities		2,577	2,677
Cash outflow from investing activities	[39]	**–17,248**	**–13,670**
Buy-back of treasury shares		–	–253
Payment of dividend for the previous year		–458	–419
Proceeds from the issue of bonds		6,038	6,876
Repayment of bonds		–4,152	–4,491
Internal financing of financial operations		–	–
Change in other financial liabilities		3,603	1,027
Change in commercial paper		1,526	583
Cash inflow/outflow from financing activities	[39]	**6,557**	**3,323**
Effect of exchange rate and changes in composition of group on cash and cash equivalents	[39]	**–46**	**82**
Change in cash and cash equivalents		**1,057**	**–285**
Cash and cash equivalents as at 1 January		1,336	1,621
Cash and cash equivalents as at 31 December	[39]	**2,393**	**1,336**

1] unaudited
2] Previous year's figures adjusted due to changed presentation of taxes.
3] Interest paid and received are presented in Note [39].

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Industrial Operations[1] 2007	Industrial Operations[1] 2006[2]	Financial Operations[1] 2007	Financial Operations[1] 2006[2]	
2,963	2,449	424	535	Net profit
				Reconciliation of net profit to cash inflow from operating activities
948	938	54	55	Current tax
4	4	4,324	3,560	Depreciation of leased products
3,665	3,315	24	25	Depreciation and amortisation of tangible, intangible and investment assets
398	–220	–143	–130	Change in provisions
–472	77	300	227	Change in deferred taxes
146	–436	–35	107	Other non-cash income and expense items
–180	–70	–1	2	Gain/loss on disposal of non-current assets and marketable securities
–11	25	–	–	Result from equity accounted investments
				Changes in current assets and current liabilities
–703	–261	3	–4	Change in inventories
–98	–493	–112	–135	Change in receivables
368	658	745	485	Change in liabilities
–688	–613	–129	–120	Income taxes paid
6,340	**5,373**	**5,454**	**4,607**	**Cash inflow from operating activities**
–4,156	–4,272	–111	–41	Investment in intangible assets and property, plant and equipment
270	31	2	8	Proceeds from the disposal of intangible assets and property, plant and equipment
–44	–24	–	–5	Expenditure for investments
16	76	–	34	Proceeds from the disposal of investments
–359	–392	–12,902	–10,362	Investment in leased products
354	364	4,563	3,355	Disposals of leased products
–	–	–54,573	–50,313	Additions to receivables from sales financing
–	–	49,813	47,848	Payments received on receivables from sales financing
–2,698	–2,619	–	–35	Investment in marketable securities
2,568	2,419	9	258	Proceeds from marketable securities
–4,049	**–4,417**	**–13,199**	**–9,253**	**Cash outflow from investing activities**
–	–253	–	–	Buy-back of treasury shares
–458	–419	–	–	Payment of dividend for the previous year
–	1	6,038	6,875	Proceeds from the issue of bonds
–	–1	–4,152	–4,490	Repayment of bonds
–1,634	–1,040	1,634	1,040	Internal financing of financial operations
–377	–129	3,980	1,156	Change in other financial liabilities
845	644	681	–61	Change in commercial paper
–1,624	**–1,197**	**8,181**	**4,520**	**Cash inflow/outflow from financing activities**
–15	**104**	**–31**	**–22**	**Effect of exchange rate and changes in composition of group on cash and cash equivalents**
652	**–137**	**405**	**–148**	**Change in cash and cash equivalents**
1,235	1,372	101	249	Cash and cash equivalents as at 1 January
1,887	**1,235**	**506**	**101**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity				Treasury shares	Minority interest	Total
				Translation differences	Securities	Derivative financial instru-ments	Pension obliga-tions			
31 December 2005	**674**	**1,971**	**16,351**	**–646**	**562**	**29**	**–1,462**	**–506**	**–**	**16,973**
Acquisition of treasury shares	–	–	–	–	–	–	–	–253	–	–253
Withdrawal of shares from circulation	–20	–60	–679	–	–	–	–	759	–	–
Dividends paid	–	–	–419	–	–	–	–	–	–	–419
Translation differences	–	–	–	–191	–	20	–28	–	–	–199
Financial instruments	–	–	–	–	–370	198	–	–	–	–172
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	543	–	–	543
Deferred tax on transactions recognised directly in equity	–	–	–	–	22	–69	–168	–	–	–215
Net profit 2006	–	–	2,868	–	–	–	–	–	6	2,874
Other changes	–	–	–	–	–	–	–	–	–2	–2
31 December 2006	**654**	**1,911**	**18,121**	**–837**	**214**	**178**	**–1,115**	**–**	**4**	**19,130**
Dividends paid	–	–	–458	–	–	–	–	–	–	–458
Translation differences	–	–	–	–422	–	7	31	–	–1	–385
Financial instruments	–	–	–	–	–183	366	–	–	–	183
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	528	–	–	528
Deferred tax on transactions recognised directly in equity	–	–	–	–	4	–113	–279	–	–	–388
Net profit 2007	–	–	3,126	–	–	–	–	–	8	3,134
31 December 2007	**654**	**1,911**	**20,789**	**–1,259**	**35**	**438**	**–835**	**–**	**11**	**21,744**

see also Note [30]

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

BMW Group
Statement of Income and Expenses recognised directly in Equity

in euro million	2007	2006
Fair value gains and losses on available-for-sale investments recognised directly in equity	–183	–370
Fair value gains and losses on financial instruments used for hedging purposes recognised directly in equity	373	218
Exchange differences arising on the translation of foreign subsidiaries	–422	–191
Actuarial gains and losses on defined benefit pension and similar obligations	559	515
Deferred tax on gains and losses recognised directly in equity	–388	–215
Gains and losses recognised directly in equity	**–61**	**–43**
Profit after tax attributable to shareholders of BMW AG	**3,126**	**2,868**
Aggregate amount of net profit for period and gains and losses recognised directly in equity	**3,065**	**2,825**

BMW Group
Notes to the Group Financial Statements
Accounting Principles and Policies

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[1] **Basis of preparation**

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft ("BMW Group financial statements" or "Group financial statements") at 31 December 2007 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) mandatory for the financial year 2007 are also applied.

The Group financial statements comply with provision § 315a of the German Commercial Code (HGB). This provision, in conjunction with the Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, relating to the application of International Financial Reporting Standards, provides the legal basis for preparing consolidated financial statements in accordance with international standards in Germany and applies to financial years beginning on or after 1 January 2005.

The BMW Group and sub-group income statements are presented using the cost of sales method. The Group balance sheet and sub-group balance sheets correspond to the classification provisions contained in IAS 1 (Presentation of Financial Statements). In order to improve clarity, various items are aggregated in the income statement and balance sheet. These items are disclosed and analysed separately in the Notes.

In order to support the sale of its products, the BMW Group provides various financial services – mainly loan and lease financing – to retail customers and to dealers. The inclusion of the financial services activities of the Group therefore has an impact on the Group financial statements. In order to provide a better insight into the earnings, financial and net assets position of the Group, additional information has been presented in the BMW Group financial statements on its Industrial and Financial Operations. Financial Operations include financial services and the activities of the Group financing companies. The operating interest income and expense of Financial Operations are included in revenues and cost of sales respectively. The holding companies BMW (UK) Holdings Ltd., Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, BMW (US) Holding Corp., Wilmington, Del., BMW España Finance S. L., Madrid, and BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, are allocated to Industrial Operations. The main business transactions between Industrial and Financial Operations, which are eliminated in the Group financial statements, are internal sales of products, the provision of funds for Group companies and the related interest. These additional disclosures allow the assets, liabilities, financial position and performance of Industrial and Financial Operations to be presented, in accordance with the recognition and measurement principles stipulated by IFRSs, as if they were two separate groups. This information, which has not been audited by the Group auditors, is provided on a voluntary basis.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial companies. These transactions are usually in the form of asset backed financing transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated and Separate Financial Statements) and the interpretation contained in SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet on transfer of the related significant risks and rewards. The balance sheet value of the assets sold at 31 December 2007 totalled euro 6.3 billion (31 December 2006: euro 4.5 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

In addition to credit financing and lease contracts, the Financial Services segment also brokers insurance business via cooperation arrangements entered into with local insurance companies. These activities are not material to the BMW Group as a whole.

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

All of the consolidated subsidiaries have a corresponding year-end to BMW AG.

The Group financial statements, drawn up in accordance with § 315a HGB, and the Group management report for the financial year 2007 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Printed copies will also be made available on request. In addition the Group financial statements and the Group management report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

The Board of Management authorised the consolidated financial statements for issue on 19 February 2008.

[2] Consolidated companies

The BMW Group financial statements include, besides BMW AG, all material subsidiaries, 17 special purpose securities funds and 24 special purpose trusts (almost all used for asset backed financing transactions) both in Germany and abroad.

The number of subsidiaries, special purpose securities funds and other special purpose trusts included in the Group financial statements changed in 2007 as follows:

	Germany	Foreign	Total
Included at 31. 12. 2006	45	144	189
Included for the first time in 2007	4	17	21
No longer included in 2007	–	6	6
Included at 31. 12. 2007	**49**	**155**	**204**

65 subsidiaries (2006: 68), either dormant or generating a negligible volume of business, are not included. Their influence on the Group's earnings, financial and net assets position is immaterial. Non-inclusion of operating subsidiaries reduces total Group revenues by 1.2 % (2006: 1.5 %).

One joint venture is consolidated using the equity method. The investment in TRITEC Motors Ltda., Campo Largo, was sold during the financial year 2007. 16 equity investments are not consolidated using the equity method since they are not material to the Group's earnings, financial and net assets position. They are included in the line "Other investments", measured at cost less, where applicable, accumulated impairment losses.

A separate "List of Group Investments" pursuant to § 313 (4) HGB will be submitted to the operator of the electronic version of the German Federal Gazette. This list, along with the "List of Third Party Companies which are not of Minor Importance for the Group", will also be posted on the BMW Group website at the address www.bmwgroup.com/ir.

The subsidiaries BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart, LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart, BMW Financial Services Danmark A/S, Kolding, BMW Renting (Portugal) Lda., Lisbon, BMW Vertriebs GmbH, Salzburg, BMW Acquisitions Ltda., São Paulo, BMW Financeira S. A. Credito, Financiamento e Investimento, São Paulo, BMW Leasing do Brasil, S. A., São Paulo, BMW Asia Pte. Ltd., Singapore, BMW Melbourne Pty. Ltd., Melbourne, BMW Sydney Pty. Ltd., Sydney, and BMW Financial Services New Zealand Ltd., Auckland, were all consolidated for the first time in 2007.

BMW Renting Iberica S. L., Madrid (following its merger with Alphabet Fleet Services España S. L., Madrid) and British Motor Holdings Ltd., Bracknell, ceased to be consolidated companies during the financial year.

The Group reporting entity also changed by comparison to the previous year as a result of the first-time consolidation of seven special purpose trusts and two special purpose securities funds and the deconsolidation of two special purpose trusts and two special purpose securities funds.

In addition, the names of four entities were changed during the financial year 2007. softlab GmbH für Systementwicklung und EDV-Anwendung, Munich, was renamed Cirquent GmbH, Munich; softlab Gesellschaft für Systementwicklung und EDV-Anwendung Ges.m.b.H., Vienna, was renamed

Cirquent Ges.m.b.H., Vienna, and softlab AG, Zürich, was renamed Cirquent AG, Zürich. The name of BL Reinsurance Company Ltd., Dublin, was changed to BMW Financial Services (Ireland) Limited, Dublin.

[3] Business acquisitions and disposals

The acquisition of DEKRA SüdLeasing Services GmbH, Stuttgart, and that entity's subsidiaries, LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart, DSL Fleetservices GmbH, Stuttgart, MOBIDIG GmbH, Stuttgart, and LHS Autoland GmbH, Stuttgart, was completed on 2 April 2007, thus expanding the scale of the Group's fleet business. All of the above entities became wholly owned subsidiaries. During the year, LHS Autoland GmbH, Stuttgart, was merged with LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart. DEKRA SüdLeasing Services GmbH, Stuttgart, was renamed BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart. This entity and its subsidiary, LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart, were consolidated for the first time in the second quarter.

The acquisition cost was euro 121 million (including euro 1 million of transaction costs). Based on the definitive purchase price allocation, the following carrying amounts and fair values were attributed to the assets and liabilities of the acquired companies at the acquisition date:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	Carrying amount	Fair value
Assets		
Intangible assets and property, plant and equipment	2	28
Leased products	515	515
Investments in subsidiaries	3	3
Receivables from sales financing	230	230
Other assets	15	15
Liabilities		
Provisions	23	23
Financial liabilities	699	699
Other liabilities	35	45
Net assets acquired	**8**	**24**
Acquisition cost	**–**	**121**
Goodwill	**–**	**97**
Allocation by segment:		
Automobiles	–	33
Financial Services	–	64

The following identifiable assets have been recognised and included in intangible assets, measured at fair value:
– contract portfolio
– customer relationships
– contract management system

These intangible assets are amortised systematically over the following useful lives:
– contract portfolio: 4 years
– customer relationships: 7 years
– contract management system: 5 years

The remainder of the surplus (euro 97 million) of the acquisition cost over the fair value of the identifiable net assets acquired is largely attributable to potential synergy benefits which will arise from the future growth of the Group's fleet business.

BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart, and LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart, recorded a net loss of euro 5.7 million in the period since their first-time consolidation. Net revenues of the two entities since the date of first-time consolidation amounted to euro 379 million.

In addition, after obtaining approval from the relevant local authorities, BMW Holding B.V., The Hague, acquired SimeLease (Malaysia) Sdn Bhd, Kuala Lumpur, and that entity's subsidiary, SimeCredit (Malaysia) Sdn Bhd, Kuala Lumpur, on 13 April 2007. The names of these entities have been changed to BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur.

With effect from 1 October 2007, all of the shares of Boxer S.r.l., Cassinetta di Biandronno, were acquired by BMW Italia S.p.A., Milan, and BMW España Finance S.L., Madrid. The acquired company was renamed Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno.

In addition, 51% of the shares of CEC Finance Ltd., Hong Kong, and 100% of the shares of BMW Osaka Corp., Osaka, Husqvarna Motorcycles NA, LLC, Wilmington, Del., and John Cooper Garages Ltd., Bracknell, were acquired during the year. CEC Finance Ltd., Hong Kong, was renamed BMW Financial Services Hong Kong Limited, Hong Kong.

The entities listed above are not material in terms of the Group's earnings performance, financial position and net assets.

The investment in TRITEC Motors Ltda., Campo Largo, was sold to the Chrysler Group on 11 July 2007 in line with agreements in place between the various parties.

[4] Consolidation principles

The equity of subsidiaries is consolidated in accordance with IFRS 3 (Business Combinations). IFRS 3 requires that all business combinations are accounted for using the purchase method, whereby identifiable assets and liabilities acquired are measured initially at their fair value. The excess of the Group's interest in the net fair value of the identifiable assets and liabilities acquired over cost is recognised as goodwill and is subjected to a regular review for possible impairment. Goodwill of euro 91 million which arose prior to 1 January 1995 remains netted against reserves. In the event of impairment and deconsolidation, goodwill that has been deducted from equity is dealt with directly in equity. The companies BMW Financial Services Danmark A/S, Kolding, BMW Renting (Portugal) Lda., Lisbon, BMW Acquisitions Ltda., São Paulo, BMW Financeira S.A. Credito, Financiamento e Investimento, São Paulo, BMW Leasing do Brasil, S.A., São Paulo, BMW Asia Pte. Ltd., Singapore, BMW Melbourne Pty. Ltd., Melbourne, BMW Sydney Pty. Ltd., Sydney, and BMW Financial Services New Zealand Ltd., Auckland, were all consolidated for the first time as of 1 January 2007. The equivalent date for BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart, and LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart, was 30 June 2007, and that for BMW Vertriebs GmbH, Salzburg, 31 December 2007.

Receivables, liabilities, provisions, income and expenses and profits between consolidated companies (intragroup profits) are eliminated on consolidation.

Under the equity method, investments are measured at the Group's share of equity taking account of fair value adjustments on acquisition, based on the Group's shareholding. Any difference between the cost of investment and the Group's share of equity is accounted for in accordance with the purchase method. Investments in other companies are accounted for as a general rule using the equity method when significant influence can be exercised (IAS 28 Investments in Associates). This is normally the case when voting rights of between 20% and 50% are held (associated companies).

[5] Foreign currency translation

The financial statements of consolidated companies which are drawn up in a foreign currency are translated using the functional currency concept (IAS 21: The Effects of Changes in Foreign Exchange Rates) and the modified closing rate method. The functional currency of a subsidiary is determined as a general rule on the basis of the primary economic environment in which it operates and corresponds therefore to the relevant local currency. Income and expenses of foreign subsidiaries are translated in the Group financial statements at the average exchange rate for the year, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation of shareholders' equity are offset directly against accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also offset directly against accumulated other equity.

Foreign currency receivables and payables in the single entity accounts of BMW AG and subsidiaries are recorded, at the date of the transaction, at cost. Exchange gains and losses computed at the balance sheet date are recognised as income or expense.

The exchange rates of those currencies which have a material impact on the Group financial statements were as follows:

	Closing rate		Average rate	
	31.12.2007	31.12.2006	2007	2006
US Dollar	1.46	1.32	1.37	1.26
British Pound	0.73	0.67	0.68	0.68
Chinese renminbi	10.70	10.29	10.42	10.02
Japanese Yen	163.77	156.88	161.28	146.06
Australian Dollar	1.67	1.67	1.64	1.67

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[6] Accounting principles

The financial statements of BMW AG and of its subsidiaries in Germany and elsewhere have been prepared for consolidation purposes using uniform accounting policies in accordance with IAS 27.

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods are transferred to the customer, the sales price is agreed or determinable and receipt of payment can be assumed. Revenues are stated net of discounts, allowances, settlement discount and rebates. In the case of long-term construction work, revenues are generally recognised in accordance with IAS 18 (Revenue) and IAS 11 (Construction Contracts) on the basis of the stage of completion of work performed using the percentage of completion method. Revenues also include lease rentals and interest income from financial services. Revenues for the Financial Operations sub-group also include the interest income earned by Group financing companies.

If the sale of products includes a determinable amount for subsequent services ("multiple-component contracts"), the related revenues are deferred and recognised as income over the period of the contract. Amounts are normally recognised as income by reference to the expected pattern of related expenditure.

Profits arising on the sale of vehicles for which a Group company retains a repurchase commitment (buy-back contracts) are not recognised until such profits have been realised. The vehicles are included in inventories and stated at cost.

Cost of sales comprises the cost of products sold and the acquisition cost of purchased goods sold. It includes all directly attributable material and production costs and production overheads, including depreciation/amortisation of property, plant and equipment and intangible assets relating to production and write-downs on inventories. Cost of sales also includes freight and insurance costs relating to deliveries to dealers and agency fees on direct sales. Expenses which are directly attributable to the financial services business and interest expense from refinancing the entire financial services business, including the expense of risk provisions and impairment losses, are reported in cost of sales. Cost of sales for the Financial Operations sub-group also includes the interest expense of Group financing companies.

Research costs and development costs which are not capitalised are recognised as an expense when incurred.

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

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

Purchased and internally-generated intangible assets are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition and/or manufacturing cost and, to the extent that they have a finite useful life, amortised on a straight-line basis over their estimated useful lives. With the exception of capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and five years. Intangible assets with infinite useful lives are assessed regularly for recoverability and their carrying amounts are reduced to the recoverable amount in the event of impairment.

Development costs for vehicle and engine projects are capitalised at manufacturing cost, to the extent that costs can be allocated reliably and both technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process, including development-related overheads. Capitalised development costs are amortised on a systematic basis, following the commencement of production, over the estimated product life which is generally seven years.

All items of property, plant and equipment are considered to have finite useful lives. They are recognised at acquisition or manufacturing cost less scheduled depreciation based on the estimated useful lives of the assets. Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method. Components of items of property, plant and equipment with different useful lives are depreciated separately.

Expenditure on low value non-current assets is generally written off in full in the year of acquisition.

Systematic depreciation is based on the following useful lives, applied throughout the Group:

in years	
Factory and office buildings, distribution facilities and residential buildings	8 to 50
Plant and machinery	5 to 10
Other equipment, factory and office equipment	3 to 10

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

The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process and an appropriate portion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing cost.

Non-current assets also include assets relating to leases. The BMW Group uses property, plant and equipment as lessee and also leases out assets, mainly vehicles produced by the Group, as lessor. IAS 17 (Leases) contains rules for determining, on the basis of risks and rewards, the economic owner of the assets. In the case of finance leases the assets are attributed to the lessee and in the case of operating leases the assets are attributed to the lessor.

In accordance with IAS 17, assets leased under finance leases are measured at their fair value at the inception of the lease or at the present value of the lease payments, if lower. The assets are depreciated using the straight-line method over their estimated useful lives or over the lease period, if shorter. The obligations for future lease instalments are recognised as financial liabilities.

Where Group products are recognised by BMW Group leasing companies as leased assets under operating leases, they are measured at manufacturing cost. All other leased products are measured at acquisition cost. All leased products are depreciated using the straight-line method over the period of the lease to the lower of their imputed residual value or estimated fair value.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

The recoverability of the carrying amount of intangible assets (including capitalised development costs and goodwill) and property, plant and equipment is tested regularly for impairment in accordance with IAS 36 (Impairment of Assets) on the basis of cash generating units. This relates primarily to capitalised development costs and property, plant and equipment connected with vehicle projects. If there is no indication of impairment during the year, an annual impairment test is carried out at the year-end. An impairment loss is recognised when the recoverable amount (defined as the higher of the asset's net selling price and its value in use) is lower than the carrying amount. The value in use is determined on the basis of a present value computation. If the reason for the previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of its rolled-forward depreciated or amortised cost.

Investments accounted for using the equity method are measured at the Group's share of equity taking account of fair value adjustments on acquisition unless the investment is impaired.

Investments in non-consolidated Group companies reported in other investments are measured at cost or, if lower, at their fair value.

Investments in other companies are measured at their quoted market price or fair value. When, in individual cases, these values are not available or cannot be determined reliably, investments in other companies are measured at cost.

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

Financial assets are accounted for on the basis of the settlement date. On initial recognition, they are measured at acquisition cost, including transaction costs.

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

Available-for-sale assets include financial assets, securities and shares in securities funds. This category includes all non-derivative financial assets which are not classified as "loans and receivables" or "held-to-maturity investments" or as items measured "at fair value through profit and loss".

Loans and receivables which are not held for trading, held-to-maturity financial investments and all financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably, are measured, to the extent that they have a fixed term, at amortised cost, using the effective interest method. When the financial assets do not have a fixed term, they are measured at acquisition cost.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), assessments are made regularly as to whether there is any objective evidence that a financial asset or group of assets may be impaired. Impairment losses identified after carrying out an impairment test are recognised as an expense. Gains and losses on available-for-sale financial assets are recognised directly in equity until the financial asset is disposed of or is determined to be impaired, at which time the cumulative loss previously recognised in equity is included in net profit or loss for the period.

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

Receivables from sales financing comprise receivables from retail customer, dealer and lease financing.

Impairment losses on receivables and loans relating to the financial services business are recognised using a uniform methodology that is applied throughout the Group and meets the requirements of IAS 39. This methodology results in the recognition of impairment losses on individual assets and groups of assets. If there is objective evidence of impairment, the BMW Group recognises impairment losses on the basis of individual assets. Within the customer retail business, the existence of overdue balances or the incidence of similar events in the past are examples of such objective evidence. In the event of overdue receivables, impairment losses are always recognised individually based on the length of period of the arrears. In the case of dealer financing receivables, the allocation of the dealer to a corresponding rating category is also deemed to represent objective evidence of impairment. If there is no objective evidence of impairment, impairment losses are recognised on financial assets using a portfolio approach based on similar groups of assets. Company-specific loss probabilities and loss ratios, derived from historical data, are used to measure impairment losses on similar groups of assets.

The recognition of impairment losses on receivables relating to the industrial business is also, as far as possible, based on the same process applied to the financial services business.

Impairment losses (write-downs and allowances) on receivables are always recorded on separate accounts and are not written off until the corresponding receivables are derecognised.

Items are presented as financial assets to the extent that they relate to financing transactions.

Derivative financial instruments are only used within the BMW Group for hedging purposes to reduce currency, interest rate and market price risks from operations and any related financing requirements. All derivative financial instruments (such as interest, currency and combined interest/currency swaps as well as forward currency contracts) are measured in accordance with IAS 39 at their fair value, irrespective of their purpose or the intention for which they are held. The fair values of derivative financial instruments are measured using market information and recognised valuation techniques. In those cases where hedge accounting is applied, changes in fair value are recognised either in income or directly in equity under accumulated other equity depending on whether the transactions are classified as fair value hedges or cash flow hedges. In the case of fair value hedges, the results of the fair value measurement of the derivative financial instruments and of the related hedged items are recognised in the income statement. In the case of fair value changes from cash flow hedges which are used to mitigate the future cash flow risk on a recognised asset or liability or on forecast transactions, unrealised gains and losses on the hedging instrument are recognised initially directly in accumulated other equity. Any such gains or losses are recognised subsequently in the income statement when the hedged item (usually external revenue) is recognised in the income statement. The portion of the gains or losses from fair value measurement not relating to the hedged item is recognised immediately in the income statement. If, contrary to the normal case within the BMW Group, hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the income statement.

In accordance with IAS 12 (Income Taxes), deferred taxes are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward, where usage is probable. Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

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

Work in progress and finished goods are stated at the lower of average acquisition cost and net realisable value. Manufacturing cost comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing cost.

Provisions for pensions and similar obligations are recognised using the projected unit credit method in accordance with IAS 19 (Employee Benefits). Under this method, not only obligations relating to known vested benefits at the reporting date are recognised, but also the effect of future increases in pensions and salaries. This involves taking account of various input factors which are evaluated on a prudent basis. The provision is derived from an independent actuarial valuation which takes into account all relevant biometric factors.

Actuarial gains and losses are recognised, net of deferred tax, directly in equity.

The expense related to the reversal of discounting on pension obligations and the income from the expected return on pension plan assets are reported separately as part of the financial result. All other costs relating to allocations to pension provisions are allocated to costs by function in the income statement.

Other provisions are recognised when the Group has an obligation to a third party, an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Measurement is computed on the basis of fully attributable costs. Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the balance sheet date.

Financial liabilities are measured on first-time recognition at cost, which is equivalent to the fair value of the consideration given. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments, measured at amortised cost. The BMW Group has no liabilities which are held for trading. Liabilities from finance leases are stated at the present value of the future lease payments and disclosed under financial liabilities.

The preparation of the Group financial statements in accordance with IFRSs requires management to make certain assumptions and estimates that affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. The assumptions and estimates relate principally to the group-wide determination of economic useful lives, the recognition and measurement of provisions and the recoverability of future tax benefits. All assumptions and estimates are based on factors known at the balance sheet date. They are determined on the basis of the most likely outcome of future business developments. This includes the situation in the automotive sector and the general business environment. Actual amounts could in certain cases differ from those assumptions and estimates, if business conditions develop differently to the Group's expectations at the balance sheet date. Where new information comes to light, differences are reflected in the income statement and assumptions changed accordingly. There was no indication at the balance sheet date that any assumptions and estimates were subject to any material risks. For that reason, there is no reason to assume that the figures will require to be adjusted in the coming financial year. No adjustments of this nature were recorded during the financial year 2007.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[7] New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2007

The following Standards and Revised Standards were applied for the first time in the financial year 2007:

- Amendments to IAS 1 (Presentation of Financial Statements: Capital Disclosures), mandatory for financial years beginning on or after 1 January 2007
- IFRS 7 (Financial Instruments: Disclosures), mandatory for financial years beginning on or after 1 January 2007

In addition, the following Interpretations were applied for the first time:

- IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics), mandatory for financial years beginning on or after 1 March 2006
- IFRIC 8 (Scope of IFRS 2), mandatory for financial years beginning on or after 1 May 2006
- IFRIC 9 (Reassessment of Embedded Derivatives), mandatory for financial years beginning on or after 1 June 2006
- IFRIC 10 (Interim Financial Reporting and Impairment), mandatory for financial years beginning on or after 1 November 2006

IFRS 7 (Financial Instruments: Disclosures) results in a greater scope of disclosures about financial instruments in the Notes to the Group financial statements. Other financial reporting rules applied for the first time in 2007 did not have a significant impact on the BMW Group.

(b) New financial reporting rules issued in 2007

The IASB issued a revised version of IAS 23 (Borrowing Costs) in 2007, which is mandatory for financial years beginning on or after 1 January 2009. A revised version of IAS 1 (Presentation of Financial Statements) was also issued. The revised standard is mandatory for financial years commencing on or after 1 January 2009.

In addition, the following Interpretations were also issued:
– IFRIC 13 (Customer Loyalty Programmes)
– IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

IFRIC 13 is mandatory for financial years commencing on or after 1 July 2008 and IFRIC 14 is mandatory for financial years commencing on or after 1 January 2008.

These new financial reporting rules are not expected to have a significant impact on the BMW Group. This also applies to financial reporting rules issued in earlier periods and for which application in 2007 is encouraged but not mandatory.

[8] Revenues

Revenues by activity comprise the following:

in euro million	2007	2006
Sales of products and related goods	43,297	38,769
Income from lease instalments	5,069	4,141
Sale of products previously leased to customers	4,185	3,107
Interest income on loan financing	2,457	1,925
Other income	1,010	1,057
Revenues	**56,018**	**48,999**

An analysis of revenues by business segment and geographical region is shown in the segment information on pages 132 to 134.

[9] Cost of sales

Cost of sales comprises:

in euro million	2007	2006
Manufacturing costs	29,536	26,449
Warranty expenditure	1,309	1,081
Cost of sales directly attributable to financial services	8,450	6,612
Interest expense for financial operations	2,045	1,308
Expense for risk provisions and write-downs for financial services business	529	501
Other cost of sales	1,963	1,709
Cost of sales	**43,832**	**37,660**

Cost of sales include euro 11,024 million (2006: euro 8,421 million) relating to the financial services business.

Manufacturing costs include impairment losses on intangible assets and property, plant and equipment of euro 17 million (2006: euro 15 million).

Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to euro 16 million (2006: euro 11 million).

[10] Sales and administrative costs

Sales costs amounted to euro 4,284 million (2006: euro 4,039 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative costs amounted to euro 970 million (2006: euro 933 million) and comprised expenses for administration not attributable to development, production or sales functions.

[11] Research and development costs

Research and development costs of euro 2,920 million (2006: euro 2,544 million) comprise all research costs and development costs not recognised as assets as well as amortisation of capitalised development costs of euro 1,109 million (2006: euro 872 million).

Total research and development expenditures comprising research costs, development costs not recognised as assets and capitalised development costs were as follows:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	2007	2006
Research and development costs	2,920	2,544
Amortisation	–1,109	–872
New expenditure for capitalised development costs	1,333	1,536
Total research and development expenditures	**3,144**	**3,208**

[12] Other operating income and expenses

in euro million	2007	2006
Exchange gains	204	245
Income from the reversal of provisions	90	141
Income from the reversal of write-downs	38	24
Gains on the disposal of assets	229	102
Sundry operating income	169	232
Other operating income	**730**	**744**
Exchange losses	231	219
Expense for additions to provisions	64	109
Expenses for impairment losses	25	34
Sundry operating expenses	210	155
Other operating expenses	**530**	**517**
Other operating income and expenses	**200**	**227**

Sundry operating income includes public-sector grants of euro 36 million (2006: euro 32 million).

[13] Result from equity accounted investments

The profit from equity accounted investments of euro 11 million (2006: loss of euro 25 million) includes the result of the joint venture, BMW Brilliance Automotive Ltd., Shenyang. In the previous year, the result of TRITEC Motors Ltda., Campo Largo, was also included.

[14] Other financial result

in euro million	2007	2006
Income from investments	3	62
– thereof from subsidiaries euro 1 million (2006: euro 58 million)		
Impairment losses on investments in subsidiaries and other companies	–6	–46
Reversals of impairment losses on investments in subsidiaries and other companies	–	16
Result on investments	**–3**	**32**
Expected return on plan assets	358	315
Other interest and similar income*	287	259
– thereof from subsidiaries euro 12 million (2006: euro 19 million)		
Interest and similar income	**645**	**574**
Expense from reversing the discounting of pension obligations	–537	–501
Expense from reversing the discounting of other long-term provisions	–86	–35
Write-downs on marketable securities	–49	–2
Sundry interest and similar expenses*	–225	–319
– thereof to subsidiaries euro 1 million (2006: euro 2 million)		
Interest and similar expenses	**–897**	**–857**
Net interest result	**–252**	**–283**
Fair value measurement of financial instruments	–95	350
Sundry other financial result	**–95**	**350**
Other financial result	**–350**	**99**

*Interest income and expenses relating to stand-alone derivatives are netted within the net interest result. Interest income includes net interest income of euro 70 million (2006: euro 83 million) relating to stand-alone derivatives.

The deterioration in other financial result is due to the exceptional gain recorded in 2006 on the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. As well as the impact of the exchangeable bond, sundry other financial result also includes losses recognised on derivative financial instruments, in particular on stand-alone interest rate derivatives. The decrease in the fair values of these financial instruments reflected the changes in the interest rate structure.

[15] Income taxes

Taxes on income comprise the following:

in euro million	2007	2006
Current tax expense	1,002	993
Deferred tax expense	–263	257
	739	**1,250**

The deferred tax expense was euro 520 million lower than in the previous year, primarily reflecting the impact of the Business Tax Reform Act 2008, adopted by the German Bundesrat (Federal Council) on 6 July 2007.

Deferred taxes are recognised on temporary differences between the carrying amount of assets and liabilities for IFRS purposes and their tax bases. Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered. A corporation tax rate of 15.0% applies in Germany with effect from 1 January 2008 onwards. After taking account of the average multiplier rate (Hebesatz) of 410% for municipal trade tax and the solidarity charge of 5.5%, the overall income tax rate for companies in Germany is 30.2% (2006: 38.9%). This reduced rate has been applied in 2007 to measure deferred tax assets and liabilities. As in the previous year, the tax rates for companies outside Germany remain in a range of between 12.5% and 40.7%. A valuation allowance is recognised on deferred tax assets when recoverability is uncertain. In determining the level of the valuation allowance, all positive and negative factors concerning the likely existence of sufficient taxable profit in the future are taken into account. These estimates can change depending on the actual course of events.

An analysis of deferred tax assets and liabilities by position at 31 December is shown below:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	Deferred tax assets		Deferred tax liabilities	
	2007	2006	2007	2006
Intangible assets	1	–	1,528	1,859
Property, plant and equipment	43	48	428	510
Leased products	558	572	3,205	3,368
Investments	2	2	1	–
Other current assets	1,110	1,058	3,767	3,696
Tax loss carryforwards	1,072	849	–	–
Provisions	1,145	1,540	51	134
Liabilities	3,084	3,653	690	827
Consolidations	1,661	1,600	329	403
	8,676	**9,322**	**9,999**	**10,797**
Valuation allowance	–671	–528	–	–
Netting	–7,285	–8,039	–7,285	–8,039
	720	**755**	**2,714**	**2,758**

Compared to the previous reporting period, the main changes to deferred tax assets and liabilities were as follows:

Application of the income tax rate of 30.2% (2006: 38.9%), which is valid in Germany from 1 January 2008 onwards, significantly affected the measurement of deferred tax assets and liabilities relating to intangible assets, property, plant and equipment, leased products, provisions and liabilities.

The changes in deferred tax assets and liabilities relating to leased products and other current assets are attributable primarily to the financial services business.

Deferred tax assets on tax losses available for carryforward and on capital losses increased marginally on a net basis. Tax losses available for carryforward, which for the most part can be carried forward without restriction, totalled euro 1.8 billion at the year-end (2006: euro 1.7 billion). A valuation allowance of euro 43 million (2006: euro 65 million) was recognised in 2007 on deferred tax assets relating to tax losses. Capital losses in the United Kingdom increased to euro 2.2 billion at the end of 2007 (2006: euro 1.5 billion). In this context, a definitive agreement was reached with the UK tax authorities in 2007. As in previous years, these tax losses amounting to euro 628 million at the end of the year (2006: euro 463 million) were fully written down since they can only be utilised against future capital gains. Capital losses are not connected to ongoing business operations.

Deferred taxes recognised directly in equity amounted to euro 116 million (2006: euro 512 million). The decrease was due mainly to actuarial gains and losses (net) arising in conjunction with pension obligations and recognised directly in equity. The level of actuarial gains and losses in 2007 was affected in particular by the increase in the discount factors applied.

Deferred taxes are not recognised on retained profits of euro 13,925 million (2006: euro 13,866 million) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

The tax returns of BMW Group entities are checked regularly by German and foreign tax authorities. Taking account of a variety of factors – including existing interpretations, commentaries and legal decisions taken relating to the various tax jurisdictions and the BMW Group's past experience – adequate provision has, as far as identifiable, been made for potential future tax obligations.

The actual tax expense for the financial year 2007 of euro 739 million (2006: euro 1,250 million) is euro 767 million (2006: euro 354 million) lower than the expected tax expense of euro 1,506 million (2006: euro 1,604 million) which would theoretically arise if the tax rate of 38.9 % (unchanged from the previous year), applicable for German companies, was applied across the Group. The difference between the expected and actual tax expense is attributable to the following:

in euro million	2007	2006
Expected tax expense	**1,506**	**1,604**
Variances due to different tax rates	–731	–213
Tax reductions (–)/tax increases (+) as a result of non-taxable income and non-deductible expenses	4	–68
Tax expense (+)/benefits (–) for prior periods	–4	–94
Other variances	–36	21
Actual tax expense	**739**	**1,250**

The sharp decrease in the effective tax rate was mainly caused by the significant increase in variances due to different tax rates. This includes the one-off impact of the remeasurement of deferred tax assets and liabilities at 31 December 2007. The total positive impact for the BMW Group was euro 491 million, most of which was due to the application of the tax rate of 30.2 % (valid from 1 January 2008) for German entities.

[16] Earnings per share

		2007	2006
Net profit for the year after minority interest	euro million	3,125.9	2,867.8
Profit attributable to common stock	euro million	2,878.4	2,641.0
Profit attributable to preferred stock	euro million	247.5	226.8
Average number of common stock shares in circulation	number	601,995,196	602,461,673
Average number of preferred stock shares in circulation	number	51,535,857	51,506,787
Earnings per share of common stock	euro	**4.78**	**4.38**
Earnings per share of preferred stock	euro	**4.80**	**4.40**
Dividend per share of common stock	euro	**1.06**	**0.70**
Dividend per share of preferred stock	euro	**1.08**	**0.72**

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. Diluted earnings per share were not applicable in either the current or prior year.

[17] Other disclosures relating to the income statement

The income statement includes personnel costs as follows:

in euro million	2007	2006
Personnel costs		
Wages and salaries	6,268	6,207
Social security, retirement and welfare costs	1,243	1,241
– thereof retirement costs: euro 761 million (2006: euro 767 million)		
	7,511	**7,448**

The average number of employees during the year was:

	2007	2006
Wage earners	51,906	52,812
Other employees	46,016	44,394
	97,922	**97,206**
Apprentices and students gaining work experience	6,480	6,521
	104,402	**103,727**

For information regarding the number of employees at the year-end, reference is made to pages 26 and 27 in the Group management report.

The fee expense recognised in the financial year 2007 for the auditors of the Group financial statements, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, pursuant to § 314 (1) no. 9 HGB amounted to euro 5 million (2006: euro 4 million) and consists of the following:

in euro million	2007	2006
Fee expense		
Year-end audits	2	2
Tax advisory services	3	2
	5	**4**

The item “Year-end audits” includes fees for the audit of annual financial statements of BMW AG, the audit of the Group financial statements and the audit of the annual financial statements of the German subsidiaries.

The item “Tax advisory services” relates principally to fees for services provided to employees seconded abroad.

BMW Group
Notes to the Group Financial Statements
Notes to the Balance Sheet

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[18] Analysis of changes in Group tangible, intangible and investment assets 2007

in euro million	Acquisition and manufacturing cost					
	1.1.2007[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2007
Development costs	7,684	–	1,333	–	538	8,479
Other intangible assets	813	–11	250	–	43	1,009
Intangible assets	**8,497**	**–11**	**1,583**	**–**	**581**	**9,488**
Land, titles to land, buildings, including buildings on third party land	6,425	–118	248	231	220	6,566
Plant and machinery	19,640	–315	1,444	264	618	20,415
Other facilities, factory and office equipment	2,055	–44	184	6	147	2,054
Advance payments made and construction in progress	740	–23	808	–501	5	1,019
Property, plant and equipment	**28,860**	**–500**	**2,684**	**–**	**990**	**30,054**
Leased products	**17,628**	**–1,219**	**11,038**	**–**	**6,587**	**20,860**
Investments accounted for using the equity method	**82**	**–**	**18**	**–**	**37**	**63**
Investments in associated companies	272	–1	54	–	64	261
Investments in other companies	195	–	–	–	187	8
Non-current marketable securities	14	–1	8	–	–	21
Other investments	**481**	**–2**	**62**	**–**	**251**	**290**

1] including the gross balances brought forward of companies consolidated for the first time during the financial year
2] including impairment losses of euro 12 million
3] including impairment losses of euro 5 million

Analysis of changes in Group tangible, intangible and investment assets 2006

in euro million	Acquisition and manufacturing cost					
	1.1.2006[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2006
Development costs	6,593	–	1,536	–	445	7,684
Other intangible assets	739	–5	121	–	56	799
Intangible assets	**7,332**	**–5**	**1,657**	**–**	**501**	**8,483**
Land, titles to land, buildings, including buildings on third party land	6,150	–70	242	152	49	6,425
Plant and machinery	18,977	–185	1,717	464	1,333	19,640
Other facilities, factory and office equipment	2,078	–46	206	16	211	2,043
Advance payments made and construction in progress	899	–15	491	–632	3	740
Property, plant and equipment	**28,104**	**–316**	**2,656**	**–**	**1,596**	**28,848**
Leased products	**13,983**	**–1,182**	**8,522**	**–**	**4,578**	**16,745**
Investments accounted for using the equity method	**94**	**–**	**–**	**–**	**12**	**82**
Investments in associated companies	191	–2	152	–	74	267
Investments in other companies	1,002	–	–	–	807	195
Non-current marketable securities	32	–1	11	–	28	14
Other investments	**1,225**	**–3**	**163**	**–**	**909**	**476**

1] including the gross balances brought forward of companies consolidated for the first time during the financial year
2] including impairment losses of euro 8 million
3] including impairment losses of euro 7 million

	Depreciation and amortisation					Carrying amount	
	1.1.2007[1]	Translation differences	Current year	Disposals	31.12.2007	31.12.2007	31.12.2006
	2,874	–	1,109	538	3,445	5,034	4,810
	310	–4	103	36	373	636	502
	3,184	**–4**	**1,212**[2]	**574**	**3,818**	**5,670**	**5,312**
	2,529	–48	201	61	2,621	3,945	3,896
	13,525	–200	2,057	602	14,780	5,635	6,115
	1,515	–43	213	141	1,544	510	535
	1	–	–	–	1	1,018	739
	17,570	**–291**	**2,471**[3]	**804**	**18,946**	**11,108**	**11,285**
	3,289	**–247**	**2,475**	**1,670**	**3,847**	**17,013**	**13,642**
	22	**–**	**–**	**22**	**–**	**63**	**60**
	70	–	6	–	76	185	197
	5	–	–	–	5	3	190
	–	–	–	–	–	21	14
	75	**–**	**6**	**–**	**81**	**209**	**401**

	Depreciation and amortisation				Reversals		Carrying amount	
	1.1.2006[1]	Translation differences	Current year	Disposals		31.12.2006	31.12.2006	31.12.2005
	2,447	–	872	445	–	2,874	4,810	4,146
	290	–4	87	50	26	297	502	447
	2,737	**–4**	**959**[2]	**495**	**26**	**3,171**	**5,312**	**4,593**
	2,384	–30	207	32	–	2,529	3,896	3,757
	13,104	–128	1,867	1,318	–	13,525	6,115	5,871
	1,506	–36	239	201	–	1,508	535	562
	1	–	–	–	–	1	739	897
	16,995	**–194**	**2,313**[3]	**1,551**	**–**	**17,563**	**11,285**	**11,087**
	2,608	**–222**	**1,576**	**859**	**–**	**3,103**	**13,642**	**11,375**
	–	**–**	**22**	**–**	**–**	**22**	**60**	**94**
	40	–	46	–	16	70	197	149
	5	–	–	–	–	5	190	997
	–	–	–	–	–	–	14	32
	45	**–**	**46**	**–**	**16**	**75**	**401**	**1,178**

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[19] Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Amortisation on intangible assets is presented in cost of sales, administrative costs and research and development costs.

In addition, intangible assets include goodwill of euro 163 million (2006: euro 66 million). This comprises goodwill arising on earlier business acquisitions within the Cirquent Group and on the acquisition of DEKRA SüdLeasing Services GmbH, Stuttgart, and that entity's subsidiaries. This item is not presented separately in the BMW Group balance sheet since the amount is not significant in relation to either the balance sheet total or intangible assets.

There were no reversals of impairment losses on intangible assets (2006: euro 26 million).

Changes in intangible assets during the year are≈shown in the analysis of changes in Group tangible, intangible and investment assets on pages 96 and 97.

[20] Property, plant and equipment

A break-down of the different classes of property, plant and equipment disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 96 and 97.

Property, plant and equipment include leased plant and machinery and other equipment amounting to euro 102 million (2006: euro 146 million) and, in addition to operational buildings used by BMW AG, also includes leased plant and equipment used primarily in the Oxford and Hams Hall production plants. Due to the nature of the lease arrangements (finance leases), economic ownership of these assets is attributable to the Group. The leases for buildings, with a carrying amount of euro 60 million (2006: euro 66 million), run for periods up to 2023 at the latest. Some of the leases contain extension and purchase options. The leases for plant and machinery and other equipment at the Oxford production plant, with a carrying amount of euro 19 million (2006: euro 46 million) at 31 December, run for periods up to 2011 at the latest. For each of the leases, there is a recurring option to extend the leases by one year. A purchase option was not agreed. The lease for plant and machinery and other facilities, factory and office equipment at the Hams Hall production plant, with a carrying amount of euro 17 million (2006: euro 25 million), runs until 2018 and may be extended for one-year periods thereafter. A purchase option was not agreed.

Disposal of land, titles to land and buildings, including buildings on third-party land, relate primarily to a number of properties which were sold and are being leased back.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2007	31.12.2006
Total of future minimum lease payments		
due within one year	85	91
due between one and five years	318	413
due later than five years	201	257
	604	**761**
Interest portion of the future minimum lease payments		
due within one year	16	16
due between one and five years	48	59
due later than five years	73	111
	137	**186**
Present value of future minimum lease payments		
due within one year	69	75
due between one and five years	270	354
due later than five years	128	146
	467	**575**

[21] Leased products

The BMW Group, as lessor, leases out assets (predominantly own products) as part of its financial services business. Minimum lease payments of euro 7,419 million (2006: euro 6,210 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2007	31.12.2006
within one year	3,902	3,342
between one and five years	3,516	2,867
later than five years	1	1
	7,419	**6,210**

Contingent rents of euro 10 million (2006: euro 4 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options as well as price escalation clauses.

Changes in leased products during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 96 and 97.

[22] Investments accounted for using the equity method and other investments

Investments accounted for using the equity method comprise the Group's interest in the joint venture BMW Brilliance Automotive Ltd., Shenyang. At the end of the previous year, the interest in TRITEC Motors Ltda., Campo Largo, was also included. The interest in BMW Brilliance Automotive Ltd., Shenyang, (with a 50 % shareholding) was as follows:

in euro million	31.12.2007	31.12.2006
Disclosures relating to the income statement		
Income	627	589
Losses	615	568
Disclosures relating to the balance sheet		
Non-current assets	106	122
Current assets	259	286
Equity	80	110
Non-current liabilities	41	34
Current liabilities	244	264

Other investments relate primarily to investments in non-consolidated subsidiaries and to equity investments in other entities.

Additions to investments in subsidiaries relate to share capital increases at BMW Distribution S.A.S., Montigny le Bretonneux, BMW India Pvt. Ltd., New Delhi, BMW Sauber Holding AG, Vaduz, and BMW Leasing de Argentina S.A., Buenos Aires, as well as the acquisitions of BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, John Cooper Garages Ltd., Bracknell, BMW Financial Services Hong Kong Limited, Hong Kong, and Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno.

Disposals of investments in subsidiaries relate primarily to the first-time consolidation of BMW Financial Services Danmark A/S, Kolding, BMW Vertriebs GmbH, Salzburg, BMW Renting (Portugal) Lda., Lisbon, BMW Acquisitions Ltda., São Paulo, BMW Financeira S.A. Credito, Financiamento e Investimento, São Paulo, and BMW Financial Services New Zealand Ltd., Auckland.

Impairment losses on investments in subsidiaries relate primarily to BMW Distribution S.A.S., Montigny le Bretonneux.

In the case of investments in other companies, the changes in 2007 related to the disposal of shares in Rolls-Royce plc, London, following the exercise of the conversion option relating to the exchangeable bond issued by the BMW Group on Rolls-Royce shares.

A break-down of the different classes of other investments disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 96 and 97.

[23] Receivables from sales financing

Receivables from sales financing, totalling euro 34,244 million (2006: euro 30,368 million), comprise euro 26,181 million (2006: euro 23,038 million) for loan financing for retail customers and dealers and euro 8,063 million (2006: euro 7,330 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2007	31.12.2006
Gross investment in finance leases		
due within one year	3,215	3,029
due between one and five years	6,013	5,192
due later than five years	1	6
	9,229	**8,227**
Present value of future minimum lease payments		
due within one year	2,886	2,758
due between one and five years	5,176	4,567
due later than five years	1	5
	8,063	**7,330**
Unrealised interest income	**1,166**	**897**

Contingent rents recognised as income, generally relating to the distance driven, amounted to euro 12 million (2006: euro 7 million). Write-downs on finance leases amounting to euro 52 million (2006: euro 60 million) were measured and recognised on the basis of specific credit risks.

Receivables from sales financing include euro 20,248 million (2006: euro 17,865 million) with a remaining term of more than one year.

Allowance for impairment and credit risk

in euro million	31.12.2007	31.12.2006
Gross carrying amount	35,036	31,100
Allowance for impairment	792	732
Net carrying amount	**34,244**	**30,368**

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Allowances for impairment on receivables from sales financing developed as following during the year under report:

31 December 2007 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January*	590	149	739
Allocated/reversed	277	–3	274
Utilised	–184	–17	–201
Exchange rate impact and other changes	–16	–4	–20
Balance at 31 December	**667**	**125**	**792**

* including entities consolidated for the first time during the financial year

31 December 2006 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January*	572	173	745
Allocated/reversed	173	–	173
Utilised	–155	–23	–178
Exchange rate impact and other changes	–6	–2	–8
Balance at 31 December	**584**	**148**	**732**

* including entities consolidated for the first time during the financial year

At the year-end, impairment allowances of euro 125 million (2006: euro 148 million) were recognised on a group basis on gross receivables from sales financing totalling euro 18,979 million (2006: euro 18,296 million). Impairment allowances of euro 667 million (2006: euro 584 million) were recognised at 31 December 2007 on a specific item basis on gross receivables from sales financing totalling euro 5,493 million (2006: euro 4,223 million).

Receivables from sales financing which were not overdue at the balance sheet date amounted to euro 10,564 million (2006: euro 8,581 million). No impairment allowances were recognised for these balances.

The estimated fair value of collateral received for receivables on which impairment allowances were recognised totalled euro 14,617 million (2006: euro 12,130 million) at the balance sheet date. This collateral related primarily to vehicles. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to euro 36 million (2006: euro 13 million).

As at the end of the previous year, there were no receivables from sales financing at the balance sheet date which have been renegotiated and which were otherwise overdue or otherwise required recognition of an impairment allowance.

[24] Financial assets

Financial assets comprise:

in euro million	31.12.2007	31.12.2006
Interest and currency derivatives	1,980	1,321
Marketable securities and investment funds	1,959	2,034
Loans to third parties	28	67
Credit card receivables	260	239
Other	568	289
	4,795	**3,950**
thereof non-current	1,173	816
thereof current	3,622	3,134

The change in the line item "Interest and currency derivatives" relates primarily to changed exchange rate parities with the US dollar and the British pound as well as to the changed interest rate structure.

Marketable securities and investment funds relate to available-for-sale financial assets and comprise:

in euro million	31.12.2007	31.12.2006
Stocks	452	579
Investment funds	415	487
Fixed income securities	1,082	943
Sundry marketable securities	10	25
	1,959	**2,034**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2007	31.12.2006
Fixed income securities		
due within 3 months	–	1
due later than 3 months	1,082	942
Sundry marketable securities		
due within 3 months	1	3
due later than 3 months	9	22
	1,092	**968**

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Investment funds include euro 10 million (2006: euro 2 million) assigned as collateral to Deutsche Treuinvest Stiftung, Frankfurt am Main, to secure obligations relating to pre-retirement part-time work arrangements. Fixed income securities include euro 77 million (2006: euro 64 million) assigned as collateral to Deutsche Treuinvest Stiftung, Frankfurt am Main, for the same reason.

Allowance for impairment and credit risk

Receivables relating to credit card business comprise the following:

in euro million	31.12.2007	31.12.2006
Gross carrying amount	267	244
Allowance for impairment	7	5
Net carrying amount	**260**	**239**

Allowances for impairment on receivables relating to credit card business developed as following during the year under report:

31 December 2007 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	1	4	5
Allocated/reversed	–	12	12
Utilised	–	–9	–9
Exchange rate impact and other changes	–	–1	–1
Balance at 31 December	**1**	**6**	**7**

31 December 2006 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	1	3	4
Allocated/reversed	–	8	8
Utilised	–	–6	–6
Exchange rate impact and other changes	–	–1	–1
Balance at 31 December	**1**	**4**	**5**

[25] Income tax assets

Income tax assets can be analysed as follows:

31 December 2007 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	720	720
Current tax	118	119	237
	118	**839**	**957**

31 December 2006 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	755	755
Current tax	123	123	246
	123	**878**	**1,001**

[26] Other assets

Other assets comprise:

in euro million	31.12.2007	31.12.2006
Other taxes	554	584
Receivables from subsidiaries	641	693
Receivables from other companies in which an investment is held	104	202
Prepayments	729	683
Collateral receivables	135	120
Sundry other assets	361	368
	2,524	**2,650**
thereof non-current	415	378
thereof current	2,109	2,272

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Receivables from subsidiaries include trade receivables of euro 96 million (2006: euro 198 million) and financial receivables of euro 545 million (2006: euro 495 million). A total of euro 25 million (2006: euro 44 million) has a remaining term of more than one year.

As in the previous year receivables from other companies in which an investment is held are all due within one year.

Prepayments of euro 729 million (2006: euro 683 million) relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 494 million (2006: euro 522 million) have a maturity of less than one year.

Collateral receivables comprise mainly customary collateral arising on the sale of receivables.

[27] Inventories

Inventories comprise the following:

in euro million	31.12.2007	31.12.2006
Raw materials and supplies	632	689
Work in progress, unbilled contracts	871	911
Finished goods	4,731	4,280
Goods for resale	1,115	914
	7,349	**6,794**

At 31 December 2007, inventories measured at their net realisable value amounted to euro 473 million (2006: euro 316 million) and are included in total inventories of euro 7,349 million (2006: euro 6,794 million). Write-downs to net realisable value amounting to euro 40 million (2006: euro 12 million) were recognised in 2007. Amounts recognised as income from the reversal of write-downs on the disposal of inventories were not significant.

[28] Trade receivables

Trade receivables amounting in total to euro 2,672 million (2006: euro 2,258 million) include euro 3 million due later than one year (2006: euro 21 million).

Allowance for impairment and credit risk

in euro million	31.12.2007	31.12.2006
Gross carrying amount	2,717	2,335
Allowance for impairment	45	77
Net carrying amount	**2,672**	**2,258**

Allowances for impairment on trade receivables developed as following during the year under report:

31 December 2007 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	68	9	77
Allocated/reversed	–11	2	–9
Utilised	–18	–4	–22
Exchange rate impact and other changes	–1	–	–1
Balance at 31 December	**38**	**7**	**45**

31 December 2006 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	74	6	80
Allocated/reversed	6	3	9
Utilised	–12	–	–12
Exchange rate impact and other changes	–	–	–
Balance at 31 December	**68**	**9**	**77**

As at the end of the previous year, there were no trade receivables at the balance sheet date which have been renegotiated and which were otherwise overdue or otherwise required recognition of an impairment allowance.

Some trade receivables were overdue for which an impairment allowance was not recognised. Overdue balances are catagorised into the following time windows:

in euro million	31.12.2007	31.12.2006
1–30 days overdue	327	473
31–60 days overdue	63	8
61–90 days overdue	24	4
91–120 days overdue	14	3
More than 120 days overdue	46	33
	474	**521**

Receivables that are overdue by between 1 and 30 days do not normally result in bad debt losses since the overdue nature of the receivables is primarily attributable to the timing of receipts around the month-end. In the case of trade receivables, collateral is generally held in the form of vehicle documents and bank guarantees so that the risk of bad debt loss is extremely low.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[29] **Cash and cash equivalents**

Cash and cash equivalents of euro 2,393 million (2006: euro 1,336 million) comprise cash on hand and at bank, all with a maturity of under three months.

[30] **Equity**

The Group Statement of Changes in Equity is shown on page 78.

Number of shares issued

At 31 December 2007, common stock issued by BMW AG was divided into 601,995,196 shares with a par-value of one euro. Preferred stock issued by BMW AG was divided into 52,196,162 shares with a par-value of one euro, unchanged from the previous year. Unlike the common stock, no voting rights are attached to the preferred stock. All of the company's stock is issued to bearer. Preferred stock bears an additional dividend of euro 0.02 per share. 660,305 of the shares of preferred stock are only entitled to receive dividends with effect from the beginning of the financial year 2008.

During the financial year 2007, BMW AG acquired 660,305 treasury shares of preferred stock at an average price of euro 45.48 per share. These shares were issued to employees at a reduced price of euro 26.42 per share in conjunction with an employee share scheme. As a result of the repurchase of shares of preferred stock and their subsequent issue, the preferred stock portion of share capital remained unchanged at euro 52 million. The effect of applying IFRS 2 (Share-Based Payments) to the employee share scheme was not material for the Group.

At the Annual General Meeting of BMW AG on 15 May 2007, the shareholders again authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution and to withdraw those shares from circulation without any further resolution by the Annual General Meeting. At the same time, the authorisation from 16 May 2006 to acquire treasury shares was rescinded. The authorisation from 15 May 2007 is valid until 14 November 2008. The authorisation was not exercised in 2007. It has not yet been decided whether or the extent to which the authorisation will be used in the future.

Capital reserves

Capital reserves include premiums arising from the issue of shares and were unchanged at euro 1,911 million.

Revenue reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated Group companies. In addition, revenue reserves include both positive and negative goodwill arising on the consolidation of Group companies prior to 31 December 1994.

Revenue reserves stood at euro 20,789 million at 31 December 2007, 14.7% higher than one year earlier. They were increased in 2007 by the amount of the net profit attributable to shareholders of BMW AG (euro 3,126 million) and were reduced by the payment of the dividend for 2006 (euro 458 million).

The unappropriated profit of BMW AG of euro 694 million for 2007 will be proposed to the Annual General Meeting for distribution. The proposed distribution must be authorised by the shareholders at the Annual General Meeting of BMW AG. It is therefore not recognised as a liability in the Group financial statements.

Accumulated other equity

Accumulated other equity consists of all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, the effects of recognising changes in the fair value of derivative financial instruments and securities directly in equity, and actuarial gains and losses relating to defined benefit pension plans and similar obligations. Accumulated other equity was increased by deferred taxes amounting to euro 116 million (2006: euro 512 million) recognised directly in equity.

Minority interest

Equity attributable to minority interests was a positive amount of euro 11 million (2006: euro 4 million). This includes a minority interest of euro 8 million (2006: euro 6 million) in the results for the period.

Capital management disclosures

The BMW Group's objectives when managing capital are to safeguard the ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the BMW Group uses various instruments including the amount of dividends paid to shareholders and share buy-backs.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

The capital structure at the balance sheet date was as follows:

in euro million	31.12.2007	31.12.2006
Equity attributable to shareholders of BMW AG	21,733	19,126
Proportion of total capital	33.1 %	34.4 %
Non-current financial liabilities	21,428	18,800
Current financial liabilities	22,493	17,656
Total financial liabilities	43,921	36,456
Proportion of total capital	66.9 %	65.6 %
Total capital	**65,654**	**55,582**

Equity attributable to shareholders of BMW AG went up during the financial year by 13.6 %, mainly due to the increase in revenue reserves. The decrease in percentage terms (equity attributable to shareholders of BMW AG as a percentage of total capital) was due to the higher funding requirements for the financial services business.

The BMW Group is officially rated by the rating agencies, Standard & Poor's and Moody's. The long-term ratings for the BMW Group published by Standard & Poor's and Moody's in September 2005 remain valid. Moody's issued an A1 rating and Standard & Poor's an A+ rating, both with stable outlook. As a result of its good credit standing, reflected in the long-standing first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is able to obtain competitive refinancing terms and conditions.

	Moody's	Standard & Poor's
Non-current financial liabilities	A1	A+
Current financial liabilities	P-1	A-1
Outlook	stable	stable

[31] Pension provisions

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service and salary of employees. Due to similarity of nature, the obligations of BMW Group companies in the US and of BMW (South Africa) (Pty) Ltd., Pretoria, for post-employment medical care are also disclosed as pension provisions. The provision for these pension-like obligations amounts to euro 55 million (2006: euro 49 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 6% p.a. (unchanged from the previous year). The expense for medical care costs in the financial year 2007 amounted to euro 6 million (2006: euro 6 million).

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for all defined contribution plans of the BMW Group amounted to euro 442 million (2006: euro 409 million). This includes employer contributions paid to state pension insurance schemes amounting to euro 406 million (2006: euro 388 million).

Under defined benefit plans, the enterprise is required to pay the benefits granted to present and past employees. Defined benefit plans may be funded or unfunded, the latter sometimes financed by means of accounting provisions. Most of the pension commitments of the BMW Group in Germany relate to BMW AG, whose pension plans, like all those of the BMW Group's German subsidiaries, are unfunded and financed by means of accounting provisions. In addition, a deferred remuneration retirement scheme is in place which is funded by employee contributions. The main funded plans of the BMW Group are in the United Kingdom, the USA, Switzerland, the Netherlands, Belgium and Japan.

Pension obligations are computed on an actuarial basis at the level of the defined benefit obligation. This computation requires the use of estimates. The main assumptions, in addition to life expectancy, depend on the economic situation in each particular country. The following disclosures for the United Kingdom (UK) and the other countries are based on weighted average values:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in %	Germany		UK		Other	
31 December	2007	2006	2007	2006	2007	2006
Discount rate	5.50	4.40	5.53	5.11	5.78	5.19
Salary level trend	3.25	3.25	4.39	4.12	3.36	2.59
Pension level trend	1.75	1.75	3.38	3.09	1.90	1.79

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the period of service of employees with the Group.

In the case of funded plans, the defined benefit obligation is offset against plan assets measured at their fair value. Where the plan assets exceed the pension obligations and the enterprise has a right of reimbursement or a right to reduce future contributions, the surplus amount is recognised in accordance with IAS 19 as an asset under other assets. In the case of funded pension plans, a liability is recognised under pension provisions where the benefit obligation exceeds fund assets.

Actuarial gains or losses may result from increases or decreases in either the present value of the defined benefit obligation or in the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets. Past service cost arises where a BMW Group company introduces a defined benefit plan or changes the benefits payable under an existing plan.

Based on the measurement principles contained in IAS 19, the following funding status applies to the Group's pension plans:

in euro million 31 December	Germany 2007	 2006	UK 2007	 2006	Other 2007	 2006	Total 2007	 2006
Present value of pension benefits covered by accounting provisions	3,849	4,412	–	–	119	134	3,968	4,546
Present value of funded pension benefits	–	–	6,327	6,568	336	316	6,663	6,884
Defined benefit obligations	3,849	4,412	6,327	6,568	455	450	10,631	11,430
Fair value of plan assets	–	–	5,686	6,134	343	298	6,029	6,432
Net obligation	3,849	4,412	641	434	112	152	4,602	4,998
Income (+) expense (–) from past service cost not yet recognised	–	–	–	–	–2	1	–2	1
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	6	5	17	11	23	16
Balance sheet amounts at 31 December	**3,849**	**4,412**	**647**	**439**	**127**	**164**	**4,623**	**5,015**
thereof pension provision	3,849	4,412	651	440	127	165	4,627	5,017
thereof pension assets (–)	–	–	–4	–1	–	–1	–4	–2

Pension provisions relating to pension plans in other countries amounted to euro 127 million (2006: euro 165 million). This includes euro 53 million (2006: euro 80 million) relating to externally funded plans.

The change in the defined benefit obligations was attributable mainly to changes in the discount rates used in the actuarial computation.

The changes in the pension provision and in pension assets (reimbursement claims or right to reduce future contributions to the funds) as disclosed in the balance sheet can be derived as follows:

in euro million	Germany 2007	 2006	UK 2007	 2006	Other 2007	 2006	Total 2007	 2006
Balance sheet amounts at 1 January	4,414*	4,234	439	792	164	202	5,017	5,228
Expense from pension obligations	239	329	52	71	28	45	319	445
Pension payments or transfers to external funds	–80	–72	–47	–98	–67	–55	–194	–225
Actuarial gains (–) and losses (+) on defined benefit obligations	–776	–167	211	–241	8	8	–557	–400
Actuarial gains (–) and losses (+) on plan assets	–	–	42	–98	2	–19	44	–117
Employee contributions to the deferred remuneration retirement scheme	52	87	–	–	–	–	52	87
Translation differences and other changes	–	1	–50	13	–8	–17	–58	–3
Balance sheet amounts at 31 December	**3,849**	**4,412**	**647**	**439**	**127**	**164**	**4,623**	**5,015**
thereof pension provision	3,849	4,412	651	440	127	165	4,627	5,017
thereof pension assets (–)	–	–	–4	–1	–	–1	–4	–2

* including entities consolidated for the first time during the financial year

The defined benefit plans of the BMW Group give rise to an expense from pension obligations in the financial year 2007 of euro 319 million (2006: euro 445 million), comprising the following components:

in euro million	Germany 2007	Germany 2006	UK 2007	UK 2006	Other 2007	Other 2006	Total 2007	Total 2006
Current service cost	150	160	64	64	29	34	243	258
Expense from reversing the discounting of pension obligations	192	169	323	307	22	25	537	501
Past service cost	– 103	–	–	–	–	1	– 103	1
Expected return on plan assets (–)	–	–	–335	–300	–23	–15	–358	–315
Expense from pension obligations	**239**	**329**	**52**	**71**	**28**	**45**	**319**	**445**

The expense from reversing the discounting of pension obligations and the income from the expected return on plan assets are reported as part of the financial result. All other components of pension expense are included in the relevant income statement under costs by function.

Pension plan assets are invested in various investment categories, the most predominant one being bonds. Other equity instruments and alternative investments such as property are also considered. The expected rate of return is derived on the basis of the specific investment strategy applied to each individual pension fund, either by applying percentages based on long-term state bonds or using absolute estimates of pension fund income.

The actual return from external pension funds was euro 314 million (2006: euro 432 million).

The level of the pension obligations differ depending on the pension system applicable in each country. Since the state pension system in the United Kingdom only provides a basic fixed amount benefit, retirement benefits are largely organised in the form of company pensions and arrangements financed by the individual. The pension benefits in the United Kingdom therefore contain contributions made by the employee.

Past service cost included in the expense from pension obligations decreased in 2007 by euro 103 million as a result of the Retirement Age Amendment Act passed in 2007 which raised the statutory retirement age for the state pension scheme in Germany. The later retirement age of employees resulted in an amendment to the pension plan in place at the Group's German entities. The resulting decrease in the pension obligation was recognised in the income statement.

The net obligation from pension plans in Germany, the United Kingdom and other countries changed as follows:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	**Germany** Defined benefit obligation 2007	Defined benefit obligation 2006	Plan assets 2007	Plan assets 2006	Net obligation 2007	Net obligation 2006
1 January	4,414*	4,234	–	–	4,414	4,234
Expense from pension obligations	239	329	–	–	239	329
Payments to external funds	–	–	–	–	–	–
Pension payments	–80	–72	–	–	–80	–72
Actuarial gains (–) and losses (+)	–776	–167	–	–	–776	–167
Employee contributions to the deferred remuneration retirement scheme	52	87	–	–	52	87
Translation differences and other changes	–	1	–	–	–	1
31 December	**3,849**	**4,412**	**–**	**–**	**3,849**	**4,412**

* including entities consolidated for the first time during the financial year

in euro million	United Kingdom					
	Defined benefit obligation		Plan assets		Net obligation	
	2007	2006	2007	2006	2007	2006
1 January	6,568	6,576	–6,134	–5,784	434	792
Expense from pension obligations	387	371	–335	–300	52	71
Payments to external funds	–	–	–47	–98	–47	–98
Pension payments	–293	–278	293	278	–	–
Actuarial gains (–) and losses (+)	211	–241	42	–98	253	–339
Translation differences and other changes	–546	140	495	–132	–51	8
31 December	**6,327**	**6,568**	**–5,686**	**–6,134**	**641**	**434**

in euro million	Other countries					
	Defined benefit obligation		Plan assets		Net obligation	
	2007	2006	2007	2006	2007	2006
1 January	450	427	–298	–233	152	194
Expense from pension obligations	51	59	–23	–14	28	45
Payments to external funds	–	–	–57	–51	–57	–51
Pension payments	–16	–10	6	6	–10	–4
Actuarial gains (–) and losses (+)	8	8	2	–19	10	–11
Translation differences and other changes	–38	–34	27	13	–11	–21
31 December	**455**	**450**	**–343**	**–298**	**112**	**152**

Plan assets in the United Kingdom and other countries comprise the following:

in euro million	Components of plan assets					
	United Kingdom		Other countries		Total	
	2007	2006	2007	2006	2007	2006
Equity instruments	1,266	1,902	205	172	1,471	2,074
Debt securities	3,135	3,323	111	106	3,246	3,429
Real estate	487	664	6	5	493	669
Other	798	245	21	15	819	260
31 December	**5,686**	**6,134**	**343**	**298**	**6,029**	**6,432**

Benefit obligations are covered in Germany by accounting provisions. In the United Kingdom, a substantial portion of plan assets is invested in debt securities in order to minimise value fluctuations.

[32] Other provisions

Other provisions comprise the following items:

in euro million	31.12.2007 Total	31.12.2007 thereof due within one year	31.12.2006 Total	31.12.2006 thereof due within one year
Obligations for personnel and social expenses	1,559	1,062	1,493	979
Obligations for ongoing operational expenses	2,818	1,129	3,000	1,135
Other obligations	1,125	635	1,043	557
	5,502	**2,826**	**5,536**	**2,671**

Provisions for obligations for personnel and social expenses comprise mainly profit-share schemes and bonuses, early retirement part-time working arrangements and employee long-service awards.

Provisions for obligations for ongoing operational expenses comprise primarily warranty obligations.

Provisions for other obligations cover numerous specific risks and obligations of uncertain amount. They comprise mainly obligations and risks in respect of the disengagement from the former Rover Group, risks from legal disputes and the obligation for recovery and recycling of end-of-life vehicles.

Other provisions changed during the year as follows:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	At 1.1.2007*	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	At 31.12.2007
Obligations for personnel and social expenses	1,497	–8	890	8	–794	–34	1,559
Obligations for ongoing operational expenses	3,011	–36	1,218	61	–1,362	–74	2,818
Other obligations	1,062	–8	369	17	–190	–125	1,125
	5,570	**–52**	**2,477**	**86**	**–2,346**	**–233**	**5,502**

* including entities consolidated for the first time during the financial year

Of the amount shown as reversed, euro 143 million are included in costs by function in the income statement.

[33] Income tax liabilities

31 December 2007 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,714	2,714
Current tax	378	430	808
	378	**3,144**	**3,522**

31 December 2006 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,758	2,758
Current tax	206	361	567
	206	**3,119**	**3,325**

Current tax liabilities of euro 808 million (2006: euro 567 million) comprises euro 161 million (2006: euro 88 million) for taxes payable and euro 647 million (2006: euro 479 million) for tax provisions. In 2007 tax provisions of euro 8 million were reversed (2006: euro 2 million).

[34] **Financial liabilities**

Financial liabilities include all liabilities of the BMW Group at the relevant balance sheet dates relating to financing activities and comprise:

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	5,230	8,945	4,208	18,383
Liabilities to banks	4,548	1,450	503	6,501
Liabilities from customer deposits (banking)	5,030	702	–	5,732
Commercial paper	5,445	–	–	5,445
Asset backed financing transactions	1,638	4,708	–	6,346
Interest and currency derivatives	105	472	39	616
Bills of exchange payable	–	–	–	–
Other	497	273	128	898
	22,493	**16,550**	**4,878**	**43,921**

31 December 2006 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	4,442	8,450	3,528	16,420
Liabilities to banks	2,077	2,205	6	4,288
Liabilities from customer deposits (banking)	5,138	643	–	5,781
Commercial paper	4,154	–	–	4,154
Asset backed financing transactions	1,305	3,196	–	4,501
Interest and currency derivatives	279	317	–	596
Bills of exchange payable	1	–	–	1
Other	260	235	220	715
	17,656	**15,046**	**3,754**	**36,456**

Other financial liabilities of euro 898 million (2006: euro 715 million) comprise mainly finance lease liabilities.

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
BMW Finance N.V., The Hague	variable	JPY 17,500 million	1.1	1.0
	variable	SKK 768 million	3.0	4.3
	variable	EUR 735 million	1.9	4.7
	variable	USD 81 million	2.0	5.0
	fixed	JPY 45,000 million	8.3	2.3
	fixed	EUR 5,542 million	7.6	4.4
	fixed	USD 950 million	4.8	5.1
	fixed	GBP 400 million	6.0	5.2
	fixed	CHF 200 million	5.0	2.0
BMW Coordination Center V.o.F., Bornem	variable	EUR 500 million	1.2	4.7
	fixed	EUR 150 million	1.0	4.5
BMW (UK) Capital plc, Bracknell	variable	JPY 33,200 million	2.4	0.9
	variable	EUR 275 million	2.1	4.7
	variable	GBP 186 million	1.0	6.0
	fixed	JPY 5,000 million	1.0	1.1
	fixed	GBP 300 million	5.2	6.4
BMW US Capital, LLC, Wilmington, Del.	variable	JPY 33,000 million	1.8	1.0
	variable	USD 1,475 million	2.5	4.7
	variable	EUR 595 million	2.1	4.8
	variable	CAD 100 million	3.0	4.8
	fixed	JPY 8,200 million	1.9	0.4
	fixed	EUR 2,500 million	7.1	4.0
	fixed	USD 1,212 million	8.1	5.3
	fixed	MXN 1,000 million	4.0	7.8
	fixed	CHF 450 million	3.8	2.3
	fixed	GBP 150 million	3.0	4.6
	fixed	AUD 100 million	2.0	5.8
Rolls-Royce Motor Cars Limited, Bracknell	variable	GBP 46 million	–*	5.9
Other	variable	JPY 48,600 million	1.6	1.0
	variable	EUR 1,275 million	2.2	4.8
	variable	SEK 800 million	2.0	4.7
	variable	USD 120 million	6.0	5.3
	variable	CAD 50 million	1.0	4.9
	fixed	JPY 84,000 million	13.9	2.2
	fixed	CHF 500 million	4.5	2.3
	fixed	EUR 75 million	1.0	4.6

* unlimited

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

The following details apply to commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
BMW AG, Munich	EUR 1,630 million	28.4	4.8
BMW Finance N.V., The Hague	EUR 1,521 million	38.6	4.7
	GBP 100 million	49.0	6.6
BMW (UK) Capital plc, Bracknell	GBP 270 million	8.9	6.7
BMW US Capital, LLC, Wilmington, Del.	USD 2,665 million	16.2	4.3

[35] **Other liabilities**

Other liabilities comprise the following items:

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	537	–	–	537
Social security	46	–	–	46
Advance payments from customers	367	15	–	382
Deposits received	56	90	–	146
Subsidiaries	75	–	–	75
Deferred income	1,002	1,651	191	2,844
Other	2,023	36	41	2,100
	4,106	**1,792**	**232**	**6,130**

31 December 2006 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	553	–	–	553
Social security	41	–	–	41
Advance payments from customers	267	11	–	278
Deposits received	48	95	–	143
Subsidiaries	40	–	–	40
Deferred income	909	1,362	306	2,577
Other	2,066	118	40	2,224
	3,924	**1,586**	**346**	**5,856**

Deferred income comprises the following items:

in euro million	31.12.2007 Total	31.12.2007 thereof due within one year	31.12.2006 Total	31.12.2006 thereof due within one year
Deferred income from lease financing	977	580	763	484
Deferred income relating to service contracts	1,433	317	1,295	266
Grants	358	49	412	60
Other deferred income	76	56	107	99
	2,844	**1,002**	**2,577**	**909**

Deferred income relating to service contracts relates to service and repair work to be provided under commitments given at the time of the sale of a vehicle (multi-component arrangements). Grants comprise primarily public funds to promote regional structures; this has been invested in the construction of the production plant in Leipzig. In accordance with IAS 20, they are recognised as income over the useful lives of the assets to which they relate.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[36] Trade payables

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,516	35	–	3,551

31 December 2006 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,624	74	39	3,737

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts to euro 5,110 million (2006: euro 4,139 million).

[37] Contingent liabilities and other financial commitments

Contingent liabilities

No provisions were recognised for the following contingent liabilities (stated at their nominal amount), since an outflow of resources is not considered to be probable:

in euro million	31.12.2007	31.12.2006
Guarantees	132	224
Performance guarantees	13	23
Bills of exchange	2	5
	147	**252**

As at the end of the previous year, all contingent liabilities relate to non-group entities.

Several liability applies in the case of investments in general partnerships.

The usual commercial guarantees have been given in relation to the sale of Rover Cars and Land Rover activities.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for land, buildings, plant and machinery, tools, office and other facilities. The leases run for periods of one to 95 years and in some cases contain extension and/or purchase options. Lease payments of euro 61 million (2006: euro 77 million) were recognised as expense during the year.

The total of future minimum lease payments under non-cancellable leases can be analysed by maturity as follows:

in euro million	31.12.2007	31.12.2006
Nominal total of future minimum lease payments		
due within one year	212	271
due between one and five years	575	583
due later than five years	683	560
	1,470	**1,414**

The above amounts include euro 3 million (2006: euro 4 million) in respect of non-consolidated subsidiaries and euro 7 million (2006: euro 65 million) for back-to-back operating leases.

In addition, the BMW Group is the lessee in the case of operating leases for vehicles which are leased to third parties over matching periods. The following amounts are payable under these contracts:

in euro million	31.12.2007	31.12.2006
Nominal total of future minimum lease payments		
due within one year	403	677
due between one and five years	296	497
due later than five years	–	–
	699	**1,174**

These future obligations are matched, or exceeded, by income on sub-leases.

Purchase commitments for property, plant and equipment amount to euro 1,925 million (2006: euro 1,099 million). Sundry other financial commitments amount to euro 239 million (2006: euro 249 million).

[38] Financial instruments

The carrying amounts and fair values of financial instruments are allocated below to IAS 39 categories, cash funds, cash flow hedges and fair value hedges:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

31 December 2007 in euro million	Cash funds		Loans and receivables	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Other investments	–	–	–	–
Receivables from sales financing	–	–	33,490	34,244
Financial assets				
Derivative instruments	–	–	–	–
Marketable securities and investment funds	–	–	–	–
Loans to third parties	–	–	27	28
Credit card receivables	–	–	260	260
Other financial assets	–	–	568	568
Cash and cash equivalents	2,393	2,393	–	–
Trade receivables	–	–	2,672	2,672
Other assets				
Receivables from subsidiaries	–	–	641	641
Receivables from companies in which an investment is held	–	–	104	104
Collateral receivables	135	135	–	–
Other	1	1	78	78
Liabilities				
Financial liabilities				
Bonds	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–
Commercial paper	–	–	–	–
Asset backed financing transactions	–	–	–	–
Derivative instruments	–	–	–	–
Bills of exchange payable	–	–	–	–
Other financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other liabilities				
Liabilities to subsidiaries	–	–	–	–
Other	–	–	–	–

* Carrying amount corresponds to fair value.

Held-to-maturity investments		Other liabilities		Available-for-sale	Fair value option	Held for trading	Cash flow hedges	Fair value hedges
Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount*	Carrying amount*	Carrying amount*	Carrying amount*	Carrying amount*
–	–	–	–	209	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	195	802	983
52	51	–	–	1,904	4	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	18,808	18,383	–	–	–	–	–
–	–	6,485	6,501	–	–	–	–	–
–	–	5,702	5,732	–	–	–	–	–
–	–	5,446	5,445	–	–	–	–	–
–	–	5,882	6,346	–	–	–	–	–
–	–	–	–	–	–	180	13	423
–	–	–	–	–	–	–	–	–
–	–	910	898	–	–	–	–	–
–	–	3,551	3,551	–	–	–	–	–
–	–	75	75	–	–	–	–	–
–	–	2,081	2,081	–	–	–	–	–

31 December 2006 in euro million	Cash funds		Loans and receivables	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Other investments	–	–	–	–
Receivables from sales financing	–	–	30,183	30,368
Financial assets				
Derivative instruments	–	–	–	–
Marketable securities and investment funds	–	–	–	–
Loans to third parties	–	–	67	67
Credit card receivables	–	–	239	239
Other financial assets	–	–	289	289
Cash and cash equivalents	1,336	1,336	–	–
Trade receivables	–	–	2,258	2,258
Other assets				
Receivables from subsidiaries	–	–	693	693
Receivables from companies in which an investment is held	–	–	202	202
Collateral receivables	120	120	–	–
Other	3	3	106	106
Liabilities				
Financial liabilities				
Bonds	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–
Commercial paper	–	–	–	–
Asset backed financing transactions	–	–	–	–
Derivative instruments	–	–	–	–
Bills of exchange payable	–	–	–	–
Other financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other liabilities				
Liabilities to subsidiaries	–	–	–	–
Other	–	–	–	–

1] Carrying amount corresponds to fair value.
2] Including the negative fair value of the option obligation relating to the Rolls-Royce exchangeable bond.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Held-to-maturity investments		Other liabilities		Available-for-sale	Fair value option	Held for trading	Cash flow hedges	Fair value hedges
Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount [1]	Carrying amount [1]	Carrying amount [1]	Carrying amount [1]	Carrying amount [1]
–	–	–	–	401	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	122	511	688
52	51	–	–	1,981	2	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	16,507	16,420	–	–	–	–	–
–	–	4,231	4,288	–	–	–	–	–
–	–	5,731	5,781	–	–	–	–	–
–	–	4,151	4,154	–	–	–	–	–
–	–	4,299	4,501	–	–	–	–	–
–	–	–	–	–	–	165 [2]	115	316
–	–	1	1	–	–	–	–	–
–	–	728	715	–	–	–	–	–
–	–	3,737	3,737	–	–	–	–	–
–	–	40	40	–	–	–	–	–
–	–	2,009	2,009	–	–	–	–	–

Fair value measurement of financial instruments
The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the counterparties or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2007 on the basis of the following interest rates:

ISO-Code in %	EUR	USD	GBP	JPY
Interest rate for six months	4.3	4.6	5.9	1.0
Interest rate for one year	4.3	4.2	5.7	1.1
Interest rate for five years	4.6	4.2	5.1	1.2
Interest rate for ten years	4.8	4.8	5.1	1.7

These interest rates were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

Gains and losses on financial instruments
The following table shows the net gains and losses arising for each of the categories of financial instrument defined by IAS 39:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

in euro million	2007	2006
Held for trading		
Gains/losses from the use of derivative instruments	–39	17
Available-for-sale		
Gains/losses on sale and fair value gains/losses on available-for-sale securities; including equity investments carried at cost	49	44
Income from investments	3	62
Accumulated other equity		
Balance at 1 January	214	562
Total change during the year	–179	–348
– of which recognised in the income statement during the period under report	–168	–431
Balance at 31 December	35	214
Loans and receivables		
Impairment losses/reversals of impairment losses	–277	–190
Other income/expenses	–12	–31
Other liabilities		
Income/expenses	168	108

Gains/losses from the use of derivative instruments relate primarily to fair value gains or losses arising on stand-alone derivative instruments.

Write-downs of euro 49 million (2006: euro 2 million) on available-for-sale securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2007. Reversals of write-downs on current marketable securities of euro 2 million were recognised directly in equity (2006: euro 4 million).

The disclosure of interest income resulting from the unwinding of interest on future expected receipts would normally only be relevant for the BMW Group where assets have been discounted as part of the process of determining impairment losses. However, as a result of the assumption that most of the income that is subsequently recovered is received within one year and the fact that the impact is not material, the BMW Group does not discount assets for the purposes of determining impairment losses.

Cash flow hedges

The effect of cash flow hedges on accumulated other equity was as follows:

in euro million	2007	2006
Balance at 1 January	178	29
Total changes during the year	260	149
– of which recognised in the income statement during the period under report	–260	–266
Balance at 31 December	**438**	**178**

During the period under report, an expense of euro 4 million (2006: euro 3 million) was recognised in the income statement to reflect the ineffective portion of cash flow hedges.

At 31 December 2007, the BMW Group held derivative instruments with terms of up to 41 months (2006: 44 months) to hedge currency risks attached to future transactions. It is expected that euro 384 million of net gains, recognised in equity at the balance sheet date, will be recognised in the income statement in 2008.

At 31 December 2007, the BMW Group held derivative instruments with terms of up to 108 months (2006: 120 months) to hedge interest rate risks attached to future transactions. It is expected that euro 5 million of net gains, recognised in equity at the balance sheet date, will be recognised in the income statement in 2008.

Cash flow hedges are used to hedge cash flows arising in conjunction with the supply of vehicles to subsidiaries.

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in euro million	31.12.2007	31.12.2006
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	272	159
Profit/loss from hedged items	–271	–147
	1	**12**

The difference between the gains/losses on hedging instruments and the result recognised on hedged items represents the ineffective portion of fair value hedges.

Fair value hedges are mainly used to hedge bonds and other financial liabilities.

Credit risk

Notwithstanding the existence of collateral accepted, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that counterparties will not be able to fulfil their contractual obligations. The maximum credit risk for irrevocable credit commitments relating to credit card business amounted to euro 2,082 million (2006: euro 1,395 million). The equivalent figure for dealer financing was euro 12,043 million (2006: euro 9,968 million).

In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit standing of the counterparty obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk, all depending on the nature and amount of the exposure that the BMW Group is proposing to enter into.

Within the financial services business, the financed items (e.g. vehicles, equipment and property) in the retail customer and dealer lines of business serve as first-ranking collateral with a recoverable value. Security is also put up by customers in the form of collateral asset pledges, asset assignment and first-ranking mortgages, supplemented where appropriate by warranties and guarantees. If an item previously accepted as collateral is acquired, it undergoes a multi-stage process of repossession and disposal in accordance with the legal situation prevailing in each relevant market. The assets involved are generally vehicles which can be converted into cash at any time via the dealer organisation.

Impairment losses are recorded as soon as credit risks are identified on individual financial assets, using a methodology specifically designed by the BMW Group. More detailed information regarding this methodology is provided in the section on accounting policies.

The use of comprehensive rating and scoring techniques and credit monitoring procedures ensures the recoverability of the value of receivables from sales financing which are neither overdue nor impaired.

The credit risk relating to derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant. A concentration of credit risk with particular borrowers or groups of borrowers has not been identified.

Further disclosures relating to credit risk, in particular impairment losses recognised, are provided in the notes to the relevant category of receivables on pages 100 to 105.

Liquidity risk

The following table shows the maturity structure of contractual cash flows (undiscounted) for financial liabilities:

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	–5,947	–10,627	–4,920	–21,494
Liabilities to banks	–4,736	–1,630	–551	–6,917
Liabilities from customer deposits (banking)	–5,193	–774	–	–5,967
Commercial paper	–5,474	–	–	–5,474
Asset backed financing transactions	–1,854	–5,043	–	–6,897
Interest and currency derivative instruments	63	234	132	429
Bills of exchange payable	–	–	–	–
Trade payables	–3,516	–35	–	–3,551
Other financial liabilities	–497	–273	–128	–898
	–27,154	**–18,148**	**–5,467**	**–50,769**

31 December 2006 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	–5,126	–9,789	–4,007	–18,922
Liabilities to banks	–2,178	–2,385	–7	–4,570
Liabilities from customer deposits (banking)	–5,250	–699	–	–5,949
Commercial paper	–4,159	–	–	–4,159
Asset backed financing transactions	–1,440	–3,365	–	–4,805
Interest and currency derivative instruments	–127	287	127	287
Bills of exchange payable	–1	–	–	–1
Trade payables	–3,624	–74	–39	–3,737
Other financial liabilities	–260	–235	–220	–715
	–22,165	**–16,260**	**–4,146**	**–42,571**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for interest rate and currency derivative instruments include all cash flows relating to derivatives that have a negative fair value at the balance sheet date as well as all cash flows relating to derivatives that have a positive fair value at the balance sheet date but which are part of a hedging relationship with a financial liability.

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt ratio. The long-term ratings published by Standard & Poor's (A+) and Moody's (A1) enable the BMW Group to obtain financing on competitive terms and conditions.

Short-term liquidity is managed primarily by issuing money market instruments (commercial paper). As a result of its good credit standing, reflected in the first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is also able to obtain competitive terms and conditions in this area.

Also reducing liquidity risk, additional secured and unsecured lines of credit are in place with first-class international banks. Intragroup cash flow fluctuations are evened out by the use of daily cash pooling arrangements.

Market risks

The principal market risks to which the BMW Group is exposed are currency risk and interest rate risk.

Protection against such risks is provided in the first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Derivative financial instruments are only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in detailed internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Currency and interest rate risks are managed at a corporate level.

Further disclosures relating to risk management are provided in the Group Management Report.

Currency risk

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues are generated outside the euro currency region and the procurement of production material and funding is also organised on a worldwide basis, currency risk is an extremely important factor for Group earnings.

At 31 December 2007, derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies US dollar, British pound, Canadian dollar and Japanese yen. The hedging contracts comprise mainly option and forward currency contracts.

A description of how currency risk is managed is provided in the Group Management Report on page 63. The BMW Group measures currency risks using a cash-flow-at-risk model.

The starting point for analysing currency risk with this model is the identification of forecast foreign currency transactions or "exposures". At the balance sheet date, exposures for the coming year were as follows:

in euro million	31.12.2007	31.12.2006
Euro/US dollar	6,140	5,787
Euro/British pound	3,484	3,331
Euro/Japanese yen	1,263	1,552

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential exchange rate fluctuations to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings for the current period is computed on the basis of current market prices and exposures to a confidence level of 95 % for each currency. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to unfavourable changes in exchange rates for the three principal currencies at the balance sheet date.

in euro million	31.12.2007	31.12.2006
Euro/US dollar	33	155
Euro/British pound	14	22
Euro/Japanese yen	56	81

The BMW Group's currency risk relates primarily to the three currencies shown.

Interest rate risk

The BMW Group's financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore also exposed to risks resulting from changes in interest rates.

These risks arise when funds with differing fixed-rate periods or differing terms are borrowed and invested. All items subject to, or bearing, interest are exposed to interest rate risk. Interest rate risks can affect either side of the balance sheet.

The fair values of the Group's interest rate portfolios for the three principal currencies were as follows at the balance sheet date:

in euro million	31.12.2007	31.12.2006
Euro	6,930	7,481
US dollar	6,012	5,759
British pound	2,278	3,023

Interest rate risks can be managed by the use of interest rate derivative instruments. The interest rate contracts used for hedging purposes comprise mainly swaps which are accounted for on the basis of whether they are designated as a fair value hedge or as a cash flow hedge. A description of how interest rate risk is managed is provided in the Group management report on page 63.

As stated there, the BMW Group applies a value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts measured on the basis of a holding period of three months and a confidence level of 99 %. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

In the following table the potential volume of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest rate relevant positions of the BMW Group for the three principal currencies:

in euro million	31.12.2007	31.12.2006
Euro	76	62
US dollar	109	85
British pound	10	7

Other risks

The BMW Group is exposed to raw material price risks. A description of how the raw material price risk is managed is provided in the Group Management Report on page 63. Derivative financial instruments are used on a relatively small scale to reduce these risks, primarily for the purchase of precious metals. The risk from these derivatives was not material to the Group in 2007 and 2006 and remains small at the balance sheet date. For this reason, a sensitivity analysis for these derivatives is not provided.

A further exposure relates to the residual value risk on vehicles returned to the Group at the end of lease contracts. The risks from financial instruments used in this context were not material to the Group in the past or at the balance sheet date. A description of how these risks are managed is provided in the Group Management Report on pages 64 and 65.

[39] **Explanatory notes to the cash flow statements**

The cash flow statements show how the cash and cash equivalents of the BMW Group, Industrial Operations and Financial Operations have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Cash Flow Statements), cash flows are classified into cash flows from operating, investing and financing activities. The cash flow statements of the BMW Group are presented on pages 76 and 77.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, and cash at bank, to the extent that they are available within three months from the balance sheet date and are subject to an insignificant risk of changes in value. The negative impact of changes in cash and cash equivalents due to the effect of exchange rate fluctuations in 2007 was euro 47 million (2006: negative impact of euro 42 million).

The cash flows from investing and financing activities are based on actual payments and receipts. The cash flow from operating activities is computed using the indirect method, starting from the net profit of the Group. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group balance sheet.

If the BMW Group acts as the lessor in a finance lease, the relevant cash flows are reported in the cash flow statement as part of the cash flow from investing activities. If the BMW Group acts as the lessee in a finance lease, the cash flows are reported as part of the cash flows from operating and investing activities.

If the BMW Group acts as the lessor in an operating lease, cash flows are reported as part of the cash flow from investing activities. In the final case, where the BMW Group acts as the lessee in an operating lease, cash flows are reported as part of the cash flow from operating activities.

The payment for the acquisition of DEKRA SüdLeasing Services GmbH, Stuttgart, and that entity's subsidiaries (euro 121 million) is included for the most part in investing activities.

The cash inflow from operating activities includes the following cash flows in accordance with IAS 7.31 and IAS 7.35:

in euro million	2007	2006
Interest received	386	391
Interest paid	389	328
Dividends received	3	62

[40] Related party relationships

In accordance with IAS 24 (Related Party Disclosures), related individuals or entities which have the ability to control the BMW Group or which are controlled by the BMW Group, must be disclosed unless such parties are not already included in the consolidated financial statements as consolidated companies. Control is defined as ownership of more than one-half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group.

In addition, the disclosure requirements of IAS 24 also cover transactions with associates and with parties which have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediaries. Significant influence over the financial and operating policies of the Group can arise when a party holds 20% or more of the shares of BMW AG or is a member of the Board of Management or Supervisory Board of BMW AG.

For the financial year 2007, the disclosure requirements contained in IAS 24 only affect the BMW Group with regard to business relationships with affiliated, non-consolidated entities, joint ventures, other equity investments as well as with members of the Board of Management and the Supervisory Board of BMW AG.

The BMW Group's relationships with affiliated, non-consolidated entities are based on arm's length principles. Transactions with these entities are small in scale and in the normal course of business.

Transactions of BMW Group companies with joint ventures and other equity investments – mainly BMW Brilliance Automotive Ltd., Shenyang (50%) – all arise in the normal course of business and are conducted on the basis of arm's length principles.

Stefan Quandt is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v.d.H., which, via its subsidiaries, performed logistics services for the BMW Group during the financial year 2007. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sale contracts are not material for the BMW Group and are made, without exception, on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG, and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Wesel, which purchased vehicles from the BMW Group during the financial year 2007. These sale contracts are not material for the BMW Group and are made, without exception, on the basis of arm's length principles.

With the exception of these related party transactions, companies of the BMW Group did not enter into any significant transactions with members of the Board of Management or the Supervisory Board of BMW AG or with companies in whose representative bodies those persons are represented. The same applies to close members of the families of those persons.

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[41] **Declaration with respect to the Corporate Governance Code**
The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued a declaration, required by § 161 of the German Stock Corporation Act, which is included in the BMW Group Annual Report 2007 and which is available to shareholders on the BMW Group website under the address www.bmwgroup.com/ir.

[42] **Shareholdings of members of the Board of Management and Supervisory Board**
The members of the Supervisory Board of BMW AG hold in total 27.70 % of the issued common and preferred stock shares, of which 16.12 % relates to Stefan Quandt, Bad Homburg v. d. H., and 11.58 % to Susanne Klatten, Munich. The shareholding of the members of the Board of Management of BMW AG is, in total, less than 1 % of the issued stock shares.

[43] **Compensation of members of the Board of Management and Supervisory Board**
Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of current members of the Board of Management and the Supervisory Board amounts to euro 18.7 million (2006: euro 17.8 million). The remuneration consists of the following:

in euro million	2007	2006
Short-term employment benefits	18.0	17.2
Benefits due at end of employment relationship	0.7	0.6
	18.7	**17.8**

Subject to the approval of the proposed dividend at the Annual General Meeting, the salaries of the members of the Board of Management for the financial year 2007 amounted to euro 15.2 million (2006: euro 14.5 million). This comprises fixed components of euro 2.7 million (2006: euro 2.3 million) and variable components of euro 12.5 million (2006: euro 12.2 million).

In addition, an amount of euro 0.7 million (2006: euro 0.6 million) has been granted to current members of the Board of Management after the end of their employment relationship. This relates to the expense for allocations to pension provisions.

Subject to the approval of the proposed dividend at the Annual General Meeting, the compensation of the members of the Supervisory Board for the financial year 2007 amounts to euro 2.8 million (2006: euro 2.7 million). This comprises fixed components of euro 0.1 million (2006: euro 0.1 million) and variable components of euro 2.7 million (2006: euro 2.6 million).

Further details about the remuneration of current members of the Board of Management and of the Supervisory Board can be found in the Compensation Report on pages 142 to 145. The Compensation Report is part of the Group Management Report.

The remuneration of former Board members and their dependants amounted to euro 4.3 million (2006: euro 3.8 million).

Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 38.3 million (2006: euro 38.8 million), computed in accordance with IAS 19.

Members of the Board of Management or the Supervisory Board holding a BMW Bank GmbH, Munich, credit card have a credit line of up to euro 25,565. At the balance sheet date the balances resulting from credit card usage were all within the agreed limits.

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 137 to 140.

[44] **Application of § 264 (3) and § 264b HGB**

A number of companies and incorporated partnerships (as defined by § 264a HGB) which are affiliated, consolidated entities of BMW AG and for which the consolidated financial statements of BMW AG represent exempting consolidated financial statements, apply the exemptions available in § 264 (3) and § 264b HGB with regard to the drawing up of a management report. The exemptions have been applied by:

- Alphabet Fuhrparkmanagement GmbH, Munich
- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fahrzeugtechnik GmbH, Eisenach
- BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart
- BMW Hams Hall Motoren GmbH, Munich
- BMW Ingenieur-Zentrum GmbH + Co., Dingolfing
- BMW Leasing GmbH, Munich
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- BMW Vertriebs GmbH, Munich
- BMW Vertriebs GmbH & Co. oHG, Dingolfing
- LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart
- Rolls-Royce Motor Cars GmbH, Munich

In addition, the following entities apply the exemption available in § 264 (3) and § 264b HGB with regard to publication:

- Alphabet Fuhrparkmanagement GmbH, Munich
- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart
- BMW Hams Hall Motoren GmbH, Munich
- BMW Ingenieur-Zentrum GmbH + Co., Dingolfing
- BMW INTEC Beteiligungs GmbH, Munich
- BMW Leasing GmbH, Munich
- BMW Vertriebs GmbH, Munich
- BMW Vertriebs GmbH & Co. oHG, Dingolfing
- LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart
- Rolls-Royce Motor Cars GmbH, Munich

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

[45] Segment information

Description of business segments

In accordance with the rules contained in IAS 14 (Segment Reporting), the BMW Group presents segment information using business segments as its primary reporting format and geographical segments as its secondary reporting format. This distinction is based on internal management and financial reporting systems and reflects the risk and earnings structure of the Group.

The activities of the BMW Group are broken down into the segments Automobiles, Motorcycles and Financial Services.

The Automobiles segment develops, manufactures, assembles and sells cars and off-road vehicles under the brands BMW, MINI and Rolls-Royce, as well as spare parts and accessories.

BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent import companies. Rolls-Royce brand vehicles are sold in the USA via a subsidiary company and elsewhere by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells BMW brand motorcycles as well as spare parts and accessories.

The Financial Services segment focuses primarily on car leasing, fleet business, retail customer and dealer financing, customer deposit business and insurance activities. The profit before financial result of this segment includes net interest income on retail customer and dealer financing business and the result of lease business. Leased products are carried at acquisition cost less straight-line depreciation down to the imputed residual value of the vehicles. Leased products are written down to their fair value where this is lower. Intra-group profits on own products are eliminated on consolidation and included in the Reconciliations to the Group profit before tax.

Reconciliations to the Group profit before tax for the Group include holding companies, Group financing companies and income and expenses not specifically attributable to the business segments. Reconciliations also include certain operating companies which are not allocated to segments, namely BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, and the Cirquent Group.

Other explanatory comments on segment information

Segment information is generally prepared in conformity with the accounting policies adopted for preparing and presenting the Group financial statements. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in Reconciliations. Inter-segment sales take place at arm's length prices.

Significant non-cash items comprise mainly changes in provisions, impairment losses, reversal of impairment losses and depreciation on leased products.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Segment assets and segment liabilities comprise all assets and liabilities employed by the relevant business segment to generate the profit before financial result.

The return on sales for each segment is based on the profit before tax.

Internal financing is computed as the profit before tax adjusted for depreciation and significant non-cash items and less actual tax payments.

In the case of segment information by geographical region, external sales are based on the location of the customer's registered office. Segment information is provided for the regions Germany, rest of Europe, the Americas and Africa, Asia and Oceania, in line with internal management and reporting procedures.

Segment information by business segment in euro million		Automobiles 2007	2006
External revenues		**42,435**	**37,948**
Change compared to previous year	%	11.8	1.9
Inter-segment revenues		**11,383**	**9,819**
Change compared to previous year	%	15.9	14.0
Total revenues		**53,818**	**47,767**
Change compared to previous year	%	12.7	4.2
Gross profit		**10,528**	**9,636**
Profit before financial result		**3,450**	**3,055**
Change compared to previous year	%	12.9	–0.8
Result from equity method accounting		**11**	**–25**
Other financial result		**–229**	**–18**
Profit before tax		**3,232**	**3,012**
Change compared to previous year	%	7.3	1.2
Return on sales	%	**6.0**	**6.3**
Significant non-cash items		**356**	**–117**
Internal financing		**6,591**	**5,552**
Capital expenditure		**4,103**	**4,185**
Depreciation and amortisation		**3,562**	**3,159**
Additions to leased products		**359**	**392**
Investments accounted for using the equity method		**63**	**60**
Assets		**28,515**	**27,227**
Liabilities		**19,881**	**20,069**
Average workforce during the year		**95,927**	**95,920**

* including impairment loss of euro 17 million due to volume-induced adjustment to forecast

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Motorcycles		Financial Services		Reconciliations		Group	
2007	2006	2007	2006	2007	2006	2007	2006
1,223	1,255	**12,146**	9,603	**214**	193	**56,018**	48,999
–2.5	3.1	26.5	19.0	10.9	62.2	14.3	5.0
5	10	**1,794**	1,476	**–13,182**	–11,305	**–**	–
–50.0	66.7	21.5	10.6	16.6	13.6	–	–
1,228	1,265	**13,940**	11,079	**–12,968**	–11,112	**56,018**	48,999
–2.9	3.4	25.8	17.8	16.7	13.0	14.3	5.0
345	322	**1,345**	1,215	**–32**	166	**12,186**	11,339
80	75	**717**	689	**–35**	231	**4,212**	4,050
6.7	11.9	4.1	10.8	–	862.5	4.0	6.8
–	–	**–**	–	**–**	–	**11**	–25
–9	–9	**26**	–4	**–138**	130	**–350**	99
71	66	**743**	685	**–173**	361	**3,873**	4,124
7.6	10.0	8.5	13.2	–	–	–6.1	25.5
5.8	5.2	**5.3**	6.2	**–**	–	**6.9**	8.4
11	12	**4,204**	3,475	**387**	30	**4,958**	3,400
156	144	**4,873**	4,095	**77**	272	**11,697**	10,063
45	64	**110**	42	**9**	22	**4,267**	4,313
86*	77	**24**	24	**11**	12	**3,683**	3,272
–	–	**12,902**	10,362	**–2,223**	–2,232	**11,038**	8,522
–	–	**–**	–	**–**	–	**63**	60
670	687	**59,040**	50,529	**772**	614	**88,997**	79,057
404	396	**52,626**	44,480	**–5,658**	–5,018	**67,253**	59,927
2,761	2,816	**3,848**	3,315	**1,866**	1,676	**104,402**	103,727

Segment information by region in euro million	External revenues 2007	 2006	Capital expenditure 2007	 2006	Assets 2007	 2006
Germany	11,918	10,601	3,364	3,089	31,615	28,903
Rest of Europe	22,395	18,440	475	665	24,356	19,789
The Americas	13,014	12,336	378	511	23,290	21,589
Africa, Asia, Oceania	8,691	7,622	50	48	9,526	8,705
Reconciliations	–	–	–	–	210	71
Group	**56,018**	**48,999**	**4,267**	**4,313**	**88,997**	**79,057**

Munich, 19 February 2008

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

73 Group Financial Statements
73 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Group Statement of Changes in Equity
79 Statement of Income and Expenses recognised directly in Equity
80 Notes
80 – Accounting Principles and Policies
89 – Notes to the Income Statement
96 – Notes to the Balance Sheet
117 – Other Disclosures
131 – Segment Information

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 3 and § 315 (1) sentence 6 of the German Commercial Code (HGB)
"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

BMW Group
Auditors' Report

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement, the balance sheet, statements of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the Company and the Group for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that material misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the Group management report are examined primarily on a test basis within the framework of the audit. The audit also includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 3 March 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Schindler	Pastor
Wirtschaftsprüfer	Wirtschaftsprüfer

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg
Chairman
Former Chairman of the Board of Management of BMW AG

Chairman of the Presiding Board, Personnel Committee, Audit Committee and Nomination Committee; member of the Mediation Committee

Mandates
- ● Bertelsmann AG
- ● FESTO AG
- ● MAN AG (Deputy Chairman) (until 10. 05. 2007)
- ● SAP AG (from 16. 05. 2007)
- ○ Deere & Company

Manfred Schoch*
Deputy Chairman
Chairman of the General Works Council
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Stefan Quandt
Deputy Chairman
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee, Nomination Committee and Mediation Committee

Mandates
- ● DELTON AG (Chairman)
- ● Dresdner Bank AG (until 31. 12. 2007)
- ○ DataCard Corp.

Konrad Gottinger*
(until 15. 02. 2008)
Deputy Chairman
Member of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Dr. Hans-Dietrich Winkhaus
Deputy Chairman
Former Chairman of the Board of Henkel KGaA

Member of the Presiding Board, Personnel Committee, Audit Committee and Nomination Committee

Mandates
- ● Deutsche Lufthansa AG
- ● ERGO Versicherungsgruppe AG
- ○ Henkel KGaA

Ulrich Eckelmann*
Head of Division Industry, Technology and Environment with the Executive Board of IG Metall

Bertin Eichler*
Executive Member of the Executive Board of IG Metall

Mandates
- ● ThyssenKrupp AG (Deputy Chairman)
- ● BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH (Chairman)

* Employee representative
● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards of business enterprises

Franz Haniel
Engineer, MBA

Mandates
- DELTON AG (Deputy Chairman)
- Franz Haniel & Cie. GmbH (Chairman)
- Heraeus Holding GmbH
- Metro AG (Chairman) (from 04.11.2007)
- secunet Security Networks AG

○ Giesecke & Devrient GmbH

Arthur L. Kelly
Managing Partner of
KEL Enterprises L.P.

Mandates
- BASF SE

○ DataCard Corp.
○ Deere & Company
○ Northern Trust Corp.
○ Robert Bosch Corp.
○ Snap-on Inc.

Susanne Klatten
BSc., MBA
Honorary Senator of the
Technical University of Munich

Mandates
- ALTANA AG (Deputy Chairman)

○ UnternehmerTUM GmbH

Willibald Löw *
Chairman of the Works Council, Landshut

Prof. Dr. rer. nat. Drs. h.c. mult. Hubert Markl
Former President of Max-Planck-Gesellschaft
zur Förderung der Wissenschaften e.V.
Professor of Biology (retired)

Mandates
- Münchener Rückversicherungs-Gesellschaft AG

○ Georg von Holtzbrinck GmbH
○ Sanofi-Aventis S.A.

Wolfgang Mayrhuber
Chairman of the Board of Management of
Deutsche Lufthansa AG

Mandates
- Eurowings Luftverkehrs AG
- Fraport AG
- LSG Lufthansa Service Holding AG
- Lufthansa Cargo AG
- Lufthansa Technik AG
- Münchener Rückversicherungs-Gesellschaft AG
- Thomas Cook AG (Deputy Chairman)
(until 02.04.2007)

○ HEICO Corp.
○ SWISS International Air Lines AG

Heinz-Joachim Neubürger
Senior Advisor of Kohlberg Kravis Roberts & Co.
Managing Director of Kohlberg Kravis Roberts &
Co. Ltd.
Export Merchant, MBA

Mandates
- Allianz Versicherungs-AG
- ProSiebenSat.1 Media AG (from 17.07.2007)

○ KKR Guernsey GP Limited (until 15.06.2007)
○ Gruppo Banca Leonardo S.p.A. (until 19.07.2007)

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to §161 AktG

Werner Neugebauer*
Regional Executive Officer of IG Metall Bavaria

Franz Oberländer*
Member of the Works Council, Munich

Anton Ruf*
Director Product Line L7

Stefan Schmid*
(from 03.01.2007)
Chairman of the Works Council, Dingolfing

Prof. Dr. Jürgen Strube
Chairman of the Supervisory Board of BASF SE

Mandates
- ● Allianz Deutschland AG
- ● BASF SE (Chairman)
- ● Bertelsmann AG (Deputy Chairman)
- ● Commerzbank AG
- ● Fuchs Petrolub AG (Chairman)
- ● Hapag-Lloyd AG
- ● Linde AG

Werner Zierer*
Chairman of the Works Council, Regensburg

* Employee representative
● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards of business enterprises

Members of the Board of Management

Dr.-Ing. Norbert Reithofer
Chairman

Frank-Peter Arndt
Production

Mandates
- ● BMW Motoren GmbH (Chairman)

- ○ BMW (South Africa) (Pty) Ltd. (Chairman)
- ○ Leipziger Messe GmbH

Ernst Baumann
Human Resources, Industrial Relations Director

Mandates
- ● Krones AG

Dr.-Ing. Herbert Diess
(from 01.10.2007)
Purchasing and Supplier Network

Dr.-Ing. Klaus Draeger
Development

Dr. Friedrich Eichiner
(from 01.10.2007)
Corporate and Brand Development

Mandates
- ○ BMW Brilliance Automotive Ltd. (Deputy Chairman) (from 01.11.2007)
- ○ BMW (US) Holding Corp.

Dr. Michael Ganal
Sales and Marketing (until 30.09.2007)
Finance (from 01.10.2007)

Mandates
- ○ BMW Brilliance Automotive Ltd. (Deputy Chairman) (until 31.10.2007)

Stefan Krause
Finance (until 30.09.2007)
Sales and Marketing (from 01.10.2007)

Mandates
- ● Allianz Deutschland AG

General Counsel:
Dr. Dieter Löchelt

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards of business enterprises

Corporate Governance at BMW Group

For the BMW Group, corporate governance is an all-embracing issue which affects all areas of the enterprise. Transparent reporting and a policy of corporate governance aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility, have long been the basis for managing the affairs of the BMW Group. The underlying corporate culture at the BMW Group is founded upon the principles of transparency, placing trust in others and taking responsibility for one's own actions.

Declaration of Compliance and the BMW Group Corporate Governance Code

Management and supervisory boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by the "German Government Corporate Governance Code Commission", as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or are not being applied.

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft believe that the recommendations and suggestions contained in the German Corporate Governance Code (GCGC) contribute to an enhancement of the financial markets in Germany, in particular for international investors. At the joint meeting held on 4 December 2007, the Board of Management and Supervisory Board of BMW AG issued the Declaration of Compliance with the new version of the German Corporate Governance Code valid from 20 July 2007. BMW AG continues to comply with the recommendations of the GCGC with only one exception: namely, that the discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee. The Chairman of that committee informs the members of the Supervisory Board at its next meeting in detail. All other recommendations are complied with. Moreover, the Board of Management and Supervisory Board have, in the past, developed the BMW Group's own corporate governance code on the basis of the GCGC taking account of the specific circumstances of the BMW Group. The aim is to provide shareholders and other stakeholders with a comprehensive and stand-alone document covering the corporate governance practices applied by the BMW Group. The BMW Group's Corporate Governance Code has been revised in conjunction with the new version of the GCGC. A copy of it can be obtained, along with other shareholder information, from the BMW Group website. Interested parties can also find other general information about the BMW Group, up-to-date analysts' reports and all Group financial publications at www.bmwgroup.com/ir.
A coordinator responsible for all corporate governance issues reports directly and on a regular basis to the Board of Management and Supervisory Board.

Compliance at BMW Group

The corporate culture that has evolved at the BMW Group is characterised by clear lines of responsibility, mutual respect and trust. Nevertheless, the risk of wrongdoing by individuals can never be entirely ruled out. The BMW Group is firmly committed to keeping such risks to a minimum and to systematically uncovering and following up any cases of corruption that might occur. In accordance with the anti-corruption principle enshrined in the United Nations Global Compact, the BMW Group has a well-established internal control system, the effectiveness of which is tested regularly using a risk-based approach. In addition, employees in relevant divisions and departments are sensitised to the risk of corruption. The ways in which employees are expected to deal with this risk are set out in corporate guidelines and in the BMW Group's stated set of core principles. Those requirements are supplemented by organisational rules such as the dual control principle and segregation of duties between requisitioning and purchasing. Regular and mandatory job rotation within the purchasing function helps to prevent dependencies between the parties involved and therefore receives the full support of the personnel department. In addition, all business units are subjected to audit by the Group's internal audit department within a predefined time scale in accordance with the Standards promulgated by the German Institute of Internal Auditing. Processes and areas of the BMW Group that are exposed to a higher degree of risk are audited more frequently, for example in countries where corruption is more prevalent. The internal audit department also provides tools to specialist departments to carry out their own risk assessment and controls. One example of the effectiveness of the Group's internal control mechanisms is the uncovering of various incidences of corruption in BMW AG's purchasing department in 2005. Legal proceedings culminated in the conviction of a number of ex-em-

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

ployees of the BMW Group during the years 2006 and 2007. In order to reduce the risk of irregularities, the applicable rules for receiving payments/benefits and attending non-business events have once again been communicated to employees working in the purchasing department as well as to some 600 suppliers. In 2007, the BMW Group set up a Compliance Committee which reports directly to, and advises, the Board of Management of BMW AG on compliance-related matters. The Committee has, amongst other functions, the task of identifying and assessing compliance-related risks and other risks which could endanger the good reputation of the BMW Group. By analysing the structural, organisational and/or process-related context of identified breaches of rules, the Compliance Committee is also able to design preventative measures and instruct the relevant departments to implement those measures. Each and every employee of the BMW Group is obliged to act responsibly and in compliance with the law.

In the interest of investor protection and in order to ensure that the BMW Group complies with regulations relating to potential insider information, the Board of Management has appointed an Ad-hoc Committee which is made up from representatives of various specialist departments and whose members examine the relevance of issues for ad-hoc disclosure purposes. The procedures and decision-taking process applied by this committee, which has been in place since 1994, have been brought into line with the revised requirements of the Investors' Protection Improvement Act. All persons working on behalf of the enterprise and with access to insider information in accordance with existing rules have been, and continue to be, included in an appropriate list and informed of the duties arising from insider rules.

Compliance matters are also included in the Board of Management's reports to the Audit Committee set up by the Supervisory Board.

Compensation Report

The BMW Group supports the endeavours of the German Corporate Governance Code to increase transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. As well as discussing the structure of remuneration, the components of compensation are also disclosed in absolute figures. In accordance with the recommendations of the GCGC, the compensation of each member of the Board of Management and the Supervisory Board is disclosed by name and analysed into components.

1. Compensation of the Board of Management

Responsibilities

The determination and monitoring of the compensation of the Board of Management are the responsibility of the Personnel Committee of the Supervisory Board. The Personnel Committee comprises the Chairman of the Supervisory Board and his four deputies.

Overall objectives

The compensation model used for the Board of Management should be attractive in the context of the competitive environment for highly qualified executives. As an incentive to encourage performance, the variable component should be linked to a high degree to the financial success of the BMW Group. The structure of the compensation of the Board of Management should also contain parallels to the compensation system applied to employees and senior management.

Components of compensation

The compensation of the Board of Management comprises a fixed and a variable component. In addition, benefits are also payable at the end of members' mandates, primarily in the form of pension benefits. For the purposes of determining the overall compensation of the Board of Management, the Personnel Committee, having considered the overall position and forecasts of the BMW Group, decides on an overall salary framework, which will include a high variable proportion.

The Personnel Committee reviews the compensation system at regular intervals, with regard to the structure and amount of the remuneration of the Board of Management.

Fixed salaries comprise a base remuneration amount, which is paid as monthly salary, and other remuneration elements. Other remuneration elements comprise mainly the use of company cars and the payment of insurance premiums.

The factors determining the amount of variable compensation enable members of the Board of Management to earn a competitive level of income with a very high bonus element (2007: 82.2 %, 2006:

84.1 %) for financial years in which the BMW Group performs well. The measures used to determine the variable component of compensation are the Group net profit and the dividend level for the relevant year, subject to specifically defined upper limits. As a change from the previous arrangements, upper limits were agreed with the members of the Board of Management for the financial year 2007 based on amounts actually paid in the previous year.

The compensation system does not include any stock options, value appreciation rights comparable to stock options or any other stock-based compensation components. No compensation agreements have been concluded with members of the Board of Management for situations involving a take-over offer. Similarly, they did not receive any payments or benefits from third parties in 2007 on account of their activities as the members of the Board of Management.

Pension agreements are in place for the event of the termination of a mandate.

Pensions are paid to former members of the Board of Management who have either reached the age of 65, or, if their mandate had terminated earlier and had not been extended, to members who have either reached the age of 60, or who are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. The amount of the pension comprises a basic monthly amount of euro 10,000 or euro 15,000 (Chairman of the Board of Management) plus a fixed amount. The fixed amount is made up of approximately euro 75 for each year of service in the company before becoming a member of the Board of Management plus between euro 154 and euro 400, or between euro 153 and euro 600 (Chairman of the Board of Management), for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted by analogy to the rules applicable for the adjustment of civil servants' pensions: the pensions of members of the Board of Management are adjusted accordingly when the civil servants' remuneration level B6 (excluding allowances) is increased by more than 5 %.

If a mandate is ended early before the member of the Board of Management reaches the age of 60, a transitional payment amounting to two-thirds of the pension theoretically earned up to the date when a full pension can be drawn, may become payable if, after a minimum of three years of service as a member of the Board of Management, this is considered appropriate on the basis of an objective evaluation of all circumstances. Arrangements are in place concerning the offsetting of other income against pensions and transitional payments.

The amounts disclosed below as the annual pension provision allocation for each member corresponds to the pension service cost.

Members of the Board of Management holding a BMW Bank GmbH credit card have a credit line of up to euro 25,565. At the balance sheet date the balances resulting from credit card usage were all within the agreed limits.

Compensation of the Board of Management for the financial year 2007 (total)

On the basis of the agreed upper limits, the total remuneration of the current members of the Board of Management of BMW AG for the financial year 2007 amounted to euro 15.2 million (2006: euro 14.5 million). This comprises fixed components (including other remuneration) of euro 2.7 million (2006: euro 2.3 million) and variable components of euro 12.5 million (2006: euro 12.2 million).

in euro million	2007[1]		2006	
	Amount	Proportion	Amount	Proportion
Fixed remuneration	2.7	17.8 %	2.3	15.9 %
Variable remuneration	12.5[2]	82.2 %	12.2	84.1 %
Total remuneration	15.2	100.0 %	14.5	100.0 %

1] The Board of Management of BMW AG was increased in 2007 by two additional members.
2] Calculation based on an agreed upper limit.

In addition, an amount of euro 0.7 million (2006: euro 0.6 million) was incurred for current members of the Board of Management after termination of their employment relationship. This relates to the expense for allocations to pension provisions (service cost).

The amount paid to former members of the Board of Management and their dependants was euro 4.3 million (2006: euro 3.8 million). Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 38.3 million (2006: euro 38.8 million), computed in accordance with IAS 19.

Compensation of the individual members of the Board of Management for the financial year 2007

in euro	Fixed remuneration Salary	Other remuneration	Fixed remuneration Total	Variable remuneration	Remuneration Total	Allocation for year to pension provision
Norbert Reithofer	600,000	15,222	615,222	3,139,200	3,754,422	161,124
Frank-Peter Arndt	300,000	98,199	398,199	1,569,600	1,967,799	84,851
Ernst Baumann	360,000	15,737	375,737	1,818,300	2,194,037	95,394
Herbert Diess [1]	75,000	9,662	84,662	392,400	477,062	28,909
Klaus Draeger	300,000	55,900	355,900	1,569,600	1,925,500	85,602
Friedrich Eichiner [1]	75,000	11,068	86,068	392,400	478,468	25,157
Michael Ganal	360,000	14,220	374,220	1,818,300	2,192,520	122,013
Stefan Krause	360,000	16,222	376,222	1,818,300	2,194,522	72,557
Total [2]	**2,430,000**	**236,230**	**2,666,230**	**12,518,100**	**15,184,330**	**675,607**

1] Member of the Board of Management from 1 October 2007.
2] Group perspective.

2. Compensation of the Supervisory Board Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. Compensation is currently based on shareholders' resolutions taken at the Annual General Meeting on 18 May 1999 and § 15 of the Articles of Incorporation of BMW AG. The Articles of Incorporation of BMW AG can be accessed via the Internet.

Components of compensation

Each member of the Supervisory Board receives, in addition to the reimbursement of expenses, a fixed amount of euro 6,000 (payable at the end of the year), a variable amount of euro 1,500 for each percent of the dividend resolved by the shareholders at the Annual General Meeting in excess of 4 % of the company's share capital (common stock). The Chairman of the Supervisory Board receives three times this amount and each deputy receives two times this amount. The company also reimburses to each member of the Supervisory Board any value added tax arising on their remuneration.

The Board of Management and the Supervisory Board have decided to put forward a resolution at the Annual General Meeting to be held on 8 May 2008 regarding a new rule for the compensation of the Supervisory Board. In order to reflect the control and advisory functions exercised by the Supervisory Board in a more balanced way in the total compensation amount, it is planned that the fixed proportion should be raised and the variable proportion reduced. Under the new rule, the variable compensation will – subject to a predefined upper limit – be based in the future on earnings per share (EPS) if EPS is above a predefined minimum amount. In this way, compensation will be based to a greater extent on the actual success of the business.

Compensation of the Supervisory Board for the financial year 2007 (total)

Against the background of the proposed dividend increase and in anticipation of the new rule that will be put forward at the Annual General Meeting, all members of the Supervisory Board have agreed to an upper limit for their compensation for the financial year 2007 (see below).

On this basis, the compensation of the Supervisory Board for activities during the financial year 2007 amounted to euro 2.8 million (2006: euro 2.7 million). This comprised a fixed component of euro 0.1 million (2006: euro 0.1 million) and a variable component of euro 2.7 million (2006: euro 2.6 million).

in euro million	2007 Amount	2007 Proportion	2006 Amount	2006 Proportion
Fixed compensation	0.1	3.6 %	0.1	3.7 %
Variable compensation	2.7	96.4 %	2.6	96.3 %
Total compensation	2.8	100.0 %	2.7	100.0 %

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

Compensation of the individual members of the Supervisory Board for the financial year 2007

in euro	Fixed compensation[1]	Variable compensation[2]	Total
Joachim Milberg (Chairman)	18,000	310,680	328,680
Manfred Schoch (Deputy Chairman)	12,000	207,120	219,120
Stefan Quandt (Deputy Chairman)	12,000	207,120	219,120
Konrad Gottinger (Deputy Chairman)	12,000	207,120	219,120
Hans-Dietrich Winkhaus (Deputy Chairman)	12,000	207,120	219,120
Ulrich Eckelmann	6,000	103,560	109,560
Bertin Eichler	6,000	103,560	109,560
Franz Haniel	6,000	103,560	109,560
Arthur L. Kelly	6,000	103,560	109,560
Susanne Klatten	6,000	103,560	109,560
Willibald Löw	6,000	103,560	109,560
Hubert Markl	6,000	103,560	109,560
Wolfgang Mayrhuber	6,000	103,560	109,560
Heinz-Joachim Neubürger	6,000	103,560	109,560
Werner Neugebauer	6,000	103,560	109,560
Franz Oberländer	6,000	103,560	109,560
Anton Ruf	6,000	103,560	109,560
Stefan Schmid[3]	5,967	102,993	108,960
Jürgen Strube	6,000	103,560	109,560
Werner Zierer	6,000	103,560	109,560
Total	**155,967**	**2,691,993**	**2,847,960**

1] In accordance with § 15 of the Articles of Incorporation, the fixed compensation is paid after the end of the financial year.
2] Calculation based on the dividend proposal of the Board of Management and Supervisory Board and the compensation upper limit agreed with the members of the Supervisory Board. The variable remuneration for the financial year 2007 will not be paid until after the shareholders have passed a resolution at the Annual General Meeting 2008 regarding the appropriation of the unappropriated profit available for distribution.
3] Member of the Supervisory Board from 3 January 2007.

Members of the Supervisory Board holding a BMW Bank GmbH credit card have a credit line of up to euro 25,565. At the balance sheet date the balances resulting from credit card usage were all within the agreed limits.

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity in 2007. In consequence, no additional compensation was paid. It is BMW Group's policy and practice not to enter into contractual relationships with members of the Supervisory Board requiring them to provide personal services, in particular advisory and agency services, in return for compensation (cf. Section 4.4 of the BMW Group Corporate Governance Code).

Shareholdings of Members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.70 % of the issued common and preferred stock shares, of which 16.12 % relates to Stefan Quandt, Bad Homburg v.d.H. and 11.58 % to Susanne Klatten, Munich. The shareholding of the members of the Board of Management is, in total, less than 1 % of the issued stock shares.

137 Corporate Governance
137 Members of the Supervisory Board
140 Members of the Board of Management
141 Corporate Governance at BMW Group
142 Compensation Report
146 Shareholdings of Members of the Board of Management and Supervisory Board
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission of the German Corporate Governance Code" pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following with respect to the recommendations of the "Government Commission on the German Corporate Governance Code":

BMW AG will comply with all recommendations published in the official section of the electronic Federal Gazette (Code version dated 14 June 2007) except for one divergence: the discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee and not, additionally, by the Supervisory Board (section 4.2.2 paragraph 1 GCGC).

During the period since filing the most recent declaration on 5 December 2006, BMW AG has, except for the one divergence stated above, complied with all recommendations published in the electronic version of the Federal Gazette on 24 July 2006 (Code version dated 12 June 2006).

Munich, 4 December 2007

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board   Board of Management

Reason for divergence
Section 4.2.2 paragraph 1 GCGC:
The Supervisory Board has transferred discussion and regular review of the structure of the compensation system of the Board of Management to the Personnel Committee. The Supervisory Board is informed on a regular basis and in detail of the work of the Personnel Committee.

BMW AG
Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2007	Equity in euro million	Net result in euro million	Capital investment in %
Domestic [1]			
BMW Bank GmbH, Munich [2]	268	–	100
BMW Finanz Verwaltungs GmbH, Munich	130	–46	100
BMW INTEC Beteiligungs GmbH, Munich [2]	113	–	100
Cirquent GmbH, Munich [3]	71	–	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	4	100
BMW Maschinenfabrik Spandau GmbH, Berlin	41	1	100
BMW Leasing GmbH, Munich [2]	16	–	100
BMW Hams Hall Motoren GmbH, Munich [4]	15	–	100
BMW Fahrzeugtechnik GmbH, Eisenach [2]	11	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich [2]	[5]	–	100

1] In the case of German subsidiaries, based on financial statements drawn up in accordance with HGB.
2] profit and loss transfer agreement with BMW AG
3] Consolidated with the operating subsidiaries of Cirquent GmbH, Munich.
The sub-group financial statements have been drawn up in accordance with IFRS.
4] profit and loss transfer agreement with a subsidiary of BMW AG
5] below euro 0.5 million
6] In the case of foreign subsidiaries, based on financial statements drawn up in accordance with uniform IFRSs accounting policies.
Equity and net result are translated at the closing rate.

148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

Principal subsidiaries of BMW AG at 31 December 2007	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[6]			
BMW Österreich Holding GmbH, Steyr	1,545	286	100
BMW Motoren GmbH, Steyr	851	173	100
BMW Russland Trading OOO, Moscow	157	47	100
BMW China Automotive Trading Ltd., Beijing	138	91	100
BMW Austria Gesellschaft m.b.H., Salzburg	64	14	100
BMW Holding B.V., The Hague	6,191	402	100
BMW Australia Finance Ltd., Melbourne, Victoria	444	41	100
BMW Finance N.V., The Hague	407	–4	100
BMW Overseas Enterprises N.V., Willemstad	62	2	100
BMW (South Africa) (Pty) Ltd., Pretoria	386	28	100
BMW Italia S.p.A., Milan	373	119	100
BMW (Schweiz) AG, Dielsdorf	335	30	100
BMW Japan Corp., Tokyo	303	37	100
BMW Japan Finance Corp., Tokyo	251	20	100
BMW Canada Inc., Whitby	211	54	100
BMW Belgium Luxembourg S.A./N.V., Bornem	191	42	100
BMW France S.A., Montigny le Bretonneux	174	64	100
BMW Australia Ltd., Melbourne, Victoria	101	32	100
BMW Portugal Lda., Lisbon	58	22	100
BMW Hellas Trade of Cars SA, Athens	42	12	100
BMW Sverige AB, Stockholm	38	17	100
BMW Nederland B.V., The Hague	37	25	100
BMW Automotive (Ireland) Ltd., Dublin	30	16	100
BMW New Zealand Ltd., Auckland	25	14	100
BMW Korea Co., Ltd., Seoul	22	–4	100
BMW (UK) Holdings Ltd., Bracknell	1,263	–6	100
BMW (UK) Ltd., Bracknell	1,125	264	100
BMW (UK) Manufacturing Ltd., Bracknell	929	104	100
BMW Financial Services (GB) Ltd., Hook	345	34	100
BMW (UK) Capital plc, Bracknell	161	1	100
BMW Malta Ltd., St. Julians	865	89	100
BMW Malta Finance Ltd., St. Julians	729	62	100
BMW Coordination Center V.o.F., Bornem	594	4	100
BMW España Finance S.L., Madrid	339	44	100
BMW Ibérica S.A., Madrid	266	99	100
BMW de Mexico, S.A. de C.V., Mexico City	16	–4	100
BMW (US) Holding Corp., Wilmington, Del.	1,147	14	100
BMW Financial Services NA, LLC, Wilmington, Del.	656	149	100
BMW Manufacturing, LLC, Wilmington, Del.	564	113	100
BMW of North America, LLC, Wilmington, Del.	397	–41	100
BMW US Capital, LLC, Wilmington, Del.	203	–50	100

BMW Group 10-year Comparison

		2007 IASs/IFRSs	2006 IASs/IFRSs
Deliveries to customers			
Automobiles [3]	units	1,500,678	1,373,970
Motorcycles [4]	units	102,467	100,064
Production			
Automobiles [3]	units	1,541,503	1,366,838
Motorcycles [5]	units	104,396	103,759
Financial Services			
Contract portfolio	contracts	2,629,949	2,270,528
Business volume (based on balance sheet carrying amounts)	euro million	51,257	44,010
Income Statement			
Revenues	euro million	56,018	48,999
Gross profit percentage Group	%	21.8	23.1
Gross profit percentage Industrial Operations	%	19.8	20.3
Gross profit percentage Financial Operations	%	10.3	11.4
Profit before financial result	euro million	4,212	4,050
Profit before tax	euro million	3,873	4,124
Return on sales (earnings before tax/revenues)	%	6.9	8.4
Income taxes	euro million	739	1,250
Effective tax rate	%	19.1	30.3
Net profit/ – loss for the year	euro million	3,134	2,874
Balance Sheet			
Non-current assets	euro million	56,619	50,514
Current assets	euro million	32,378	28,543
Equity	euro million	21,744	19,130
Equity ratio Group	%	24.4	24.2
Industrial Operations	%	43.8	40.6
Financial Operations	%	9.2	10.4
Non-current provisions and liabilities	euro million	33,469	31,372
Current provisions and liabilities	euro million	33,784	28,555
Balance sheet total	euro million	88,997	79,057
Cash Flow Statement			
Cash and cash equivalents at balance sheet date	euro million	2,393	1,336
Operating cash flow [8]	euro million	6,340	5,373
Capital expenditure	euro million	4,267	4,313
Capital expenditure ratio (capital expenditure/revenues)	%	7.6	8.8
Personnel			
Workforce at the end of year [7]		107,539	106,575
Personnel cost per employee	euro	76,704	76,621
Dividend			
Dividend total	euro million	694	458
Dividend per share of common stock/preferred stock	euro	1.06/1.08	0.70/0.72

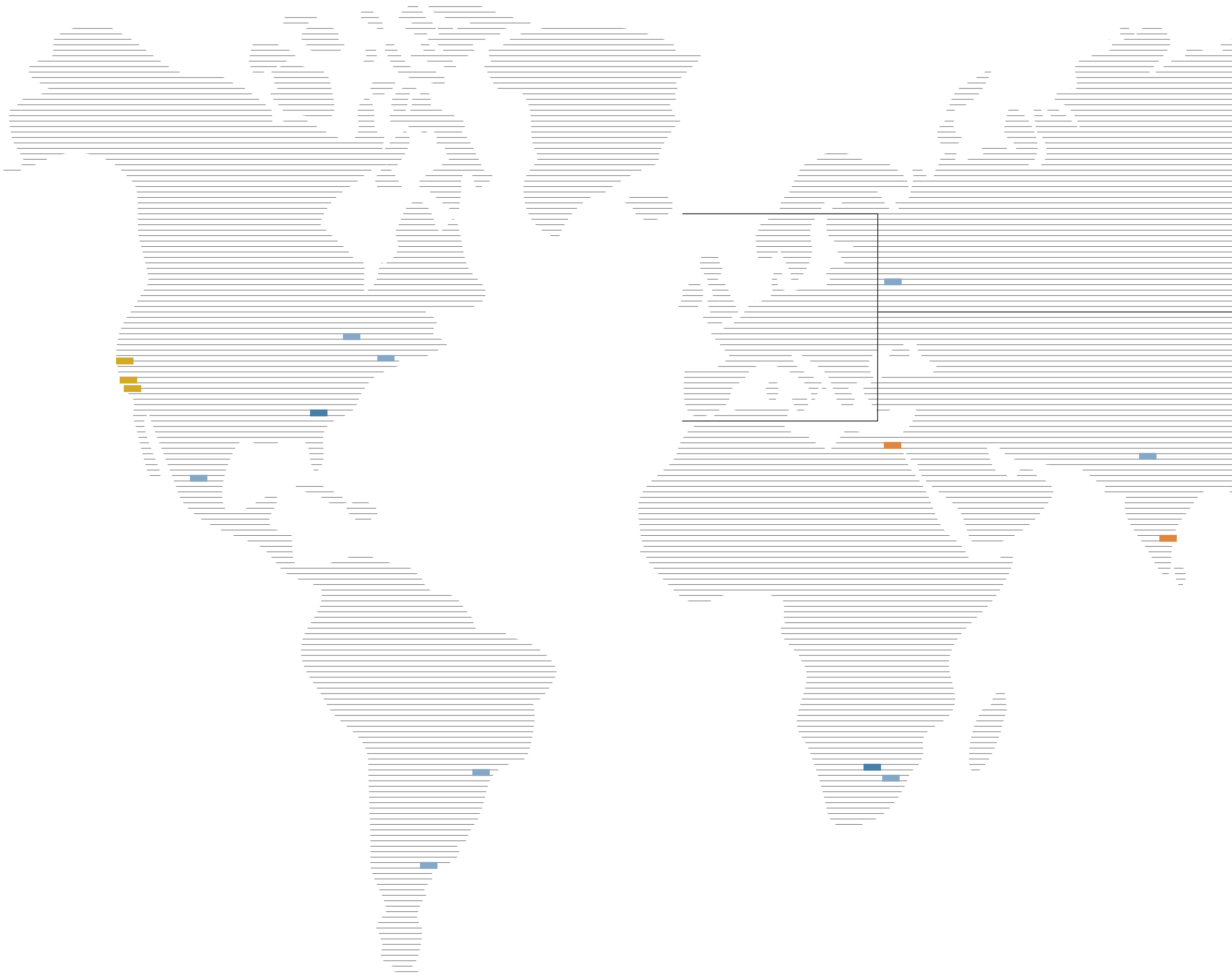
1] adjusted for new accounting treatment of pension obligations 2] reclassified after harmonisation of internal and external reporting systems 3] including Rover Cars up to 9 May 2000 excluding C1 production by Bertone, production volume C1 up to 2002: 33,489 units 6] the net profit before exceptional items amounted to euro 663 million 7] figures since 1998 of treasury shares

148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

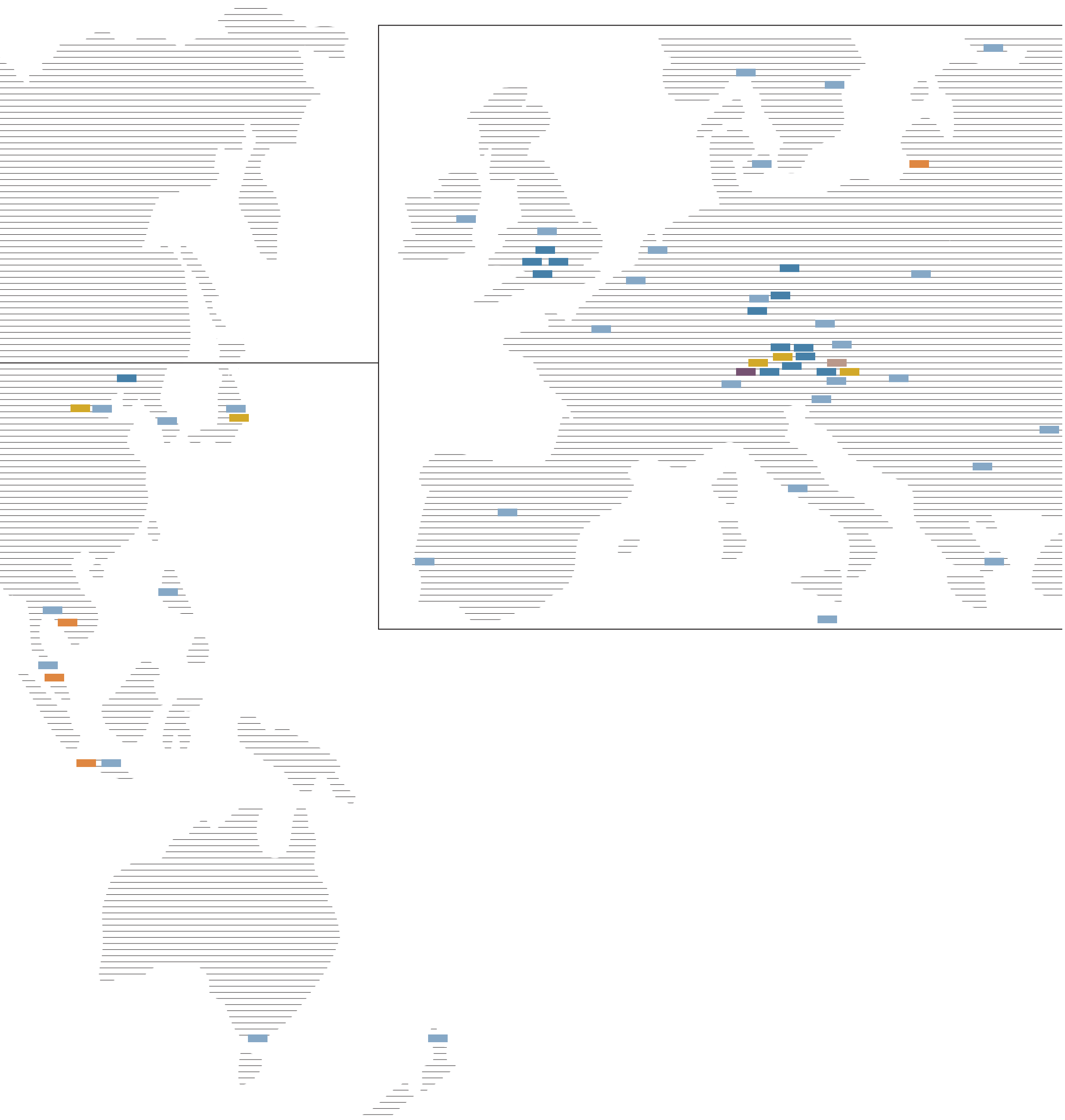
2005 IASs/IFRSs	2004 IASs/IFRSs adjusted[1]	2003 IASs/IFRSs	2002 IASs/IFRSs adjusted[2]	2001 IASs/IFRSs	2000 IASs/IFRSs	2000 HGB	1999 HGB	1998 HGB
1,327,992	1,208,732	1,104,916	1,057,344	905,657	1,011,874	1,011,874	1,180,429	1,187,115
97,474	92,266	92,962	92,599	84,713	74,614	74,614	65,168	60,308
1,323,119	1,250,345	1,118,940	1,090,258	946,730	1,026,775	1,026,775	1,147,420	1,204,000
92,012	93,836	89,745	93,010	90,478	74,397	74,397	69,157	60,152
2,087,368	1,843,399	1,623,425	1,443,236	1,297,702	1,317,150	970,747	1,010,839	855,250
40,428	32,556	28,647	26,505	25,306	24,958	17,578	16,859	12,564
46,656	44,335	41,525	42,411	38,463	37,226	35,356	34,402	32,280
22.9	23.2	22.7	22.8	25.3	22.8	18.1	16.4	16.0
20.9	21.9	22.1	22.7	24.0	23.5	–	–	–
12.0	12.5	12.3	10.5	16.0	12.0	–	–	–
3,793	3,774	3,353	3,505	3,356	2,065	1,578	931	1,232
3,287	3,583	3,205	3,297	3,242	2,032	1,663	1,111	1,061
7.0	8.1	7.7	7.8	8.4	5.5	4.7	3.2	3.3
1,048	1,341	1,258	1,277	1,376	823	637	448	537
31.9	37.4	39.3	38.7	42.4	40.5	38.3	40.3	50.6
2,239	2,242	1,947	2,020	1,866	1,209	1,026	–2,487[6]	462
47,556	40,822	36,921	34,667	31,282	30,079	20,056	19,857	18,586
27,010	26,812	24,554	20,844	19,977	19,261	15,819	17,650	12,053
16,973	16,534	16,150	13,871	10,770	9,432	4,896	3,932	6,445
22.8	24.4	26.3	25.0	21.0	19.1	13.6	10.5	21.0
39.1	41.6	45.4	43.1	37.0	35.9	19.1	11.9	28.7
10.4	9.7	9.8	9.4	8.4	8.1	8.0	8.7	10.0
29,509	26,517	22,090	20,028	19,223	17,386	13,457	14,785	9,331
28,084	24,583	23,235	21,612	21,266	22,522	17,522	18,790	14,863
74,566	67,634	61,475	55,511	51,259	49,340	35,875	37,507	30,639
1,621	2,128	1,659	2,333	2,437	2,927	2,879	2,055	1,935
6,184	6,157	4,970	4,553	4,304	3,966	–	–	–
3,993	4,347	4,245	4,042	3,516	2,781	2,138	2,155	2,179
8.6	9.8	10.2	9.5	9.1	7.5	6.0	6.3	6.8
105,798	105,972	104,342	101,395	97,275	93,624	93,624	114,952	118,489
75,238	73,241	73,499	69,560	66,711	63,548	62,307	55,710	51,703
419[9]	419	392	351	350	310	310	269	234
0.64/0.66	0.62/0.64	0.58/0.60	0.52/0.54	0.52/0.54	0.46/0.48	0.46/0.48	0.40/0.42	10.23/10.74

and Land Rover up to 30 June 2000 4] excluding C1, sales volume to 2003: 32,859 units 5] up to 1999 including BMW F 650 assembly by Aprilia S.p.A., from 2006 including BMW G 650 X assembly by Piaggio S.p.A./ exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners 8] figures available since 2000 9] adjustment to dividend due to acquisition

BMW Group Locations. The BMW Group is present in the world markets with 23 production and assembly plants, 41 sales subsidiaries and a research and development network.



148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar



Headquarters

Research and Development
BMW Group Research and Innovation Centre (FIZ), Munich
BMW Group Forschung und Technik, Munich
BMW Group Car IT, Munich
BMW Innovations- und Technologiezentrum für Leichtbau, Landshut
BMW Entwicklungszentrum für Dieselmotoren, Steyr, Austria
BMW Group Designworks, Newbury Park, USA
BMW Group Technology Office, Palo Alto, USA
BMW Group Engineering and Emission Test Center, Oxnard, USA
BMW Group Technology Office, Tokyo, Japan
BMW Group Entwicklungsbüro, Beijing, China

Production
Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant
Munich plant
Oxford plant, GB
Regensburg plant
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
Wackersdorf plant

Contract production
Magna Steyr Fahrzeugtechnik, Austria

Assembly plants
CKD production Cairo, Egypt
CKD production Chennai, India
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kuala Lumpur, Malaysia
CKD production Rayong, Thailand

Sales subsidiary markets
Argentina
Australia
Austria
Belgium
Brazil
Bulgaria
China
Canada
Czech Republic
Denmark
Finland
France
Germany
Great Britain
Greece
Hungary
India
Indonesia
Ireland
Italy
Japan
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Philippines
Poland
Portugal
Romania
Russia
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Thailand
USA

Glossary

[ACEA]
Abbreviation for “Association des Constructeurs Européens d’Automobiles” (European Automobile Manufacturers Association).

[Common stock]
Stock with voting rights (cf. preferred stock).

[Cost of materials]
Comprises all expenditure to purchase raw materials and supplies.

[DAX]
Abbreviation for “Deutscher Aktien Index”, the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

[Deferred taxes]
Accounting for deferred taxes is a method of allocating tax expense/benefit to the appropriate accounting period.

[Derivatives]
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

[DJSI]
Abbreviation for “Dow Jones Sustainability Index World”. A family of indexes created by Dow Jones and the Swiss investment agency SAM Sustainability Group for companies with strategies based on a sustainability concept. The BMW Group has been one of the leading companies in the DJSI since 1999.

[EBIT]
Abbreviation for “Earnings Before Interest and Taxes”. The profit before income taxes, minority interest and financial result.

[EBITDA]
Abbreviation for “Earnings Before Interest, Taxes, Depreciation and Amortisation”. The profit before income taxes, minority interest, financial result and depreciation/amortisation.

[Effectiveness]
The degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

[EfficientDynamics]
The aim of EfficientDynamics is to reduce consumption and emissions whilst simultaneously increasing dynamics and performance. This involves a holistic approach to achieving optimum automobile potential, ranging from efficient engine technologies, lightweight construction and comprehensive energy and heat management inside the vehicle.

[Equity ratio]
The proportion of equity (= subscribed capital, reserves, accumulated other equity and minority interest) to the balance sheet total.

[ERA]
Remuneration Framework Agreement.

148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

[Free cash flow]
Free cash flow corresponds to the cash inflow from operating activities of Industrial Operations less the cash outflow for investing activities of Industrial Operations.

[Gross margin]
Gross profit as a percentage of revenues.

[IASs]
International Accounting Standards.

[IFRSs]
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

[Internal financing]
Internal financing is calculated as the profit before tax, adjusted for depreciation and amortisation and significant non-cash items, less income tax paid.

[ISO 14001]
An internationally recognised standard for environmental management systems.

[Operating cash flow]
Cash inflow from Industrial Operations.

[Preferred stock]
Stock which receives a higher dividend than common stock, but without voting rights.

[Principal subsidiaries]
Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly
– holds the majority of the voting rights
– has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
– has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

[Production network]
The BMW Group production network consists worldwide of 16 plants, six assembly plants and one contract production plant. Within this network, the plants supply one another with systems and components and are all characterised by a high level of productivity, agility and flexibility.

[Production Triangle MINI]
The three British plants (Hams Hall, Oxford and Swindon) are jointly manufacturing the MINI – with greater capacity levels, flexibility and efficiency. The Hams Hall plant produces the new MINI petrol engines; the Oxford plant remains responsible for chassis construction, painting and assembly. The Swindon plant produces the pressed panels and chassis components.

[Rating]
Standardised evaluation of a company's credit standing which is widely accepted on the global capital markets. Ratings are published by independent rating agencies, e.g. Standard & Poor's or Moody's, based on their analysis of a company.

[Return on Assets BMW Group]
Profit before interest expense (expense from reversing the discounting of pension obligations and of other long-term provisions, sundry interest and similar expenses) and tax as a percentage of the balance sheet total.

[Return on Assets Financial Services]
Profit before tax as a percentage of operating assets.

[Return on Capital Employed]
Profit before financial result as a percentage of capital employed. Capital employed is defined as operating assets less non-interest bearing liabilities. For this purpose, non-interest bearing liabilities exclude non-interest bearing provisions and liabilities.

[Return on sales]
Pre-tax: Profit before tax as a percentage of revenues.
Post-tax: Profit as a percentage of revenues.

[Risk management]
An integral component of all business processes. Following enactment of the Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations, and which could endanger the continued existence of the company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

[Sports Activity Vehicle]
The BMW X5 is the first-ever Sports Activity Vehicle – a combination of a typical BMW sedan featuring sporting and comfortable driving features on the one hand, with far-reaching driving abilities in terrain on the other. This creates a new market segment. In 2004, the BMW Group added another SAV, the BMW X3, to its model range.

[Subscribed capital]
The share capital of a company is computed by multiplying the nominal value of the shares by the number of shares.

[Supplier relationship management]
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the Group and create efficient sourcing and procurement processes along the whole value added chain.

148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

[Sustainability]
Sustainability or sustainable development. The United Nations Conference on the Environment and Development, held in Rio de Janeiro in 1992, resolved a global action plan for combating poverty, ensuring a suitable population policy, promoting urban development, human rights, trade, agriculture, environmental protection, research and technology. Referred to as Agenda 21, this action plan serves to ensure sustainable development, preserving the world's natural resources and limiting the emission of pollutants to a volume the environment can absorb or degrade.

[xDrive]
The xDrive all-wheel drive system distributes engine power fully variably to all four wheels. The system recognises at a very early stage when power has to be shifted and reacts in fractions of a second. This increases driving dynamics, ensures maximum traction and can maintain the vehicle's directional stability in critical situations.

Index

[A]
Accounting principles 58, 84
Analysis of changes in Group tangible, intangible and investment assets 96, 98–99
Annual General Meeting 07, 26, 106, 129, 144–145, 161
Application of § 264 (3) and § 264b of the German Commercial Code (HGB) 130
Apprentices 20, 26, 95
Attributable to minority interest 73

[B]
Balance sheet structure 54
Board of Management 05–10, 12, 41–42, 45, 55, 62, 66, 81, 106, 128–129, 134–135, 138, 140–147, 155–156
Bonds 41–42, 51–52, 55, 66, 77, 110, 113–114, 119, 121, 123–124, 154

[C]
Capital expenditure 02–03, 11–12, 20–21, 51–53, 58, 69, 131, 133–134, 151
Cash and cash equivalents 51–54, 59, 74, 77, 106, 119, 121, 127, 151
Cash flow statement 03, 11, 51–52, 127, 136
CO_2 emissions 05, 21, 31–32, 34–35, 64
Commercial Code 58, 80, 135
Compensation of members of the Board of Management and Supervisory Board 129
Compensation Report 07, 55, 66, 129, 142
Compliance 07–08, 42, 65, 69, 141–142
Consolidated companies 81, 83, 128
Consolidation principles 83, 136
Contingent liabilities and other financial commitments 117
Corporate Governance 55, 129, 141–142, 145–147
Cost of materials 55–56, 154
Cost of sales 49, 73, 80, 84, 89–90, 98
Current assets 51, 59, 74, 77, 85–86, 92, 99–100, 104, 151
Current tax 74–75, 77, 91, 103, 112–113

[D]
DAX 41, 43, 08, 154
Dealer organisation 24–25, 40, 124
Debt 13, 47, 65, 102, 105, 107, 111, 125
Deferred income 55, 59, 115–116
Deferred taxes 53, 77, 87, 92–93, 106, 154
Development 06–07, 11–13, 34, 41–43, 52–53, 45, 73, 84–86, 90, 97–98, 104, 108, 135–136, 140, 152–153, 157
Dividend 10–11, 43–44, 77, 84, 94, 106, 129, 143–145, 151, 155
Dow Jones Sustainability Index World 154

[E]
Earnings per share 49, 43, 73, 84–85, 94, 144
EfficientDynamics 21, 28–29, 32–35, 154
Employees 26–29, 56, 67, 95, 106–108, 110, 141–142, 151
End-of-life Vehicles 30, 112
Environment 13, 16, 21, 28, 30–31, 47, 50, 53, 83, 88, 136–137, 142, 155, 157
Equity 43, 46–47, 53–54, 57–59, 73–75, 77–79, 81, 83, 86–87, 91, 93, 97, 99, 106–107, 110–111, 122–123, 128, 133, 136, 148–149, 151, 154
Exchange rates 14, 49, 52–53, 70, 83–84, 126
Explanatory notes to the cash flow statements 127

[F]
Financial assets 52–53, 57–58, 74, 86–87, 101–102, 119, 121, 123–124
Financial instruments 10, 46, 50–51, 53, 63, 91, 78–79, 86–88, 91, 106–107, 118, 122–127
Financial liabilities 52–53, 55, 75, 77, 82, 85, 88, 107, 113, 116, 119, 121, 123–124
Financial result 47–48, 50, 73, 88, 91, 110, 131, 133, 151, 154, 156
Financial Services 03, 07, 09–10, 23, 35, 42, 58, 61, 63, 80–83, 99, 131, 133, 149, 151, 156
Financial statements 11, 23, 80–81, 83–84, 88, 95, 106, 128, 130–131, 135–136, 148, 155
Fleet consumption 34
Foreign currency translation 83

[G]
Group Management Report 09, 10–71, 81, 95, 125–127, 129, 135–136

[I]
Income statement 49–50, 60–61, 73, 80, 83, 87–89, 94, 99, 110, 112, 122–123, 136, 151
Income tax assets 103
Income taxes 87, 93, 154
Intangible assets 11, 53, 58–59, 74, 77, 82, 84–86, 89, 92, 97–98, 131
Internal financing 55, 77, 131, 133, 155
Inventories 24, 53, 74, 77, 84, 87, 104
Investments accounted for using the equity method and other investments 99

[K]
Key data per share 43

[L]
Leased products 52–53, 74, 77, 82, 85, 92, 97, 99, 131, 133
Locations 152

[M]
Mandates of members of the Board of Management 140
Mandates of members of the Supervisory Board 137
Marketable securities 52–54, 59, 77, 80, 86, 91, 97, 101–102, 122
Market price changes 154
Minority interest 56, 73, 75, 94, 106–107, 154
Motorcycles 10, 15, 22–23, 83, 99, 131, 133

[N]
New accounting treatment 02–03, 11, 43, 48, 151
New financial reporting rules 88–89
Non-current assets 54, 74, 77, 85, 99–100, 104, 151

[O]
Other disclosures relating to the income statement 94
Other investments 53, 74, 81, 86, 97, 99–100, 119, 121
Other liabilities 55, 59, 75, 82, 115–116, 119, 121–122
Other operating income and expenses 50, 60, 90
Other provisions 55, 68, 75, 88, 112
Outlook 63, 69, 107

[P]
Pension provisions 53, 58, 59, 75, 88, 107–109, 129, 143
Personnel costs 90, 94
Prepayments 59, 104
Principal subsidiaries 148–149, 155
Production network 03, 19, 50, 53, 155
Profit before tax 10, 37, 48–49, 63, 73, 131, 133, 151, 155–156
Property, plant and equipment 11, 59, 74, 77, 82, 84–86, 89, 92, 97–98, 118, 131
Purchases 37

[R]
Rating 63, 65, 87, 107, 124, 155
Receivables 42, 53, 59, 74, 77, 80, 82–83, 86–87, 100–105, 119, 121–122, 124, 131
Receivables from sales financing 52–53, 74, 77, 82, 86, 100–101, 119, 121, 124
Reconciliations 10, 51, 131, 133–134
Related party relationships 128
Research 31, 35, 49–50, 57, 60, 71, 73, 84, 90, 98, 152–153, 157
Return on sales 48–49, 131, 133, 151, 156
Revenue reserves 59–60, 75, 106–107
Revenues 05, 07, 10–11, 49, 62, 65, 73, 80–82, 84, 88–89, 125, 133, 151, 155–156
Risk management 62, 125, 156

[S]
Sales and administrative costs 49–50, 73, 90
Sales volume 03, 10, 17–19, 22–23, 38, 49–50, 66, 69, 151
Segment information 89, 131, 133–134
Shareholdings of members of the Board of Management and Supervisory Board 129
Stock 11, 23, 41, 43–44, 46, 53, 58–59, 73, 84–85, 94, 106, 129, 141, 143–144, 146–147, 151, 154–156
Subscribed capital 59, 75, 154, 156
Subsidiaries 12, 37, 79–84, 91, 93, 95, 98–100, 104, 106–108, 115, 117, 119, 121, 123, 127–128, 148–149, 152, 155
Suppliers 37, 142

[T]
Trade payables 48, 55, 59, 75, 116, 119, 121, 124

[W]
Workforce 03, 26, 26–29, 58, 66, 133, 151

[Finances]
BMW Group Capital expenditure 02
BMW Group Profit before tax 02
BMW Group Revenues 02
BMW Group Revenues by region 11
BMW Group Capital expenditure and operating cash flow 11
Exchange rates compared to the Euro 14
Steel price trend 14
Oil price 15
Precious metals price trend 15
Contract portfolio of BMW Group Financial Services 24
Contract portfolio retail customer financing of BMW Group Financial Services 2007 24
Regional mix of BMW Group purchase volumes 2007 37
Change in cash and cash equivalents 52
Balance sheet structure Group 54
Balance sheet structure Industrial Operations 54
BMW Group value added 2007 56

[Production and sales volume]
BMW Group Deliveries of automobiles 02
BMW Group Deliveries of automobiles by region and market 17
BMW Group – key automobile markets 2007 17
BMW brand cars in 2007 – analysis by series 18
Deliveries of BMW diesel automobiles 18
MINI brand cars in 2007 – analysis by model variant 19
MINI brand cars in 2007 – analysis by engine variant 19
Automobile production of the BMW Group by plant in 2007 20
BMW Group – key motorcycle markets 2007 22
BMW motorcycles delivered 22
BMW motorcycles in 2007 – analysis by series 23

[Workforce]
BMW Group apprentices at 31 December 26
Employee fluctuation ratio BMW AG 27

[Environment]
Process waste water per unit produced 30
Volatile organic compounds (VOC) per unit produced 30
CO_2 emissions per unit produced 31
Energy consumed per unit produced 31
Roadmap of the BMW Group for sustainable mobility 33
Development of CO_2 emissions of BMW Group cars in Europe (EU-15) 34
The BMW EfficientDynamics measures – an overview 34

[Stock]
Development of BMW stock compared to stock exchange indices 41
Development in the value of a BMW stock investment 42

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Information about the various BMW Group brands is available at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com

148 Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group 10-year Comparison
152 BMW Group Locations
154 Glossary
158 Index
160 Contacts
161 Financial Calendar

Financial Calendar

Interim Report to 31 March 2008	29 April 2008
Annual General Meeting	8 May 2008
Interim Report to 30 June 2008	5 August 2008
Interim Report to 30 September 2008	4 November 2008

Number ONE
Opportunities < New > Efficiency

The art of engineering our own future.

BMW Group.

001 The art of engineering our own future.
002 The BMW Group's strategic realignment.

To stay in the lead, we need to meet tomorrow's challenges today. We need to take responsibility for finding answers to the key questions the world is facing – from climate change to the depletion of fossil fuel reserves, from the effects of demographic developments to those of globalisation.

These challenges affect all of us. And so we all have to find ways of dealing with them.

Foresight

The foresight to detect potential in the challenges of the future.

Freedom

The freedom to be able to question old habits.

Melting glaciers make water levels of the oceans rise by 0.8 millimetres each year (World Climate Report of the United Nations 2007).


Natural phenomenon or call for action?


Accept demographic structures or tap their hidden potential?

The population of the industrialised nations is ageing. For example: in Germany, one out of three people will be older than 60 in 2030.

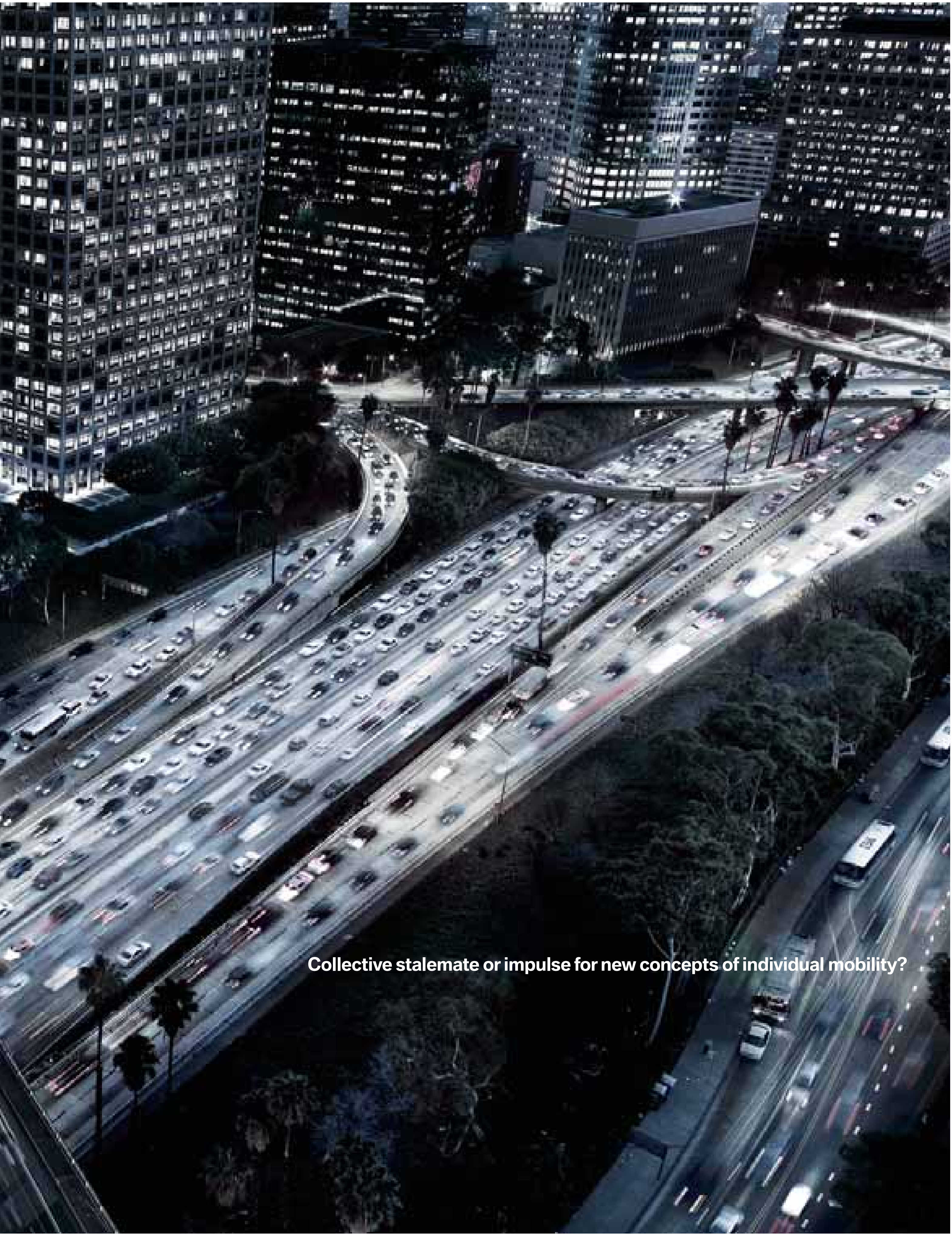
Today's global export volume of goods and services amounts to over 10,000 billion euros each year.


Export globally or explore local opportunities?


The end of an era or a driving force for innovation?

Fossil fuels are running out, global crude oil reserves will have been exploited a few decades from now.

Millions of people travel the streets of megacities like Los Angeles every day. Traffic congestion is a common occurrence.



Collective stalemate or impulse for new concepts of individual mobility?

Agility

The agility to see change as a new opportunity time and again.

Knowledge

The knowledge to have defined the framework for future activities.

Objective

The objective to reinvent completely the concept of individual mobility.

Willpower

The willpower to stay in the lead in the future. BMW Group.

002

The BMW Group's strategic realignment.

Value enhancement as the main objective. Profitability and growth to safeguard independence.

Scope to engineer our future.

002

The BMW Group's strategic realignment.

24 Mission
26 House of Strategy
38 Vision

Mission

At the beginning of the 21st century, the world is facing a number of challenges too great and too complex to be tackled successfully with short-term solutions.

The BMW Group has seriously looked into these matters, well aware of the fact that each challenge also presents an opportunity. We know: those who best master their future tasks get the chance to maintain a lasting lead over competitors in the industry.

Following more than a century in automotive engineering, we want to break new ground in individual mobility. In the long term, our idea is to strive for the optimum by making sustainability the guideline behind all our activities.

Only the claim to achieve the best can result in premium quality. This belief has always made the BMW Group cut its own path. EfficientDynamics is only one example which demonstrates that this approach has brought us to a new level time and again. We are going to continue along this path – for the benefit of our customers, our employees and our shareholders.

Based on this belief, we analysed more than 200 trends. Above all, we asked ourselves: How can we align what we do even better with our customers’ demands and requirements in the future? What more can we do to counter climate change? Which effect does the demographic development have on society – and our company? How do we make best use of the opportunities arising from the value change in our society? How can individual mobility in a world of megacities be guaranteed in the long term?

Obviously, we were not able to find conclusive answers to all these questions. But this was not our goal in the first place. The main point was that – by looking at our environment – we were able to set the direction the BMW Group will be taking by 2020 and to develop our corporate strategy Number ONE. ONE stands for “New Opportunities” and “New Efficiency”. In a nutshell: we will make best use of new opportunities and reach a new efficiency level so as to guarantee the BMW Group’s lead over competitors as well as the power and independence to shape the company’s future actively.

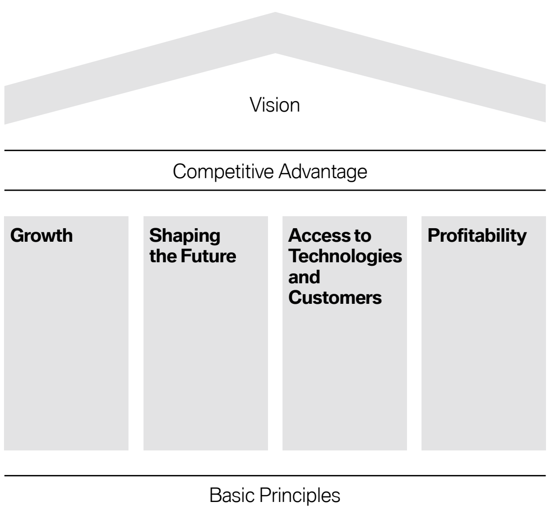
House of Strategy. The drawing up of “Number ONE” resulted in the House of Strategy adopted by BMW AG’s Board of Management. The vision to be realised by 2020 is the strategy’s roof. It consists of specific targets concerning retail, return on capital employed and return on sales. The cross beam is the strategic competitive advantage, resulting from the BMW Group’s particular strengths and distinctive features. The different options for further activities form the strategy’s four pillars: “Growth”, “Shaping the Future”, “Profitability” and “Access to Technologies and Customers”.

Before we come to the four pillars, a few remarks about what makes the BMW Group unique and provides a clear competitive advantage. All products are characterised by high emotional appeal and trendsetting design. The product substance delivers on the premium promise of the three brands BMW, MINI and Rolls-Royce. BMW Group services also promote the individual brand experience. We claim to have developed a unique understanding of our customers and their requirements. This leads to a high level of customisation in our products as well as great innovative power. Plus: a unique corporate culture.

The BMW Group has always been different from other companies, thanks to our unique corporate culture. This culture is based on values implemented by all employees. Day by day. We scrutinised this value system in the face of the challenges lying ahead and modified it to a certain extent. Those who want to take a company to a new level must bear in mind that this endeavour requires a climate that allows employees to align their thoughts and actions with the new requirements. That offers them individual scope to be creative and act as an entrepreneur. That provides clear guidelines outlining the roadmap.

This is how our twelve basic principles were developed. They will in future define everybody's performance. This includes, for example, that we focus more strongly on customer benefit in all decisions. That each employee feels personally responsible for our success – for both accomplishments achieved and ahead. That we are committed to sustainability as the guideline for our further business development, including ecological, social and corporate responsibility.

This corporate culture provides the foundation of our strategy.



BMW Group House of Strategy: four strategic directions are pursued to realise our vision for the year 2020.

Growth. How will we continue to grow with our existing brands and products? How can we reach new customer groups and open up new markets?

Growth means dynamics. Only profitable growth guarantees that our shareholders' investment will bear fruit, that employees will receive a profit-sharing contribution, and that we will be able to invest in new technologies at the same time. Growth is also crucial in determining a company's position among competitors.

As a premium provider, the BMW Group operates in a segment that grows faster than the total automotive market. Today, one out of ten vehicles sold is a premium product.

We have identified three future growth areas: our existing core business as well as new potential along the vehicle life-cycle and in our industry's value chain.

Initially, the priority is to strengthen the BMW Group's lead in today's core business. Organic growth with the existing brands will provide a retail volume of 1.8 million cars and 150,000 motorcycles by 2012.

Structured by region, absolute growth in the next decade will be highest in Europe and the United States. This is why the BMW Group will continue to strive for market leadership among premium manufacturers in the mature markets. The highest growth rates, however, will be achieved in Asia, with China and India as well as in Latin America, Eastern Europe and Russia. So, following the expansion of our production network to include China and India, we will also be expanding our sales structures by implementing new market strategies.

In 2007, BMW was the world's best-selling premium brand for the third consecutive year. The importance of the premium segment can be explained by a particular social phenomenon: the desire for individual products which help people distinguish themselves from others. Premium customers request premium product substance and quality. And they are willing to pay an adequate price. We are also aware that demand for traditional vehicle concepts in the premium segment will diminish. These variants will be replaced by new concepts, such as the Sports Activity Vehicle – a segment first opened up by the BMW Group. Concepts such as coupé, convertible and roadster will remain popular as well. Apart from those, there is a trend towards crossovers. In other words, the intelligent combination of characteristics of various vehicle concepts.

We have therefore decided to include some crucial expansions of the product portfolio in our corporate long-range planning:

– a BMW Gran Turismo, to be developed by BMW M based on the concept study CS,
– a Rolls-Royce Coupé as the third Phantom model alongside the Sedan and the Drophead Coupé,
– an additional Rolls-Royce model to be positioned below the Phantom regarding price and size,
– a BMW Progressive Activity Sedan – a new interpretation of the sedan concept, combining its characteristic flair with new intelligent functions,
– the X1 following the X6 as the fourth member of the X family
– and finally, a Sports Activity Vehicle of the MINI brand.

The BMW Concept CS is the starting point for the development of a BMW Gran Turismo – only one of many new models announced in the context of the BMW Group's strategic realignment.

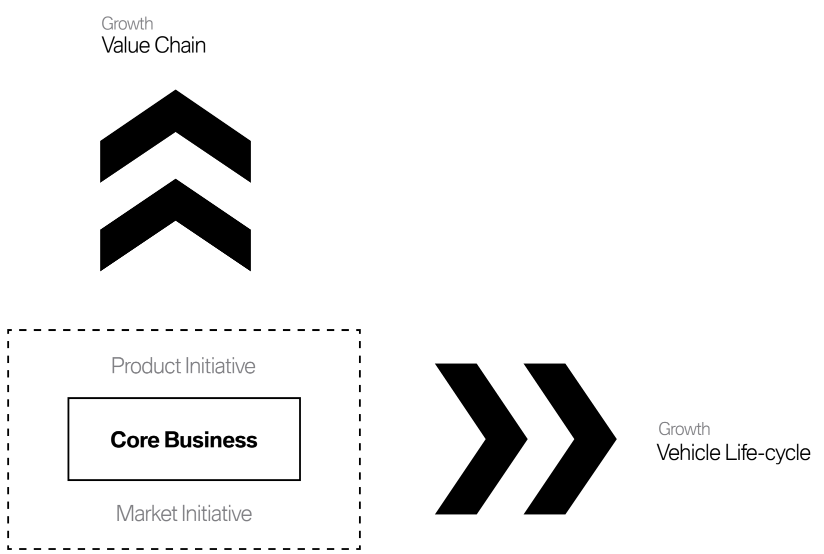
No matter whether we are talking about new or existing markets, new or well-proven concepts – we will not lose sight of one thing: to always develop brand-specific premium offers that fully meet our customers' requirements and make best use of the respective brand's strength. If this cannot be done with existing brands, we might consider expanding our brand portfolio in the future. As a result of our strategic review, we have acquired Husqvarna Motorcycles to complement our motorcycle division. Together with BMW Motorrad, the new brand will help increase sales in the motorcycle business by as much as 50 percent by 2012.

But we will not stop at that: only 25 percent of total revenues to be achieved during the vehicle life-cycle is created in the new car business, while service, parts and accessories, and the used car business account for the other 75 percent. We intend to exploit the greater potential along the vehicle life-cycle, with new sales channels in the accessory business and a broader range of services. As far as marketing of pre-owned cars is concerned, the BMW Group benefits from the fact that the company's cars retain their value better than most. In this field, our best option is high-end remarketing such as BMW Premium Selection and MINI next. Accessory sales and resale are only two examples of many opportunities in this business area.

Just like the remarkable potential along the vehicle life-cycle, the value chain offers considerable potential. One of our company's strengths is our expertise in engine manufacturing – we have built premium engines for airplanes, motorcycles and automobiles for over 90 years. Engines from Munich, Steyr and Hams Hall are world famous. This is why it seems a logical choice to provide drive systems to other manufacturers in certain growth areas.

Approximately one-fifth of our operating profit is presently achieved with financial services. Once again, this is a field in which we see chances for substantial growth. Going beyond the present core business of Financial Services, we are currently addressing additional fields, including vehicle financing for foreign-brand vehicles, vehicle-related insurances and direct banking as well as further geographical expansion. A further addition to our service range will be new offers concerning individual mobility and modules making everyday life even more convenient for our customers.

Taking advantage of all these options, the BMW Group will generate growth as the driving force for further progress.



Sights set on future growth. In addition to the core business, there is considerable potential along both the vehicle life-cycle and the value chain. The two areas we have identified are highly profitable and expected to generate a substantial result contribution.

Shaping the future. How can we take advantage of the changing conditions as an opportunity for growth? How can we align our product portfolio accordingly? How can we create new concepts for individual mobility?

When the automobile was invented at the end of the 19th century, nobody would have guessed the changes in society and the business world this invention would bring about. Today, individual mobility has become an inherent part of our private and professional life.

But conditions have changed dramatically. Experts warn us of the effects of global warming caused by carbon emissions from industrial production, power plants, households and road traffic. Add to that the depletion of fossil fuel resources. The traditional combustion engine powered by petrol or diesel will no longer be able to provide a satisfying answer to this problem. Mobility in so-called megacities, large metropolitan and urban areas, is reaching its limits.

This is why we are taking on the challenge to help guarantee future individual mobility. It is a basic need we intend to meet by developing contemporary solutions. We will be developing completely new vehicle concepts. To create something entirely different you have to be willing to break new ground. There cannot be any taboos. Nothing can continue as it used to be. As an automotive manufacturer with a more than 90-year history, we consider it our social and corporate responsibility to make these challenges our top priority. For we want to add new chapters to our company's success story in the future.

Which drive system is sustainable, efficient and high-performance enough? Does every car need to have four wheels? Which interior concepts really correspond to the demographic change? Which vehicle concepts suit megacity traffic? How can we customise our vehicles even better? What else will customers demand in the third millennium? And can we pursue the idea of sustainable automotive engineering even more consistently? Do new business models make sense? These are some of the questions that have led to a trendsetting future project launched as an element of our new strategy Number ONE.

We know that we are facing the critical task for the automotive industry in the third millennium. Tackling this challenge is essential for survival in our industry. And the company to come up with the best solution will have a competitive advantage for many years to come.

=1

=2

=1–2 With the energy and drive strategy EfficientDynamics, the BMW Group has indicated the course towards future individual mobility. Today's accomplishments include an intelligent energy management for Brake Energy Regeneration and battery charging. But there is more to electrifying the drivetrain: in 2009, BMW will launch a dynamic and efficient hybrid car. With the new strategy, the BMW Group has furthermore announced to invest into the development of entirely new vehicle concepts equipped with new drive systems.

Access to technologies and customers. How does our cooperation with development partners and suppliers look like? How can we make best use of the initiative of independent dealers and fleet service providers and still stay in close touch with our customers?

Future competitive advantages will result from collaborations and networks established within the automotive industry as well as from distinguishing oneself from others in the industry through brand-specific strengths – something the BMW Group has always done well. This is how we have developed a number of innovations offering added value to our customers over the course of the past few years.

The premium segment comes up with most innovations in the automotive industry: progress for more environmental compatibility, technologies to improve active and passive safety, solutions for more convenience and entertainment. Ideas that have given us the reputation to be the innovation leader.

For a company such as the BMW Group, it is crucial to derive key technologies from the strategically important issues. The right balance between in-house production, supplier management and collaborations gives us access to these technologies.

Future cooperations are also relevant to the sales organisation: in our industry, the dealers and fleet service providers are the main points of contact with the customer. But it will be important in the future to guarantee direct customer contact for the BMW Group when cooperating with these partners. This is essential if we truly want to satisfy our customers' demands over their vehicles' entire life-cycle. And first and foremost, it helps us learn for the future from customers' present demands.

Despite increasingly fierce competition, strategic cooperations will define the automotive industry and its environment. In this endeavour, we guarantee one thing: a BMW will always be a BMW, a MINI always a MINI, and a Rolls-Royce always a Rolls-Royce.

═1

═2

═1 This radar-based system is an example from the innovation network set up by the BMW Group and suppliers. Active cruise control with stop and go function supports the driver when starting the car and when braking in slow traffic, while always maintaining the required safety distance. It is designed for speeds up to 180 kilometres an hour and can automatically brake the car down to a standstill.

═2 BMW ConnectedDrive acts as a virtual co-pilot. The system connects the vehicle with its environment and with general traffic. In future, it is supposed to be complemented by intelligent vehicle-to-vehicle communication via Wireless LAN. Providing information collected by other vehicles, the system informs the driver about potentially dangerous braking manoeuvres and traffic holdups nearby.

Profitability. How can we reduce cost per vehicle produced? How can we reach economies of scale? How can we minimise the effect of exchange rates? How can we create added value for our customers and achieve an adequate price for our products?

Profitability and earnings quality are the decisive factors in everything we do; our goal is independence. We consider it vital to apply the capital provided in such a way as to make investing an attractive option for our shareholders by generating positive results in our operating activities. People investing in a premium manufacturer expect a premium return. Therefore, we have to concentrate on those business areas promising a return on investment that matches our premium aspirations. At the same time, we never lose sight of guaranteeing our company's lasting independence.

More output from less input. That is the philosophy behind EfficientDynamics. This idea is not only applied to our products, but also to the entire company. As far as costs are concerned, we understand less input as: re-evaluating all cost structures and achieving an increase in efficiency of at least five percent a year. We have set up a far-reaching programme that will help us tap into an efficiency potential of approximately six billion euros by 2012. We will invest in future technologies while reducing costs, investment and therefore reduce capital applied per unit. So growth will remain the driving force behind our success.

Exceeding this growth, we intend to achieve economies of scale by establishing collaborations in the areas of components, drive systems and modules. It has always been one of the BMW Group's key strengths to make best use of project-based cooperation and cost-efficient networks. In 2007, we concentrated strongly on collaborations in the areas of engine development and hybrid technology.

A factor that is highly relevant to our profitability targets is that our cars and motorcycles are popular all over the world. For our automobiles the United States have been the most important individual market for years. This is why we depend to a large extent on the development of currency exchange rates, mainly between the US dollar and the euro. In order to minimise the effect, we will in future increase our purchasing volume in the US dollar area as well as the number of units produced in the United States. This is why we will stock up production capacities of our US plant in Spartanburg to 240,000 units to be applied, among other things, to the production of the successor of the current BMW X3. Our supplier network and our global purchasing structures will also have a share in strengthening our natural hedging activities.

As far as performance is concerned, we understand more output as continuing to position our vehicles consistently in the premium segment. Premium is what we do best. This is our key strength, and this is where we achieve our best results. Our customers, employees and shareholders stand to benefit from our accomplishments in this segment. Additional earnings potential will arise from expanding present operations and launching new activities.

=1

=2

=3

=1–3 The BMW Group's brands – BMW, MINI and Rolls-Royce – are among the world's most valuable automotive brands, thanks to the company's strong premium position.

Vision

Our strategy Number ONE will guide us to the year 2020. To see us through the first five years we have set ourselves an initial interim goal. By 2012, we will increase automobile retail to 1.8 million units and motorcycle sales by 50 percent to stand at 150,000 bikes per year. From 2012 onwards, we intend to achieve a return on capital employed of 26 percent and consequently a return on sales of between eight and ten percent.

Our strategic objective is to ensure that: The BMW Group is the leading provider of premium products and premium services for individual mobility.

This means that we no longer refer to ourselves as a producer, but rather as a provider, and are making customer orientation and our understanding of service the focus of the BMW Group. At the same time, we continue to operate in the premium segment, not only in terms of our cars and motorcycles, but also in terms of our services. We are thus building on our strengths and concentrating on our core competence in a clearly defined segment.

We consider potential future fields of action all types services relating to individual mobility.

Strategic Objective

The objective is to be the leading provider of premium products and premium services for individual mobility.

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The year 2007.

The year 2007.

Seize the future.

04 Preface by the Chairman of the Board of Management.
08 Report: A matter of consistency.
26 The year 2007.

Norbert Reithofer
Chairman of the Board
of Management

Ladies and Gentlemen,

2007 targets fulfilled

2007 was a successful year for the BMW Group and an eventful one, too. We accomplished what we set out to do at the start of the year and delivered what we had promised you, our shareholders. In addition to that, more than 1.5 million customers around the world bought an automobile from the BMW Group in 2007 and a further 102,000 people bought a BMW motorcycle. Our revenues also reached a new record of 56 billion euros. We also proved our strength in terms of earnings – under very difficult circumstances marked by the weak US dollar, rising raw material prices, and intense competition. We were only able to achieve all of this because every person in the company showed utmost personal dedication to achieving our ambitious goals. On behalf of the Board of Management and myself, I would like to express my sincere thanks to all our employees.

Earning customer trust

My thanks also go out to our dealer network and our business partners who last year once again made a major contribution to the success of our company. But above all I would like to thank the customers who placed their trust in us over the past year: a trust which we will not disappoint – and which we need to earn over and over again in the future. We made this a core requirement and obligation when we developed our new strategy Number ONE.

Strategy Number ONE developed

Number ONE is our path to the future. This strategy will allow us to address the challenges we all face as a company and as part of society. The most important task for an automobile supplier is surely that of reducing vehicle emissions. That is absolutely essential to ensure individual mobility in the future.

Competitive edge through EfficientDynamics

In 2007 our EfficientDynamics package proved that we are on the right path and can already deliver solutions today. This approach has also been endorsed by independent sources. The "Grünes Lenkrad" environmental award we received for EfficientDynamics is just one of many examples. EfficientDynamics can be summed up as better performance with lower consumption. This principle is already having a definite effect today: in Europe, around 40 percent of the BMW Group's 2008 new vehicle models generate only 140 g CO_2/km or less. That translates into fuel consumption of less than 5.1 l/km diesel or 5.8 l/km petrol. With EfficientDynamics we have a package of measures which is unique in the industry – and thus gives us a competitive edge.

We bring the same consistent approach that we use to tackle the reduction of CO_2 emissions to other challenges. Whether climate change, globalisation, or the impact of demographic developments in different parts of the world – we aim to find solutions to the questions we must all ask ourselves, because we know that whoever is best at meeting these challenges will have a competitive advantage in the future.

Turning challenges into opportunities

To be more specific: those who have the right products to deal with climate change will have the best chances in the marketplace. Those who face up to the challenges of globalisation and exploit them as opportunities will be less dependent on currency effects and will be able to open up new markets. And those who do not take demographic structures for granted, but respond flexibly to them instead, will continue to have highly qualified, efficient employees in the future. That is what turns challenges into opportunities for competitive advantage. We will exploit these opportunities.

Rest assured that the BMW Group will continue to stand its ground against its competitors and further expand its leading position in the premium segments of the international automobile and motorcycle markets. To be precise: we will maintain our leading position. Our new strategy Number ONE will help us – and the dedication and motivation of all our employees will guarantee our success.

Yours,

Norbert Reithofer
Chairman of the Board of Management

001

A matter of consistency.

Report

Fresh thinking: better performance and safety combined with less consumption and lower emissions.

Leadership begins in the mind.

001

A matter of consistency.

Report

To enable individual mobility in the future, we have to completely rethink things today. BMW Group engineers reveal what sustainable mobility could look like through a mixture of unconventional ideas which are already taking effect today and will have a broad impact reaching far into the future. Their most important tools are curiosity, expertise, and plenty of questions.

=1

=2

It weighs all of two kilos and measures just 18 centimetres. Its sole purpose is to provide the engine with a steady supply of coolant. It is hardly surprising that most car owners are completely unaware of its existence during the vehicle's lifetime. And yet it represents a minor revolution. The electric water pump is part of a comprehensive energy strategy with which the BMW Group is completely redefining the relationship between efficiency and performance. This strategy includes technical innovations which immediately reduce the fuel consumption of the new vehicle fleet, as well as innovative hybrid solutions and the use of hydrogen from regenerative sources – measures which stretch far into the future of individual mobility. This strategy goes by the name of EfficientDynamics. Its philosophy is better performance, less consumption. That is how the BMW Group translates its responsibility for protecting the climate and resources into highly-effective innovations.

Hundreds of engineers, programmers, mechanics and other specialists within the BMW Group's global development and production network are currently working on this silent revolution in efficiency. At Forschungs- und Technik GmbH, researchers are refining technologies which will one day use the energy from vehicle exhaust emissions. In Troy, Michigan, the Global Hybrid Cooperation is developing electric drive assemblies which exceed the efficiency of all known hybrid drives. At the Research and Innovation Centre (FIZ) in Munich – with more than 8,500 developers the Group's biggest think-tank – engineers conceptually take apart every new vehicle and scrutinise it for energy-saving potential. This is how efficiency boosters like Auto Start Stop Function, Brake Energy Regeneration, or active aerodynamics are born. All these EfficientDynamics features have quite an effect on their own – but together they make a huge difference.

=1
Optical 3D data capture using a wind tunnel model designed to improve vehicle aerodynamics.

=2
Examining the vehicle's aerodynamic features.

=3
The active air flap control automatically manages the air supply according to the engine's cooling requirements.

=3

Many of these technologies represent completely new solutions – but developing concepts for economical high-performance vehicles is a success story that goes back a long way.

In 1975 the BMW Group was the world's first manufacturer to introduce electronic petrol injection: "L-Jetronic" made it possible for the first time to precisely control fuel supply. Together with the revolutionary Valvetronic engine management system, innovative lightweight bodies, series implementation of the Common Rail Technology, the fuel-efficient diesel turbocharger, and other BMW innovations, these measures are today considered technological milestones on the road to less consumption in automobile design. Many key technologies which were discovered and readied for series production by the BMW Group later found their way into the mass market. For instance, the integrated overrun fuel cut-off, which made its debut in 1976 in the BMW 3.0si, is taken for granted these days, just like ABS or the catalytic converter. "Engineers at the BMW Group," says Dr. Johannes Liebl, "always were the ones to break new ground for more efficient automobile design."

Liebl is a mechanical engineer who has worked as an engine designer at the BMW Group for 23 years. The 57-year-old currently coordinates the group-wide EfficientDynamics development work, including a whole troop of highly effective "groundbreakers". "At a time of climate change," says the engineer, "EfficientDynamics provides us with a comprehensive answer to questions about saving resources, climate protection, and securing individual mobility. And we are not just developing solutions for the medium and long term. Customers and the climate are already benefiting from our solutions from the very first kilometre they drive." The result is that where a BMW 320i back in 1983 still guzzled 9.6 litres of petrol over 100 km, the current BMW 320i needs only 6.1 litres and still offers substantially better performance, greater comfort and improved vehicle safety.

However, these responses are only possible because developers at the BMW Group consistently ask questions in a new way.

=1–3
BMW Group employees prepare 1:2 vehicle models for wind tunnel tests.

=1

=2

=3

=1

=2

=3

How can we use the momentum of thrust phases? How can the fuel injected into engines be used even more efficiently? Or how does switching on the headlamps or air conditioning affect a vehicle's energy consumption? Where do further potential energy savings lie hidden within the vehicle? And how do you measure all of this?

The last question in particular has tremendous ramifications, because even though design engineers can now simulate all manner of designs and functions on the computer, until recently there was no software capable of calculating a vehicle's overall utilisation of energy resources. But that is exactly what the "energy optimisers" at the BMW Group were interested in. "Traditionally," explains Dr. Liebl, "when you design an automobile all the vehicle's functions and the energy they use are added together. The total represents the performance required from the engine. It is then up to the engine developers to provide this performance with the least possible consumption." In the industry this design approach is referred to as "end of pipe" – where engineers try to correct at the end what was neglected at the start. However, in automotive design "end of pipe" thinking is rapidly reaching its limits. Air conditioning, driving dynamics systems, and every extra comfort and safety feature increase the demand for power output – and ultimately raise fuel consumption and carbon dioxide emissions. This is where physics sets natural limits: engine efficiency cannot be enhanced indefinitely.

=1
The engineers of the BMW Group are continually developing features to enhance vehicle efficiency.

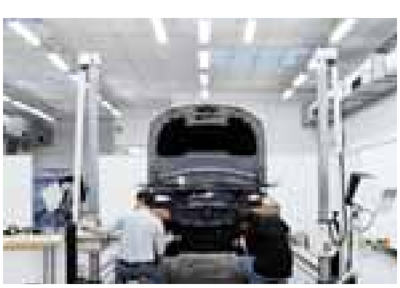
=2–3
The BMW Group presents its first fully hybrid vehicle: the BMW Concept X6 ActiveHybrid.

With the EfficientDynamics strategy developers at the BMW Group take a more comprehensive approach that starts at an earlier stage. Like the designers of a regatta yacht who trim every fibre, every square inch of their boat for top performance, they now analyse the consumption and potential for improvement of every single component at the beginning of each vehicle's development. They optimise what can be optimised and ultimately combine many substantially improved elements to make far more efficient vehicles. They are supported by simulation software refined five years ago by the BMW Group together with the Technical Universities of Dresden and Munich. "Dymola" fulfilled the requirements which made it possible to completely rethink efficient vehicle design. This simulation software maps all energy fluxes in the vehicle. Dymola now allows considerable energy potential to be utilised – even in seemingly insignificant components such as the water pump.

Specifically, regular mechanical water pumps typically lose up to 2,000 watts of energy – enough to drive a small moped. Since virtually all motor vehicles around the world are fitted with a mechanical water pump, you could say that today's millions of automobiles are driving millions of small mopeds, too.

=1

=2



=3

This is where the BMW Group's engineers come in: their electric water pump only switches on when it is actually needed – and for that it only needs the energy of two bright light bulbs. This technology, which was driven largely by the BMW Group (and still the only auto manufacturer in the world to use it) currently saves two percent of fuel in the automobile.

In this way – segment by segment, component by component – the engineers scour all models for potential economies: engineering minor revolutions such as highly-efficient Brake Energy Regeneration and the jet-guided direct fuel injection system that result in consumption figures which only used to be possible for diesel engines; optimising small things such as air flaps which open or close on their own depending on the engine's cooling requirements; designing a detachable air conditioning compressor which only springs into action when it really needs to cool; drastically reducing the roll resistance of tyres and replacing conventional hydraulic steering with much more economical electric steering. In the meantime, all of these features are standard in almost all models of the BMW and MINI brands. Many of them seem so obvious that one has to wonder why they were not implemented long ago. The reason is that these apparently simple solutions often conceal extremely complex technologies. Just how complex can be seen from the example of the ASSF.

=1
Tyres with less roll resistance are especially fuel-efficient, owing to reduced strain on tread and sidewalls.

=2–3
Preparations for flow and circulation testing of the engine compartment in the wind tunnel.

ASSF stands for Auto Start Stop Function and is the most radical approach to throttling engine consumption since it cuts off the engine immediately once it is no longer needed. A small number of automobile manufacturers tried automatic engine stop functions years ago, but they were quickly withdrawn from the market because they were too cumbersome, too unreliable, and, as a result, ineffective. However, engineers at the BMW Group knew from simulations and trial runs that switching off and restarting the drive train for state-of-the-art injection engines pays off after just a few seconds' standing time. A red traffic light lasts on average about 20 seconds. "That made us realise that there were huge potential savings to be discovered here," one developer remembers. "What we didn't realise at the outset was how much work would be involved in successfully harnessing that potential."

=1

=2

As a core vehicle function, switching the engine on and off must be coordinated with the window regulator, air conditioning, electronic immobiliser system, and a total of 17 other control units on board. The engineers had to ensure that the engine does not switch off if it is too cold or too hot outside or simply because the battery gets too low to easily restart the engine after a stop, for instance. Clustered around the ASSF is a small orchestra of sensors which synchronise how the system is used.

What at first glance appears to be a simple engine function actually comprises a highly-intelligent system which affects the vehicle's whole organism. Today, this function is considered a particularly effective energy feature of the EfficientDynamics package, offering customers a major benefit without being at all conspicuous. In the standardised European Driving Cycle it saves around three percent of fuel. Developers at the BMW Group are currently pulling out all the stops to implement the system in the Group's automatic models as soon as possible – up until now it has only been available for manual transmissions.

And yet their imagination and their pioneering spirit are still far from being exhausted. Among other things the EfficientDynamics engineers are researching technologies which will tap into an energy source that has so far been completely ignored: heat. For technical reasons little more than a third of the fuel in the engine block is converted into operating power; almost two-thirds are lost in the form of waste heat in the engine compartment and through the exhaust pipe.

=1–2
Setting up the technology to measure and analyse all energy flows in the vehicle.

=3
The Auto Start Stop Function helps to reduce fuel consumption substantially by switching off the engine when standing.

"But what if we could harness that energy?" automotive engineers wondered. What if we could obtain energy from the heat? The technology to do this is already doing the rounds of test benches at the Munich Research Centre. In simple terms, the principle of the steam engine is transferred to the automobile: liquid is heated in two loops to generate the steam to drive a motor – the so-called "turbo steamer". The energy from the exhaust gas produced can be used on the one hand to support the drive train; on the other hand there is also sufficient energy in the exhaust gas to easily supply the air conditioning, vehicle computer and navigation system as well as all the electronic consumer loads on board.

=3

In just the same way that their engineers now analyse every vehicle down to the last detail, the company's energy strategy also takes a holistic approach. It covers all three of the Group's brands: BMW, MINI and Rolls-Royce; reaches far into the future of sustainable mobility with hybrid and hydrogen drives – and yet still delivers drastically improved consumption data today. For instance, the High Precision Injection introduced in the 2007 models is the world's first jet-guided direct fuel injection system in large-series production to facilitate fuel-efficient lean operation across a particularly wide range of speeds. This also results in quite noticeable and measurable fuel savings even in everyday traffic. Combined with "traditional" vehicle optimisations such as sophisticated aerodynamics, intelligent lightweight construction concepts, and energy management features, this means that since autumn 2007 around 40 percent of the BMW Group vehicles sold in Europe have CO_2 emissions of only 140 g/km or less. This corresponds to a consumption of 5.8 litres petrol or 5.1 litres diesel over 100 km.

As part of an unusual development cooperation, BMW Group engineers are currently exploring how the hybrid technology – so often discussed in public – can be used much more effectively. Classic hybrids, like the ones on the roads today, realise their true potential for savings primarily in city traffic. However, at constant and higher speeds those efficiency gains are largely cancelled out by a sharp increase in fuel consumption. That is quite different with the two-mode hybrid technology that is an important component of the second, medium-term phase of the EfficientDynamics strategy: "Two-mode hybrids support the combustion engine not just at low speeds, but also at average and higher speeds," explains Rainer Rump. As head of the development cooperation he is one of about 100 development engineers at the BMW Group who have been working at the Hybrid Development Center in Troy for just over two years. In this Detroit suburb in the US state of Michigan the BMW Group has joined forces with Daimler, Chrysler and General Motors to form the Global Hybrid Cooperation. This is the first time the automotive industry has seen a cooperation of this kind between four major manufacturers working together to advance technology. The two-mode drive train also promises impressive efficiency gains: when the first BMW model with two-mode hybrid drive hits the market in late 2009 it will consume up to 20 percent less fuel than a comparable model fitted with just a combustion engine. "In this instance we made a very deliberate decision to cooperate on development so that we could

=1
Using High Precision Injection petrol engines can produce consumption figures which only used to be possible for diesel engines.

=2–3
The BMW Hydrogen 7 is the world's first premium sedan with hydrogen combustion engine.

=1

bring the potential of the two-mode hybrid technology to the market as fast and as cost-efficiently as possible," explains Rump. "Of course, at the beginning everyone was a little sceptical whether such close collaboration between competitors could even work. But the results exceeded all our expectations." While engineers from all four manufacturers are developing the components for the hybrid system together in the core area of the Hybrid Development Center, developers from the BMW Group are working on the brand-specific application of the hybrid drives in a separate security zone. This guarantees that a BMW with hybrid drive will still be distinctive as a BMW. The developers' aim is to create a comprehensive modular system from which the BMW Group can offer its customers the best hybrid solution tailored to each model.

Nevertheless, the declared aim of the BMW Group is to cut carbon dioxide emissions by 100 percent over the long term. That sounds visionary, but is already reality on roads in Europe and the United States. One hundred models of the world's first series-produced, hydrogen-driven luxury sedan, the BMW Hydrogen 7, have been on the roads since spring of 2007. Their drivers have meanwhile clocked up more than 2.7 million kilometres with the Hydrogen 7 fleet and provided researchers like Wolfgang Strobl with valuable insights. "In many respects hydrogen is the ideal fuel," says the EfficientDynamics manager at the BMW Group Forschung und Technik GmbH. "It combusts without leaving any residue, is highly effective and can be produced cost-effectively in large quantities in a way that is CO_2-neutral." The necessary technology already exists – for instance in the form of solar power stations that have been generating electricity in California for the megacity of Los Angeles for 20 years – and has been successfully proved and tested. The go-ahead for the development of the necessary capacities and infrastructure is still pending.

Strobl and his research colleagues are using the intervening period to work, among other things, on improving tank technology. Because although hydrogen is extremely environmental-friendly, it is also a very volatile energy source. The hydrogen is stored at minus 250 degrees Celsius in refrigerated liquid form in a tank similar to a thermos flask. 70 layers of wafer-thin aluminium foil and

=2

=3

an ultra-high vacuum in the tank of the BMW Hydrogen 7 ensure absolutely minimal cooling losses – it would take a snowball 13 years to melt completely in this marvel of insulation. Other fields of research include innovative on-board power supply concepts and further consolidation of the hydrogen engine's performance. "Even after 100 years of development diesel and petrol engines have only achieved an efficiency of around 40 percent," explains Wolfgang Strobl. "But with hydrogen as fuel higher energy efficiency is already possible today." The 191 kW drive of the Hydrogen 7 – with the option of using hydrogen or regular petrol – already accelerates from zero to 100 km/h in just 9.5 seconds. That goes to show how powerful sustainable mobility can be.

The EfficientDynamics strategy represents a real paradigm shift in automotive design. Up until now the energy-efficient models on the market were generally associated with pricey options and lower standards of comfort, performance and safety – and, as a result, were not very successful. The philosophy of the BMW Group is completely different: The EfficientDynamics innovations come as standard in new models and make an impact with every vehicle sold. Drivers who want to be responsible about their mobility no longer need to forego dynamic performance. For the most part BMW Group customers are happily unaware of the energy innovations in their vehicles. There are only two factors which make them perceptible: better driving dynamics and lower consumption.

In this way the EfficientDynamics strategy has an impact that is both deep in terms of vehicle technology and broad in terms of market. In 2007 alone the BMW Group already sold more than 450,000 vehicles equipped with EfficientDynamics. In the European Federation for Transport and Environment's (T&E) comparison of the 14 highest-volume premium suppliers the BMW Group already occupies the top spot for cutting CO_2 emissions.

The authors of the independent US "Environmental Defense Report" were even more explicit: no other manufacturer did more over recent years for the reduction of fuel consumption and CO_2 emissions than the BMW Group. In their performance class the vehicles of the BMW Group are already by far the most efficient with regard to consumption and emissions.

And let us not forget that EfficientDynamics is only just gathering momentum: according to engineer Liebl, "The best ideas probably haven't even occurred to us yet."

=1–2
Thanks to its EfficientDynamics package the BMW Group has significantly reduced the fuel consumption and CO_2 emissions of its vehicles.

=1

=2

002

The year 2007.

Operate more effectively. Substantially increase efficiency. Continue to improve and respond faster.

Achieve greater autonomy.

002

The year 2007.

January	30	World premieres in Detroit
February	31	Research Centre for Artificial Intelligence
March	32	International Motor Show Geneva
	33	Ten years Intercultural Learning
	33	BMW goes India
April	34	Acquisition of DEKRA SüdLeasing completed
	34	One-millionth MINI
	34	Number one in corporate sustainability
	34	World debut for BMW Concept CS in Shanghai
May	34	International Engine of the Year Award
	35	Mille Miglia 2007
	35	State Opera for All
June	35	Design Team of the Year
	36	MINI United Festival in Zandvoort
July	37	BMW Group acquires Husqvarna Motorcycles
	37	90 years of BMW
August	37	MINI wins top marks in frontal crash test
September	38	IAA Motor Show Frankfurt
	40	BMW Group sets course for the future
	40	World debut of BMW HP2 Sport
	40	Rolls-Royce announces a new Coupé
October	41	BMW Welt opens
	42	World premiere at the Tokyo Motor Show
	42	Rolls-Royce production expands
November	43	New BMW motorcycles at the EICMA 2007
	43	“Grünes Lenkrad” environmental award for BMW EfficientDynamics
December	43	Scientific Award 2007 presented

January

07/01

World premieres in Detroit. The BMW 3 Series Convertible is presented to the public for the first time at the North American International Auto Show in Detroit. With its classic lines and the convenience of a new retractable hardtop, this fourth-generation model heralds a new chapter in the four-seater convertible's success story. In Detroit the BMW Group also unveiled the new BMW X5 as well as the BMW Hydrogen 7, the first hydrogen-powered sedan for everyday traffic.

07/01

The MINI brand also has a world premiere to offer the public in Detroit with its MINI Sidewalk Convertible. It is also the first time that the second, completely new generation of MINI was on display on the North American continent.

07/01

At the unveiling ceremony for the Phantom Drophead Coupé Ian Robertson, Chairman and Chief Executive of Rolls-Royce Motor Cars, was also able to announce a new record in sales volume. For the third time in a row the Phantom was able to confirm its leading position in the super-luxury class. The Drophead Coupé broadens the Rolls-Royce brand's range of models. Like the Phantom, it is manufactured at the Goodwood facility.

February

22/02

BMW Group Research and Technology participates in the German Research Centre for Artificial Intelligence. Collaboration focuses on issues such as the future of the internet and its importance to mobile usage and in supporting mobility in an ageing society. This long-term cooperation further expands the BMW Group's research subsidiary's global technology and partner network.

March

06/03

International Motor Show in Geneva – world premieres and visions. Alongside the new BMW 1 Series, the new BMW 5 Series and the M5 Touring are also presented to the public for the first time. The BMW M3 concept study is also unveiled. The company also introduces a wealth of technical innovations. The EfficientDynamics package is particularly well received.

06/03

The MINI brand brings more world debuts to the Geneva Motor Show: the new MINI One and the new MINI Cooper D, the most economical MINI ever built.

26/03

Ten years BMW Group Award for Intercultural Learning. In front of more than 300 guests the Board Member for Human Resources, Ernst Baumann, presents the winners of the 2006 competition with their awards. The tenth anniversary of the internationally recognised event showcases more than 40 award-winning projects and academic papers as well as several hundred more, equally prize-worthy, efforts.

29/03

BMW goes India. The opening of the BMW plant in Chennai, India, is the company's second move into India's growth market. The first step was taken on January 1st 2007 when the BMW Group set up a subsidiary in Delhi. The new plant will produce vehicles of the BMW 3 Series and 5 Series for the Indian market.

April

02/04

Acquisition of DEKRA SüdLeasing completed. In early April the acquisition of Dekra SüdLeasing Services GmbH (renamed to: BMW Fuhrparkmanagement Beteiligungs GmbH) and its subsidiaries by the BMW Group is finalised. It was approved by the EU Commission in late March.

05/04

One-millionth MINI. The one-millionth MINI rolls off the production line six years after series production started in Oxford. The MINI Cooper S is manufactured to individual customer specifications. The "customer" is BMW Group Mobile Tradition, for whom the designers created a special roof graphic composed of one million tiny MINI cars.

12/04

Number one in corporate sustainability. According to a survey of 28 German companies the BMW Group is number one in the efficient use of financial, ecological and social resources. The BMW Group is five times better at managing corporate sustainability than the German economy as a whole. The study was conducted by the Berlin Institute for Future Studies and Technology Assessment (IZT). Evaluations were based on economic, ecological and social indicators such as capital expenditure, water consumption, amount of waste produced and the number of occupational accidents.

20/04

World debut of the BMW Concept CS at the Auto Shanghai 2007. Here the BMW Group turns its attention to a new vehicle segment. The BMW Concept CS concept study combines the exclusivity of a luxury-segment Gran Turismo with the fascination of a high-performance sports car.

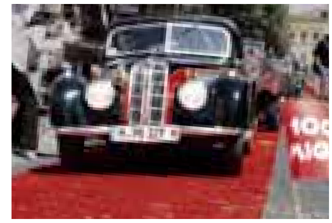
May

09/05

"International Engine of the Year Award" goes to BMW. The BMW 3.0 litre Twin Turbo in-line 6-cylinder petrol engine is voted "International Engine of the Year" in the world's leading engine contest. This engine is used in all BMW 3 Series model variants. Overall the BMW Group wins seven of the twelve competition categories.

16/05

BMW at the Mille Miglia 2007. The first Mille Miglia was held 80 years ago. For the past 25 years it has been held as an endurance race. For the 25th anniversary BMW Group Mobile Tradition sends nine of its most striking classic cars to Northern Italy. A total of 19 teams take to the start in a BMW. Together with 300 other classic racing cars they make the legendary drive over 1,000 miles from Brescia through Ferrara to Rome and back again.



19/05

State Opera for All. Jules Massenet's opera "Manon" is broadcast live from the sold-out "Staatsoper unter den Linden" opera house on a big screen on Bebelplatz square. This is made possible by cooperation between the State Opera and the BMW Group. Over the next few years the Berlin public will again have the opportunity to enjoy free open-air opera – a new highlight for Berlin's cultural calendar.

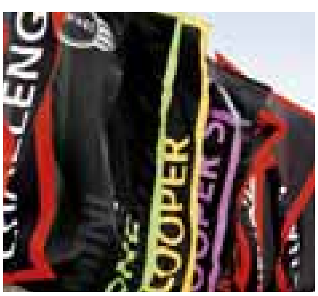
June

25/06

BMW Group Design is "Design Team of the Year". The 2007 red dot award for "Design Team of the Year" goes to the BMW Group. Chief Designer Chris Bangle accepts the award in Essen on behalf of all his staff. The BMW Group also picks up eight further awards for outstanding product design: two automobiles and three motorcycles from the BMW Group as well as three other products designed by BMW Group DesignworksUSA also receive a red dot.

22/06

MINI United Festival in Zandvoort. More than 8,000 people from 50 countries flock to the MINI United Festival in the Dutch resort of Zandvoort on the North Sea coast. Under the motto “Friends. Festival. Challenge.” the MINI fan community enjoys three days of a unique mix of racing atmosphere, party and lifestyle. Many visitors had come a long way to be a part of MINI United 2007. Probably the longest journey, at 4,200 kilometres, was that of Yuliya Tkachenk. She set off from Krasnodar in Russia some seven days before the start of the festival to be in Zandvoort with her MINI.



July

19/07

The BMW Group acquires Husqvarna Motorcycles. The acquisition of Husqvarna Motorcycles is a logical move to continue BMW's activities in the field of lightweight sports motorcycles. Like BMW Motorrad, Husqvarna is one of the world's oldest, most established motorcycle companies.

21/07

90 years of BMW – trademark for innovation. On this exact day 90 years ago the Bayerische Motoren Werke was recorded in the register of companies. Two days later the letters BMW were being used on the company's products.

August

01/08

MINI wins top marks in frontal crash test. The new MINI emerges from the Euro NCAP Crash Test with a top rating of five stars. This verdict is also confirmed by the ADAC (Allgemeiner Deutscher Automobilclub). The foundation for the top rating in this rigorous testing procedure is the new MINI's design with its focus on a high degree of passive safety available in all MINI versions.

September

13/09

New models at the IAA Motor Show Frankfurt. The new BMW 1 Series Coupé has its world premiere at the IAA Motor Show in Frankfurt. It combines driving pleasure with exemplary efficiency. Also unveiled for the first time are the new models of the BMW 6 Series, boasting drive innovations and specific design modifications. The newly designed BMW M3 Coupé also makes its world debut. For the first time the BMW Group introduces a coupé for the Sports Activity Vehicles segment in the shape of the BMW Concept X6. The BMW Group’s first automobile with hybrid drive is the BMW Concept X6 ActiveHybrid.

13/09
The MINI Clubman debuts as the brand's third model variant in Frankfurt. The MINI Clubman offers greater functionality and has a hatch with two doors that open to the side as well as an extra "Clubdoor" which opens to the rear on the vehicle's right-hand side. The new MINI John Cooper Works CHALLENGE was developed primarily for the Clubsport Series' MINI Challenge.

27/09

BMW Group sets course for the future. With its strategic realignment the BMW Group is consistently aligning itself to achieve profitability and increase value over the long term. The strategic objective is clearly defined: the BMW Group as the world's leading provider of premium products and premium services for individual mobility. As part of the realignment the BMW Group also creates two new divisions as of October 1st: "Corporate and Brand Development" and "Purchasing and Supplier Network".

28/09

BMW HP2 Sport makes its world debut in Paris. At the "Mondial du Deux Roues" the new BMW HP2 Sport celebrates its world premiere. The sportiest, strongest, yet lightest series-produced Boxer of the HP model series so far is designed with the ambitious sports rider in mind. Its fascination lies in a wealth of exclusive details which were previously used only in racing – some of them are now finding their way into series production for the first time.

28/09

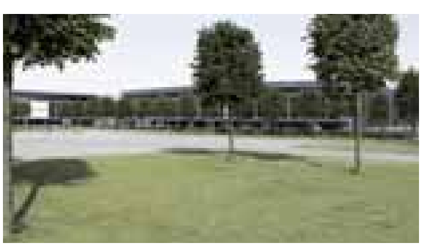
Rolls-Royce announces a new Coupé. Rolls-Royce Motor Cars confirms that a coupé version of the Phantom will be launched in 2008. This model will be an elegant two-door coupé derived from the Phantom Drophead Coupé and will offer exceptional handling performance.

October

17/10

BMW Welt opens. Right next door to the BMW Group headquarters, the BMW Museum, and the company's first plant, the BMW Welt opens its doors to the public. The architecturally striking building, for which the architect pushed the limits of what is technically possible, is the new home of the BMW brand. At the core is the individual, personalised BMW Automobile Delivery in which up to 45,000 BMW automobiles a year can be handed over to their new owners. Visitors can look forward to an extensive programme which allows them to experience the BMW brand and the company in its entirety. BMW Welt is also the venue for a wide range of different cultural, social and corporate events.

22/10
World premiere at the Tokyo Motor Show. The BMW M3 Sedan is revealed to the world public for the first time at the 40th Tokyo Motor Show. Following on from the Coupé, it is the second BMW M3 body variant.



23/10
Rolls-Royce production expands. Rolls-Royce Motor Cars announces that it will expand production capacity at its Goodwood facility. The company is thus responding to the strong demand for Rolls-Royce automobiles and preparing for the planned extension of its model range.

November

06/11
New BMW motorcycles at the EICMA 2007. The revised models of the BMW Group's most successful motorcycles – the BMW R 1200 GS and the BMW R 1200 GS Adventure – are just two of the world premieres at the 65th EICMA International Motorcycle Show. The new BMW F 800 GS with its excellent off-road characteristics and long-distance qualities is also showcased. Another newcomer is the BMW F 650 GS: an all-round version suitable for beginners. The fifth world debut belongs to the BMW G 450 X which was developed exclusively for Enduro Sport.




08/11
"Grünes Lenkrad" environmental award for BMW EfficientDynamics. The BMW Group receives the "Grünes Lenkrad" award, presented for the first time in 2007 by the German Sunday newspaper "Bild am Sonntag". The award recognises the EfficientDynamics package which comes as standard in the BMW 1 Series through to the BMW X5, and is also found in many MINI models.

December

06/12
Scientific Award 2007 presented. The BMW Group's Scientific Award is presented at an award ceremony held at the Deutsches Museum in Munich. The award, which focused on "Passion for Innovation", is one of the most renowned and lucrative awards for up-and-coming scientists. The award honours outstanding graduate and doctoral theses from 24 disciplines. Through its Scientific Award, which has been presented every two years since 1991, the BMW Group underlines the tremendous importance of innovation and supports young people whose pioneering research will further society.

At the end of 2007 the BMW Group's product range includes 26 models that produce only 140 kilograms of CO_2 per kilometre or less. If the Hydrogen 7 is included, that number increases to 27.

In 2008 the company aims to roll out more than 800,000 automobiles equipped with EfficientDynamics features across Europe. At the same time the BMW Group will continue to forge ahead with its work on innovative drive solutions. That is how innovations turn into valuable competitive advantages – and how challenges become opportunities.

Consumption data

Values measured in accordance with the New European Drive Cycle (EU Directive: 80/1268/EEC in the relevant applicable version). Valid for vehicles with a European country specification.

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2-emissions [g/km]
BMW				
116i 3-door	7.5 (8.3)	4.8 (5.3)	5.8 (6.4)	139 (152)
118i 3-door	7.9 (8.2)	4.7 (5.0)	5.9 (6.2)	140 (148)
120i 3-door	8.7 (8.4)	5.1 (5.1)	6.4 (6.3)	152 (150)
130i 3-door	12.2 (12.3)	6.0 (6.0)	8.3 (8.3)	197 (198)
118d 3-door	5.4 (6.9)	4.0 (4.5)	4.5 (5.4)	119 (144)
120d 3-door	6.1 (7.2)	4.1 (4.4)	4.8 (5.4)	128 (144)
123d 3-door	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
116i 5-door	7.5 (8.3)	4.8 (5.3)	5.8 (6.4)	139 (152)
118i 5-door	7.9 (8.2)	4.7 (5.0)	5.9 (6.2)	140 (148)
120i 5-door	8.7 (8.4)	5.1 (5.1)	6.4 (6.3)	152 (150)
130i 5-door	12.2 (12.3)	6.0 (6.0)	8.3 (8.3)	197 (198)
118d 5-door	5.4 (6.9)	4.0 (4.5)	4.5 (5.4)	119 (144)
120d 5-door	6.1 (7.2)	4.1 (4.4)	4.8 (5.4)	128 (144)
123d 5-door	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
125i Coupé	11.4 (11.4)	5.9 (5.9)	7.9 (7.9)	190 (190)
135i Coupé	13.0 (13.2)	7.0 (6.9)	9.2 (9.2)	220 (221)
120d Coupé	6.1 (7.2)	4.1 (4.4)	4.8 (5.4)	128 (144)
123d Coupé	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
118i Convertible	8.5 (8.7)	5.0 (5.4)	6.3 (6.6)	149 (158)
120i Convertible	8.9 (9.1)	5.2 (5.5)	6.6 (6.8)	158 (163)
125i Convertible	11.7 (11.6)	6.0 (6.1)	8.1 (8.1)	195 (195)
135i Convertible	13.3 (13.5)	7.1 (7.0)	9.4 (9.4)	224 (225)
120d Convertible	6.4 (7.4)	4.3 (4.5)	5.1 (5.6)	134 (148)
318i Sedan	7.9 (8.5)	4.8 (5.2)	5.9 (6.4)	142 (152)
320i Sedan	8.4 (8.9)	4.8 (5.1)	6.1 (6.5)	146 (156)
325i Sedan	9.8 (9.7)	5.5 (5.6)	7.1 (7.1)	170 (170)
325xi Sedan	10.9 (10.8)	6.1 (6.2)	7.9 (7.9)	189 (189)
330i Sedan	9.9 (9.9)	5.6 (5.6)	7.2 (7.2)	173 (173)
330xi Sedan	11.0 (11.0)	6.2 (6.2)	8.0 (8.0)	193 (193)
335i Sedan	13.2 (13.1)	6.7 (6.9)	9.1 (9.2)	218 (221)
335xi Sedan	14.1 (13.8)	7.1 (7.3)	9.7 (9.7)	232 (232)
318d Sedan[1)]	5.7	4.1	4.7	123
320d Sedan	6.0 (7.1)	4.1 (4.4)	4.8 (5.4)	128 (144)
325d Sedan	7.8 (8.3)	4.8 (5.3)	5.9 (6.4)	155 (169)
330d Sedan	8.2 (9.0)	4.9 (5.2)	6.1 (6.6)	160 (175)
330xd Sedan	9.1 (9.7)	5.5 (5.7)	6.8 (7.2)	178 (190)
335d Sedan[2)]	9.1	5.3	6.7	177
M3 Sedan[3)]	17.9 (17.0)	9.2 (9.0)	12.4 (11.9)	295 (285)
318i Touring	8.0 (8.6)	4.9 (5.3)	6.0 (6.5)	144 (156)
320i Touring	8.5 (9.1)	4.9 (5.3)	6.2 (6.7)	148 (160)
325i Touring	9.9 (9.8)	5.6 (5.7)	7.2 (7.2)	173 (173)
325xi Touring	11.0 (10.9)	6.2 (6.3)	8.0 (8.0)	193 (191)
330i Touring	10.0 (10.1)	5.7 (5.8)	7.3 (7.4)	175 (178)
330xi Touring	11.1 (11.1)	6.3 (6.3)	8.1 (8.1)	194 (194)
335i Touring	13.4 (13.2)	6.9 (7.0)	9.3 (9.3)	222 (223)
335xi Touring	14.2 (13.9)	7.2 (7.4)	9.8 (9.8)	235 (235)
318d Touring[1)]	5.8	4.2	4.8	125
320d Touring	6.1 (7.3)	4.2 (4.6)	4.9 (5.6)	131 (146)
325d Touring	7.9 (8.4)	4.9 (5.4)	6.0 (6.5)	158 (172)

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2-emissions [g/km]
BMW				
330d Touring	8.3 (9.1)	5.0 (5.3)	6.2 (6.7)	163 (176)
330xd Touring	9.2 (9.8)	5.6 (5.8)	6.9 (7.3)	181 (193)
335d Touring[2)]	9.2	5.4	6.8	178
320i Coupé	8.7 (8.9)	4.9 (5.1)	6.3 (6.5)	151 (156)
325i Coupé	9.8 (9.7)	5.5 (5.6)	7.1 (7.1)	170 (170)
325xi Coupé	10.9 (10.8)	6.1 (6.2)	7.9 (7.9)	189 (189)
330i Coupé	9.9 (9.9)	5.6 (5.6)	7.2 (7.2)	173 (173)
330xi Coupé	11.0 (11.0)	6.2 (6.2)	8.0 (8.0)	193 (193)
335i Coupé	13.2 (13.1)	6.7 (6.9)	9.1 (9.2)	218 (221)
335xi Coupé	14.1 (13.8)	7.1 (7.3)	9.7 (9.7)	232 (232)
320d Coupé	6.0 (7.2)	4.1 (4.5)	4.8 (5.5)	128 (145)
325d Coupé	7.8 (8.3)	4.8 (5.3)	5.9 (6.4)	155 (169)
330d Coupé	8.2 (9.0)	4.9 (5.2)	6.1 (6.6)	160 (175)
330xd Coupé	9.1 (9.7)	5.5 (5.7)	6.8 (7.2)	178 (190)
335d Coupé[2)]	9.1	5.3	6.7	177
M3 Coupé[3)]	17.9	9.2	12.4	295
320i Convertible	9.0 (9.4)	5.2 (5.4)	6.6 (6.9)	157 (165)
325i Convertible	10.4 (10.6)	5.9 (6.1)	7.6 (7.8)	181 (187)
330i Convertible	10.5 (10.6)	6.0 (6.1)	7.7 (7.8)	185 (187)
335i Convertible	13.6 (13.4)	7.1 (7.2)	9.5 (9.5)	226 (226)
320d Convertible	6.9 (7.5)	4.3 (4.8)	5.3 (5.8)	140 (153)
325d Convertible	8.1 (8.6)	5.1 (5.6)	6.2 (6.7)	164 (176)
330d Convertible	8.6 (9.3)	5.3 (5.5)	6.5 (6.9)	170 (181)
M3 Convertible[3)]	18.7 (17.3)	9.6 (9.4)	12.9 (12.3)	309 (293)
520i Sedan	9.2 (9.4)	5.4 (5.4)	6.7 (6.9)	162 (164)
523i Sedan	10.1 (10.3)	5.7 (5.9)	7.3 (7.5)	174 (178)
525i Sedan	10.3 (10.4)	5.7 (5.8)	7.4 (7.5)	176 (178)
525xi Sedan	11.3 (11.2)	6.2 (6.3)	8.1 (8.1)	193 (193)
530i Sedan	10.9 (10.8)	5.8 (5.6)	7.7 (7.5)	182 (178)
530xi Sedan	11.5 (11.6)	6.2 (6.0)	8.2 (8.1)	194 (193)
540i Sedan	15.8 (14.4)	7.4 (6.9)	10.5 (9.7)	250 (232)
550i Sedan	16.6 (15.5)	7.6 (7.2)	10.9 (10.3)	260 (246)
520d Sedan	6.5 (7.5)	4.3 (4.6)	5.1 (5.6)	136 (149)
525d Sedan	8.2 (8.5)	5.0 (5.3)	6.2 (6.5)	165 (172)
525xd Sedan	8.8 (9.1)	5.4 (5.6)	6.7 (6.9)	179 (183)
530d Sedan	8.6 (9.1)	5.1 (5.2)	6.4 (6.6)	170 (176)
530xd Sedan	9.2 (9.6)	5.5 (5.5)	6.9 (7.0)	183 (186)
535d Sedan[2)]	9.0	5.4	6.7	178
M5[1)]	22.7	10.2	14.8	357
520i Touring	9.4 (9.5)	5.6 (5.5)	6.9 (7.0)	166 (167)
523i Touring	10.6 (10.6)	6.0 (6.0)	7.7 (7.7)	183 (184)
525i Touring	10.8 (10.7)	5.9 (6.0)	7.7 (7.7)	183 (184)
525xi Touring	11.8 (11.7)	6.4 (6.5)	8.4 (8.4)	201 (201)
530i Touring	11.1 (11.0)	6.0 (5.8)	7.9 (7.7)	187 (184)
530xi Touring	12.0 (12.1)	6.4 (6.3)	8.5 (8.4)	203 (201)
550i Touring	17.0 (16.1)	7.8 (7.5)	11.2 (10.7)	267 (254)
520d Touring	6.7 (7.7)	4.5 (4.7)	5.3 (5.8)	140 (154)

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2-emissions [g/km]
BMW				
525d Touring	8.4 (8.6)	5.2 (5.4)	6.4 (6.6)	171 (176)
525xd Touring	9.1 (9.2)	5.6 (5.7)	6.9 (7.0)	184 (187)
530d Touring	8.8 (9.3)	5.3 (5.3)	6.6 (6.8)	176 (180)
530xd Touring	9.6 (9.9)	5.8 (5.6)	7.2 (7.2)	192 (192)
535d Touring[2]	9.2	5.6	6.9	182
M5 Touring[1]	22.4	10.6	15.0	361
630i Coupé	11.2 (11.0)	6.0 (5.8)	7.9 (7.7)	188 (184)
650i Coupé	17.8 (15.9)	8.1 (7.4)	11.7 (10.5)	279 (249)
635d Coupé[2]	9.2	5.6	6.9	183
630i Convertible	11.8 (11.6)	6.3 (6.0)	8.3 (8.1)	198 (192)
650i Convertible	19.2 (16.5)	8.8 (7.7)	12.6 (10.9)	299 (258)
635d Convertible[2]	9.6	5.8	7.2	190
M6 Coupé[1]	21.4	10.2	14.3	342
M6 Convertible[1]	22.0	10.6	14.7	352
730i[2]	14.6	7.5	10.1	241
730Li[2]	14.6	7.5	10.1	242
740i[2]	16.3	8.2	11.2	267
740Li[2]	16.3	8.2	11.2	268
750i[2]	16.9	8.3	11.4	271
750Li[2]	16.9	8.3	11.4	272
760i[2]	20.7	9.5	13.6	327
760Li[2]	20.7	9.5	13.6	327
730d[2]	10.9	6.2	7.9	210
730Ld[2]	11.0	6.3	8.0	212
745d[2]	12.8	6.8	9.0	239
X3 2.0i[1]	12.6	6.9	9.0	215
X3 2.5si	12.8 (13.1)	7.3 (7.4)	9.3 (9.5)	224 (228)
X3 3.0si	13.4 (13.3)	7.3 (7.6)	9.5 (9.7)	229 (233)
X3 2.0d	8.2 (8.3)	5.5 (5.8)	6.5 (6.7)	172 (178)
X3 3.0d	9.7 (9.9)	6.0 (6.4)	7.4 (7.7)	196 (206)
X3 3.0sd[2]	9.7	6.7	7.8	208
X5 3.0si[2]	13.7	8.2	10.2	244
X5 4.8i[2]	16.9	9.2	12.0	286
X5 3.0d[2]	10.2	6.9	8.1	214
X5 3.0sd[2]	10.3	7.0	8.2	216
X6 xDrive35i[2]	14.9	8.6	10.9	262
X6 xDrive30d[2] (from 05/08)	10.4	7.0	8.2	217
X6 xDrive35d[2]	10.5	7.1	8.3	220
X6 xDrive50i[2] (from 05/08)	17.6	9.5	12.5	299
Z4 2.0i[1]	10.6	5.5	7.4	176
Z4 2.5i	11.8 (12.0)	6.1 (6.3)	8.2 (8.4)	197 (202)
Z4 2.5si	11.9 (12.4)	6.2 (6.6)	8.3 (8.7)	199 (207)
Z4 3.0si	12.4 (12.7)	6.2 (6.5)	8.5 (8.8)	204 (211)
Z4 3.0si Coupé	12.8 (12.7)	6.3 (6.5)	8.7 (8.8)	207 (209)
Z4 M Roadster[1]	18.2	8.6	12.1	292
Z4 M Coupé[1]	18.2	8.6	12.1	292

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2-emissions [g/km]
MINI				
MINI One	6.8 (9.0)	4.4 (5.0)	5.3 (6.5)	128 (155)
MINI One Convertible[1]	9.8	5.4	7.0	168
MINI Cooper	6.9 (9.1)	4.5 (5.0)	5.4 (6.5)	129 (156)
MINI Cooper Convertible	10.0 (10.7)	5.7 (5.8)	7.3 (7.6)	174 (182)
MINI Cooper D	4.7 (6.5)	3.5 (4.2)	3.9 (5.0)	104 (134)
MINI Cooper S	7.9 (9.7)	5.2 (5.3)	6.2 (6.9)	149 (165)
MINI Cooper S Convertible	11.3 (12.7)	6.6 (6.4)	8.3 (8.7)	199 (208)
MINI Cooper Clubman	7.1 (9.2)	4.5 (5.1)	5.5 (6.6)	132 (159)
MINI Cooper D Clubman	4.9 (6.6)	3.6 (4.2)	4.1 (5.1)	109 (136)
MINI Cooper S Clubman	8.0 (9.8)	5.3 (5.4)	6.3 (7.0)	150 (168)
Rolls-Royce				
Rolls-Royce Phantom[2]	23.2	11.3	15.7	377
Rolls-Royce Phantom				
Long wheelbase[2]	23.3	11.4	15.8	380
Rolls-Royce Phantom				
Drophead Coupé[2]	23.2	11.3	15.7	377

Figures in brackets only valid for automatic transmissions
1] only available with manual transmission.
2] only available with automatic transmission.
3] Values in brackets are valid for 7-gear M dual clutch transmission with Drivelogic

Further information and constantly updated data for the vehicles is available on the Internet at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.

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