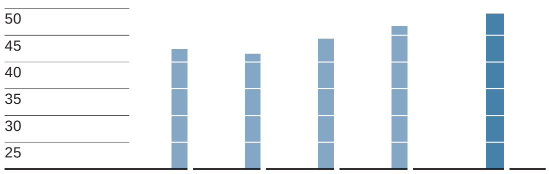
Annual Report 2006

Rolls-Royce
Motor Cars Limited

BMW Group

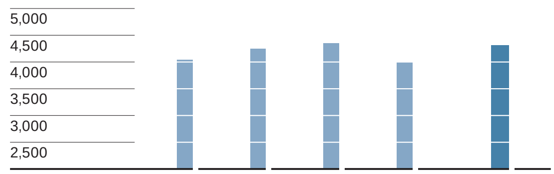
BMW Group Revenues
in euro billion



02*	03	04	05	**06**
42.4	41.5	44.3	46.7	**49.0**

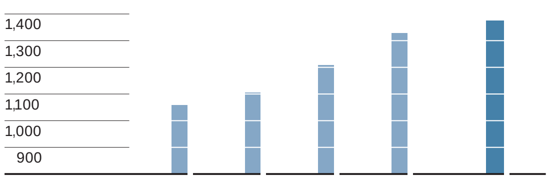
* reclassified after harmonisation of internal and external reporting systems

BMW Group Capital expenditure
in euro million



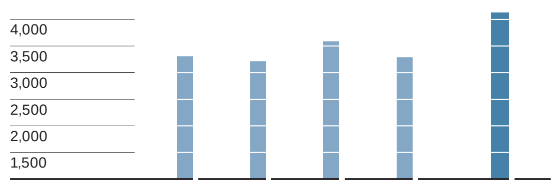
02	03	04	05	**06**
4,042	4,245	4,347	3,993	**4,313**

BMW Group Deliveries of automobiles
in thousand



02	03	04	05	**06**
1,057.3	1,104.9	1,208.7	1,328.0	**1,374.0**

BMW Group Profit before tax
in euro million



02	03	04*	05	**06**
3,297	3,205	3,583	3,287	**4,124**

* 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 a stock corporation (Aktiengesellschaft) 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 BMW Group aims to generate profitable growth and above-average returns by focusing on the premium segments of the international automobile markets. With this in mind, a wide-ranging product and market offensive was initiated back in 2001, which has resulted, over the past years, in the BMW Group expanding its product range considerably and strengthening its worldwide market position. The BMW Group will continue in this vein in the coming years.

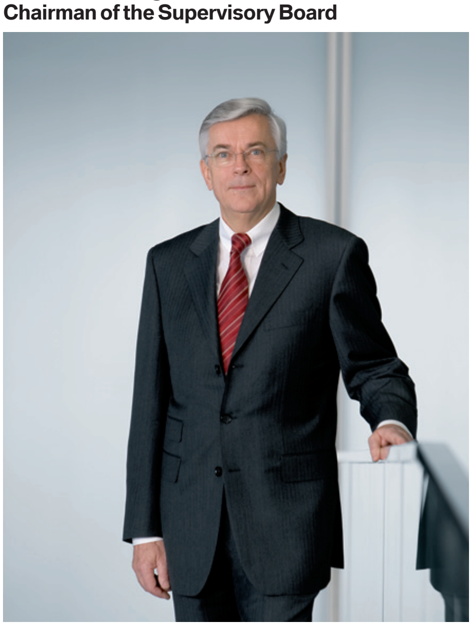
BMW Group in figures

	2002	2003	2004	2005	2006	Change in %
Vehicle production						
BMW	930,221	944,072	1,059,978	1,122,308	1,179,317	5.1
MINI	160,037	174,366	189,492	200,119	186,674	– 6.7
Rolls-Royce	–	502	875	692	847	22.4
Motorcycles [1]	93,010	89,745	93,836	92,012	103,759	12.8
Deliveries to customers						
BMW	913,225	928,151	1,023,583	1,126,768	1,185,088	5.2
MINI	144,119	176,465	184,357	200,428	188,077	– 6.2
Rolls-Royce	–	300	792	796	805	1.1
Motorcycles [2]	92,599	92,962	92,266	97,474	100,064	2.7
Workforce at end of year [3]	101,395	104,342	105,972	105,798 [4]	106,575	0.7

in euro million	2002	2003	2004	2005	2006	Change in %
Revenues	42,411 [5]	41,525	44,335	46,656	48,999	5.0
Capital expenditure	4,042	4,245	4,347	3,993	4,313	8.0
Depreciation and amortisation	2,143	2,370	2,672	3,025	3,272	8.2
Operating cash flow [7]	4,553	4,970	6,157	6,184	5,373	– 13.1
Profit before tax	3,297	3,205	3,583 [6]	3,287	4,124	25.5
Net profit	2,020	1,947	2,242 [6]	2,239	2,874	28.4

1] excluding C1, total production of the C1 to 2002: 33,489 units, 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 106,174 employees at 31 December 2005.
5] reclassified after harmonisation of internal and external reporting systems
6] adjusted for new accounting treatment of pension obligations
7] 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,

Over the course of the financial year 2006, the most successful year ever recorded in the history of the BMW Group, the Supervisory Board closely monitored the company's management with the aid of extensive written and oral reports provided by the Board of Management and continuously supported it in an advisory capacity through regular discussions.

In a total of five meetings, the Supervisory Board considered the business and financial position of the BMW Group, its risk analysis and risk management systems, selected topics of strategic interest as well as the composition of the Board of Management. The Board of Management also kept the Supervisory Board informed of current business developments and matters of particular significance, either at scheduled meetings or at other times when the need arose.

Decisions concerning changes in the Board of Management stood at the forefront of the July 2006 Supervisory Board meeting.

Dr. Norbert Reithofer, at that stage the Board of Management member responsible for Production, was named to succeed Dr. Helmut Panke as Chairman of the Board of Management with effect from 1 September 2006.

In his capacity as Chairman of the Board of Management from 2002 to 2006, Dr. Panke was responsible for leading the BMW Group to unprecedented success and the positive image of the BMW Group was indelibly shaped by his personality. On 31 August 2006, Dr. Panke left the Board of Management after a total of 24 years in the service of the company, including six years of board membership and a further four years as Chairman of the Board of Management. He handed over the helm at a time where the BMW Group is able to present itself in a position of both inward and outward strength. The Supervisory Board would like to take this opportunity to express its great respect for, and appreciation of, this achievement.

Also at the Supervisory Board meeting in July 2006, Frank-Peter Arndt, at that stage Head of the Dingolfing Plant, was appointed Board of Management member with responsibility for Production with effect from 1 September 2006.

Prof. Dr. Burkhard Göschel, who had been responsible for Development and Purchasing since 2000, left the Board of Management with effect from 31 October 2006. The Supervisory Board would like to thank Prof. Dr. Göschel for his outstanding accomplishments in the service of the BMW Group (since 1978) and as a member of the Board of Management (since 2000).

Dr. Klaus Draeger was appointed to succeed Prof. Dr. Göschel as member of the Board of Management with effect from 1 November 2006. Dr. Draeger had previously occupied the post of Head of Department with responsibility for the Group’s large-size model series (the BMW 7, 6 and 5 Series).

Deliberations on the future strategic orientation of the BMW Group constituted another key area of activity for the Supervisory Board during 2006. Based on written and oral reports received from the Board of Management, the Supervisory Board intensively considered the premium strategy, currently being followed by the Board of Management, aimed at sustainable growth and long-term corporate appreciation in value. This strategic orientation is also the subject of a continuing exchange of views between the Chairman of the Supervisory Board on the one side and the Chairman of the Board of Management on the other. The Supervisory Board supports the strategy pursued by the Board of Management, namely continuing the new model product initiative implemented over recent years, remaining committed to the premium car and motorcycle markets and expanding the BMW Group’s financial service activities.

The two boards also discussed the market opportunities available to the group, especially in Asia, as well as other measures aimed at expanding the BMW Group’s market presence. In this context, the members of the Supervisory Board were shown the extended version of the BMW 5 Series Sedan, a vehicle specifically designed for the Chinese market and on sale there since December 2006.

The Supervisory Board was also kept informed about the construction of a new plant in India and the current progress of a new production and sales company which is being set up for that market.

The Supervisory Board also followed with great interest the Board of Management’s activities regarding the continuing expansion of the BMW Group’s production network. The Supervisory Board obtained information about significant areas of capital expenditure in 2006 which are aimed at reinforcing the underlying strength of the production network and, at the same time, creating the basis for further sales volume growth. Particularly noteworthy developments in this respect have been the expansion of production capacities for the MINI in the United Kingdom and modifications at the BMW Spartanburg plant in the USA for the manufacture of the new BMW X5.

In the view of the Supervisory Board, the on-going efficiency improvement measures implemented in all lines of business have further strengthened the competitiveness of the BMW Group. The Supervisory Board was kept informed by the Board of Management of the nature and the progress of measures taken and their successful implementation.

The Supervisory Board used the business status reports prepared by the Board of Management for each Supervisory meeting to keep abreast of business performance, including that of the Financial Services and Motorcycles segments. These business status reports also provided information about the situation of competitors in the major markets, the fluctuation of the euro against the US dollar and other important currencies, the BMW Group's currency management strategy and, in particular, its sales volume performance.

The Board of Management also informed the Supervisory Board of the progress of the share buy-back programme and the decision to withdraw these shares from circulation with a view to reducing the company's outstanding share capital. The Supervisory Board subsequently amended the wording of the Articles of Incorporation to take account of the reduced share capital.

As a special topic, the Supervisory Board deliberated intensively in 2006 on the Motorcycles segment, including a review of the renewal of production structures at the Berlin plant and the Board of Management's continued model range expansion, intended to attract new target groups.

The Supervisory Board discussed in detail with the Board of Management both the annual budget for the financial year 2007 and the long-term business plan for the BMW Group presented to it for authorisation. The long-term business plan was approved as necessary.

During the financial year 2006, 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 pursuant to §161 AktG. Having been satisfied that the Code's recommendations had been fulfilled in accordance with the previous Declaration of Compliance (subject to a small number of exceptions stated therein), the Board of Management and the Supervisory Board took the decision to fulfil all of the recommendations contained in the revised version of the Code on 24 July 2006, with a single 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 conjunction with the Disclosure of Management Board Compensation Act (VorstOG), listed companies in Germany are now required to disclose details of the remuneration of Board of Management members, analysed individually. In advance of the Annual General Meeting in 2006, the two boards had decided not to apply the option of proposing an exception to the Annual General Meeting 2006, but rather to comply with the legal requirements. BMW AG is thus required to meet the disclosure requirements for the first time for the financial year 2006. 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.

The Supervisory Board also questioned the effectiveness of its own work and perceives improvements in cooperation to be part of an on-going process.

The composition of the Presiding Board and the three committees of the Supervisory Board (see page 116) again remained unchanged during the financial year 2006. The Chairman reported regularly at Supervisory Board meetings on the status of committee work.

The focus of each of the four meetings held by the Presiding Board was to prepare the plenum meetings, in particular the selection of special topics of report and to hold preparatory discussions on the more complex topics with members of the Board of Management. The Presiding Board also requested the new Chairman of the Board of Management to report on the main focuses of the group's future orientation. Information was also acquired about new legislation in Germany, such as the Takeover Guidelines Implementation Act, affecting the duties of the Supervisory Board.

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 2006, the main purpose of which was to consider the drafts of the Company and Group financial statements. Apart from scrutinising the drafts, the Audit Committee also obtained a Declaration of Independence from the external auditors and determined the areas of audit emphasis to be incorporated into the audit engagement letter. The Audit Committee also enquired into the impact of settling the exchangeable bond on shares in Rolls-Royce plc, London. A further Audit Committee meeting was dedicated to the consideration of risk management issues, including the evaluation of currency risks and anti-fraud management. The Audit Committee also gathered information about forthcoming changes in law, such as the new Transparency Guidelines Implementation Act that came into force on 20 January 2007.

The main activity of the six meetings of the Personnel Committee in 2006 involved the preparation of decisions relating to the composition of the Board of Management, in particular determining the short-list of candidates for the positions of Chairman of the Board of Management and other board positions. The Personnel Committee also reviewed the appropriateness of the compensation of the members of the Board of Management, in comparison with the automotive industry and other DAX-listed companies, drafted resolutions regarding the employment contracts of Board of Management members and, in a number of cases, approved the assumption of external mandates by Board members.

The statutory Mediation Committee (§ 27 (3) of the German Co-Determination Law) was not required to convene during the financial year 2006.

The Company and Group financial statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2006 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion. First, the Audit Committee on 2 March 2007 and then, the Supervisory Board on 8 March 2007, examined and considered the above-mentioned statements prepared by the Board of Management. The external auditors were present at both meetings to report on the main findings of their audit and to provide additional information. The long-form audit reports of the external auditors were made available to all members of the Supervisory Board. 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 2006 prepared by the Board of Management. The Company financial statements are therefore adopted.

In accordance with the Takeover Guidelines Implementation Act that came into force in mid-2006, the combined Company and Group management report also contains additional information. Detailed disclosures, to which reference is made here, are provided on pages 41 et seq. of the Annual Report. The principal agreements to which BMW AG is party and which contain specific clauses that are triggered in the event of a change of control or the acquisition of control (e.g. as a consequence of a takeover bid) are disclosed there. Some of these relate to cooperation or joint venture contracts with mutual change of control clauses (i.e. which also confer rights on BMW AG) as well as specific financing agreements with change of control clauses which take account of the legitimate interests of the lender. 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.

The Board of Management’s proposal to use the unappropriated profit available for distribution was reviewed by the Supervisory Board. The Supervisory Board concurs with the proposal submitted by the Board of Management to pay a dividend of euro 0.70 for each share of common stock entitled to receive a dividend and to pay a dividend of euro 0.72 for each share of non-voting preferred stock entitled to receive a dividend.

In accordance with the conclusion reached on the Supervisory Board's examination, no objections were raised.

As announced in the previous year Annual Report, Mr. Volker Doppelfeld's term of office in the Supervisory Board came to an end of the close of the Annual General Meeting on 16 May 2006 after many years of highly distinguished service. Having reached the age of retirement, Mr. Doppelfeld did not stand for re-election. The Supervisory Board took the opportunity of paying tribute to Mr. Doppelfeld in the presence of shareholders at the last Annual General Meeting.

Two further changes took place to the composition of the Supervisory Board during or at the end of the financial year 2006. Heinz-Joachim Neubürger was appointed member of the Supervisory Board at the Annual General Meeting on 16 May 2006. Werner Eisgruber took the decision, with the full understanding of the Supervisory Board, to resign from his office as employee representative on the Supervisory Board at the end of the financial year. The Supervisory Board would like to thank Mr. Eisgruber for his trustworthy and excellent cooperation. The premature departure of Mr. Eisgruber left the Supervisory Board incomplete. Stefan Schmid, Chairman of the Works Council at the Dingolfing plant, was thereupon appointed to the Supervisory Board by court decision as employee representative on 3 January 2007.

The Supervisory Board would like to thank the board members leaving office and those still in office as well as all BMW Group employees for their concerted performance and congratulate them on the success achieved in the financial year 2006.

Munich, March 2007
The Supervisory Board

Yours,

Joachim Milberg
Chairman of the Supervisory Board

Group Management Report
A Review of the Financial Year

BMW Group reports the most successful year in its corporate history

The BMW Group achieved record levels for sales volume, revenues and earnings in 2006. The past year has therefore been the most successful in the Group's corporate history. In spite of adverse effects from foreign exchange and high raw material prices holding down the increase in reported results, the BMW Group was able to achieve, and in some areas do even better than the targets it had set itself for 2006.

Within the automobile line of business, the total number of BMW, MINI and Rolls-Royce brand cars sold increased by 3.5 % to a total of 1,373,970 vehicles. The anticipated seasonal effect, caused by base effects during the first half of the year and by numerous model life-cycle factors over the course of the year, was evident. This caused the sales volume to increase significantly more sharply during the first half of year than in the second half.

Within the motorcycles line of business, the efficiency improvement measures initiated in 2005 started taking effect, bringing about the desired improvement in competitiveness. For the first time in its corporate history, more than 100,000 BMW motorcycles were manufactured and sold in a single year.

The financial services business remained on growth course in 2006. On the one hand, higher interest rates and the related increase in refinancing costs had the expected adverse impact on reported results. However, by optimising processes, expanding the range of products and increasing regional coverage, it was possible to implement suitable measures to counter the adverse impact.

Reconciliations to group profit were again influenced significantly by external factors in 2006, in particular by the impact of the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London. In 2005, the bond had given rise to fair value losses of euro 356 million. By contrast, the exchangeable bond gave rise to an accounting gain of euro 372 million in 2006, which had a positive impact on reconciliations to group profit and thus to the earnings of the BMW Group for the year.

Sharp increase in earnings

Profit before tax surpassed the euro 4 billion level for the first time in 2006. At euro 4,124 million, the previous year's figure was exceeded by 25.5 %. Even excluding the impact of the exchangeable bond relating to the BMW Group investment in Rolls-Royce plc, London, profit before tax improved by 3.0 % compared to the previous year.

The adverse effects from foreign exchange and high raw material prices were felt most by the Automobiles segment. The segment profit, at euro 3,012 million, was nevertheless up by 1.2 % over the previous year.

The profit before tax of the Motorcycles segment rose by 10.0 % to euro 66 million. The main factors behind this positive development were the process optimisation and efficiency improvement measures initiated in the previous year.

Earnings of the Financial Services segment continued to develop well on the back of unabated growth. Segment profit before tax amounted to euro 685 million, surpassing the previous year's figure by 13.2 %.

As a result of various positive tax factors, in particular in Germany, the effective tax rate of the BMW Group in 2006, at 30.3 %, was just below the previous year's level (31.9 %).

The group net profit for 2006, at euro 2,874 million, was also at a new high level. The previous year's figure was surpassed by 28.4 %.

Increased dividend proposed

The Board of Management and Supervisory Board propose to the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG amounting to euro 458 million, to pay a dividend of euro 0.70 for each share of common stock (2005: euro 0.64), an increase of 9.4 % over the previous year and euro 0.72 for each share of preferred stock, an increase of 9.1 % over the previous year (2005: euro 0.66).

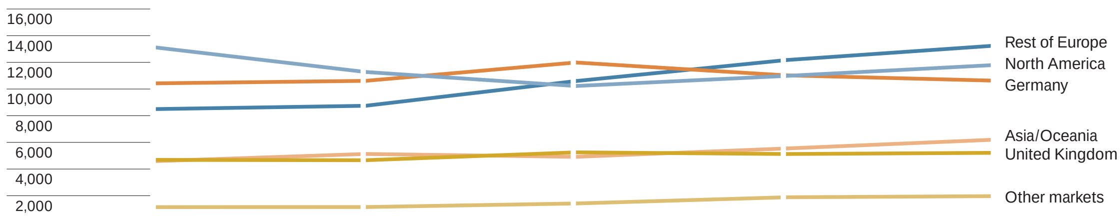
Revenues at new high level

The good sales volume performance and the continued strong growth of financial services business resulted in a sharp increase in group revenues. These rose in 2006 by 5.0 % to euro 48,999 million. Excluding currency fluctuations, group revenues would have increased by 5.5 %.

Revenues generated by the Automobiles segment grew by 4.2 % in 2006 to reach euro 47,767 million, therefore increasing marginally faster than sales volume.

Revenues generated by the Motorcycles segment in 2006 were up by 3.4 % compared to the previous year, reaching a total of euro 1,265 million. The current product initiative again had a positive impact on segment revenues.

BMW Group Revenues by region
in euro million



	02	03	04	05	**06**
Rest of Europe	8,481	8,728	10,574	12,141	13,226
North America	13,085	11,252	10,205	10,957	11,779
Germany	10,404	10,590	11,961	11,001	10,601
Asia/Oceania	4,594	5,130	4,915	5,538	6,200
United Kingdom	4,687	4,661	5,249	5,125	5,214
Other markets	1,160	1,164	1,431	1,894	1,979

Revenues generated by the Financial Services segment rose by 17.8 % in 2006 to euro 11,079 million.

Increased capital expenditure

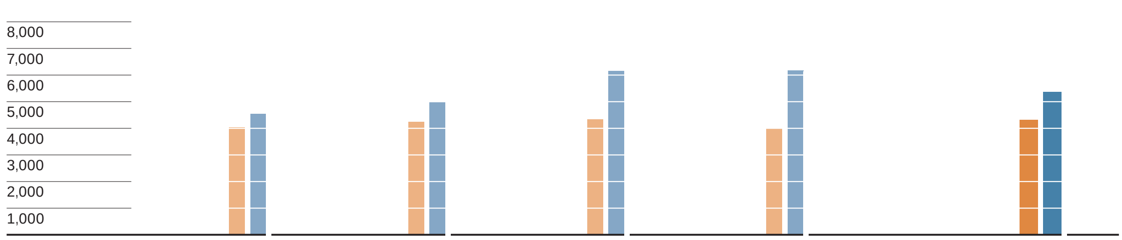
In 2006, the BMW Group invested primarily in the further expansion of its production and sales networks. Important areas of capital expenditure included expansion of the MINI Production Triangle, modification work at the BMW plant in Spartanburg, refurbishment of the group's headquarters and construction of "BMW Welt", the new brand experience centre in Munich.

In 2006, the BMW Group invested euro 2,777 million in property, plant and equipment and other intangible assets, 6.9 % more than in the previous year. In addition to this, development expenditure of euro 1,536 million (2005: euro 1,396 million; +10.0 %) was recognised as assets in accordance with IAS 38 so that total additions in 2006 amounted to euro 4,313 million. Overall, total capital expenditure of the BMW Group in 2006 was therefore up by 8.0 %.

As in the previous year, increased capitalised development costs resulted from the higher volume of series development projects carried out during the year under report. The proportion of development costs recognised as assets in 2006 was 47.9 % (2005: 44.8 %).

The capital expenditure ratio in 2006 (i.e. the ratio of capital expenditure to group revenues) increased slightly in 2006 and stood at 8.8 % (2005: 8.6 %).

BMW Group Capital expenditure and operating cash flow
in euro million



	02	03	04	05	**06**
Capital expenditure	4,042	4,245	4,347	3,993	4,313
Operating cash flow	4,553	4,970	6,157*	6,184	5,373

* 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.

Business environment

Economic developments in 2006

The global economy grew strongly again in 2006. For the most part, growth rates were even higher than in the previous year despite the greater impact of adverse factors. Higher interest rates worldwide and further hikes in the price of crude oil and other raw materials were the main reasons for higher costs for businesses and the further reduction in consumer buying power.

The US economy grew at a rate of 3.3 % in 2006. It was initially able to maintain its role as the motor for the global economy but, since the summer, there has been a noticeable deceleration in the pace of growth. Amongst other factors, the sharp rise in interest rate levels slowed down the property boom. By contrast, the unemployment situation had improved by the end of the year. In general, private consumption continued to provide momentum, whereas investments were significantly down. Exports again failed to contribute to growth, with the current account deficit refusing to shift from a level of well over 6 % of gross domestic product.

In the euro region, gross domestic product grew strongly by 2.7 % in 2006, performing dynamically again for the first time in years. The main factors contributing to this development were continuing high investment levels and rising private consumer expenditure. Overall, however, despite the sharp growth in exports, the current account for the euro region was still negative. The improved performance tailed off slightly towards the year-end.

The German economy grew by 2.5 % in 2006. In addition to the continuing boom in investments and exports, after a considerable absence, consumer expenditure edged up, to a large extent brought forward into 2006 in the light of the value added tax increase at the beginning of 2007. On top of that, the construction industry was able to overcome the crisis it has been facing ever since reunification and, once again, make a positive contribution to growth.

The economies of new EU member states again performed well in 2006. This was underpinned in all of the countries involved by very dynamic export performances and robust domestic economies.

In 2006, the Japanese economy grew at about 2 %, matching the previous year's growth rate and confirming the end of a long weak phase. The sources of growth in 2006 were well-balanced, driven by both domestic and export factors; gradually, deflationary trends also appear to have been overcome.

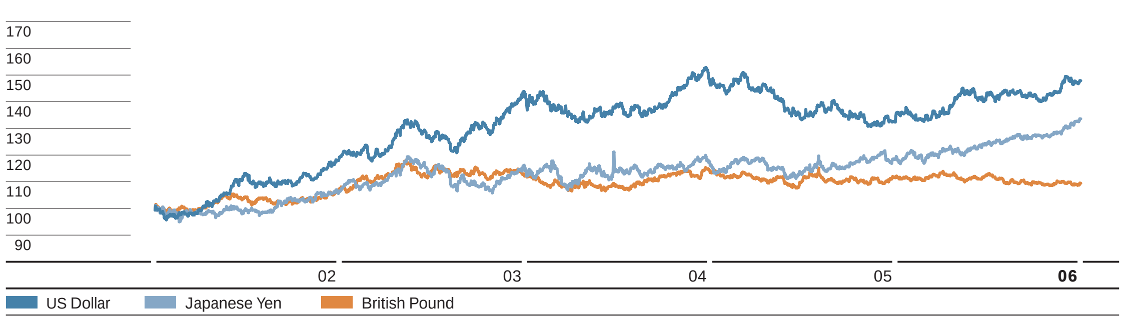
The emerging Asian countries again registered the strongest growth rates in 2006. While the Indian economy expanded by more than 8 %, the Chinese gross domestic product again grew at a rate in excess of 10 %. South-East Asian economies grew on average by approximately 5.5 %.

US dollar loses value over course of year

The US dollar again lost value against the euro over the course of 2006. Compared to an exchange rate of US dollar 1.18 to the euro at the beginning of the year, the US currency slipped to a rate of over US dollar 1.33 to the euro over the course of the year, finishing at US dollar 1.32 to the euro and therefore 11.9 % weaker than at the beginning of the year.

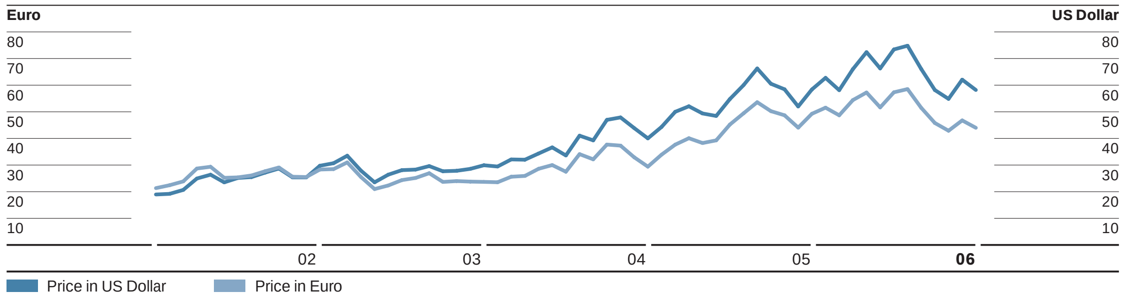
Although the British pound remained within its longstanding range of GBP 0.70 and 0.67 to the euro, it has shown signs of strengthening since the middle of the year.

Exchange rates compared to the Euro
(Index: 31 December 2001 = 100)



Source: Reuters

Oil price
Price per barrel of Brent Crude



Source: Reuters

The Japanese yen has significantly lost in value since mid-2005, standing at Yen 157 to the euro at the end of 2006. In view of the robust performance of the Japanese economy, the end of deflation and the fact that interest rates are again on the rise, the Japanese currency is distinctly undervalued.

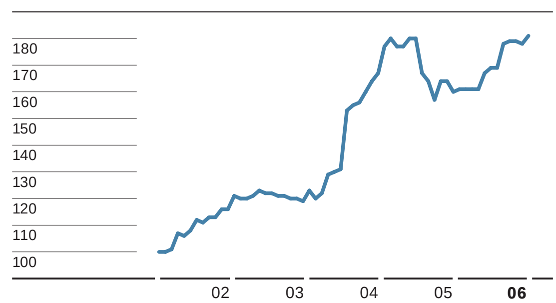
Raw material prices: further increases over course of 2006

Initially, oil prices continued to rise in 2006. This was caused as much by persisting shortages in oil production and processing capacities as by increased demand for oil. After peaking in the summer at prices in the region of US dollar 80 per barrel, oil prices then decreased sharply, settling towards the year-end, partly as a result of the slow-down in the rise of demand, at approximately US dollar 60 per barrel.

On the steel market, the 2005 price reductions were completely reversed. In fact, prices even moved above the high levels seen at the beginning of 2005.

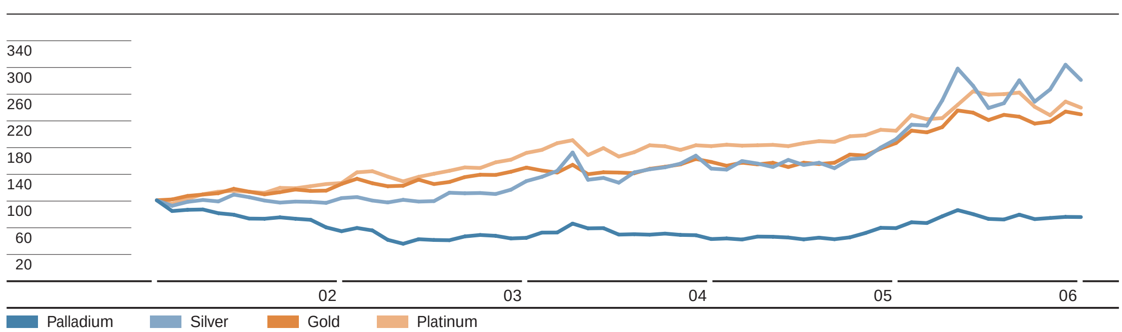
The price of precious metals has been rising for several years. During the first half of 2006, the pace of increase accelerated even faster in some cases. Market prices dipped a little during the summer months before stabilising at a high level towards the end of the year. Despite the slowdown of the global economy towards the end of 2006, demand for commodities remained strong, even as an investment.

Steel price trend
(Index: January 2002 = 100)



Source: German Federal Statistical Agency

Precious metals price trend
(Index: 31 December 2001 = 100)



Source: Reuters

Automobile markets in 2006

As in previous years, the demand for cars again grew strongly in 2006. The premium segments relevant for the BMW Group also expanded in 2006, with the segment relevant for the BMW and MINI brands growing by 2.8 % and 5.7 % respectively. This development was influenced once again by dynamic growth in the emerging economies of Asia and Latin America, whereas the traditional car markets (USA, Japan and Western Europe) recorded zero or even negative growth.

The number of cars sold in the USA decreased by approximately 2.6 % in 2006 to 16.5 million units (light vehicles). Light trucks in particular experienced a sharp volume drop as a consequence of the sharp rise in fuel prices. The market share held by US manufacturers declined once again in 2006.

The number of new registrations in Western Europe climbed slightly to 14.6 million passenger cars. This was mainly attributable to the sharp increase recorded in Germany, which can be put down to the effect of the value added tax increase from the beginning of 2007. Overall, the German market expanded by almost 4 %. Whilst Italy, and above all the Benelux and Northern European countries developed positively, most other southern European countries, in particular Portugal, saw volumes falling, in some cases quite sharply. The number of cars sold in the United Kingdom and France fell by almost 4 % and 3 % respectively, once again well below the previous year’s figures.

In Eastern Europe, the automobile market was once again able to register a small increase, expanding by more than 2 % in 2006. The main factor here was the stabilisation of the Polish market which, due to the high volume of imported used cars, had slumped in recent years. The Russian automobile market continued to enjoy a strong upturn, growing at a double-digit rate of 12 %.

The automobile markets in emerging Asian economies again expanded rapidly in 2006. Strong momentum came from the Chinese market, which grew by more than a quarter. Sales in India again increased more strongly, rising by approximately 17 %. South Korea was able to follow up the previous year’s good performance with a similar growth rate of 5 %. In Japan, the automobile market remained out of line with the economic cycle. Despite the good economic outlook, sales here contracted by 2 %.

The growth rate in Latin America stabilised at a high level. Automobile markets in this part of the world benefited from the current robust economic situation. The sales volume in both Argentina and Brazil grew sharply.

Motorcycle markets in 2006

The motorcycle markets relevant for the BMW Group again developed divergently in 2006. The 500 cc plus motorcycles segment relevant for the BMW Group grew by 8.6 % compared to one year earlier. The USA, the world’s largest market for motorcycles, recorded a 5.5 % increase in the 500 cc plus segment. In Germany, the BMW Group’s largest single market, demand for motorcycles contracted for the seventh year in succession. However, a decrease of 2.4 % represented a significant slow-down in the trend.

In the rest of Europe, and in Southern Europe in particular, motorcycle markets developed well. In Italy, the 500 cc plus motorcycle market grew by 10.2 % and in Spain, the same market expanded by a remarkable 45.5 %. After four years of consolidation, the Japanese market for the motorcycle segment relevant to the BMW Group finally grew again, picking up by 10.3 %.

Business environment for financial services in 2006

Financial services business in 2006 was influenced by an increase in interest rates on the money and capital markets, particularly in the USA and the euro region, and by the tighter monetary policies pursued by the world’s main central banks. During 2006, the US Federal Reserve Bank increased key lending rates in small steps from 4.25 % to 5.25 %. The European Central Bank continued to pursue its policy of tighter monetary control, increasing the key lending rate over the course of the year by a total of 125 basis points to 3.5 % at 31 December 2006. In addition, the market for automobile-related financial services is still characterised by intense competition. This is particularly due to the fact that banks are now focusing more on private consumer business and because other manufacturer-related financial service providers are also more willing to finance other manufacturers’ brands.

New record car sales volume figure

In 2006, the BMW Group achieved a new record car sales volume figure for its BMW, MINI and Rolls-Royce brands. With 1,373,970 vehicles sold, the total sales volume was 3.5 % higher than one year earlier.

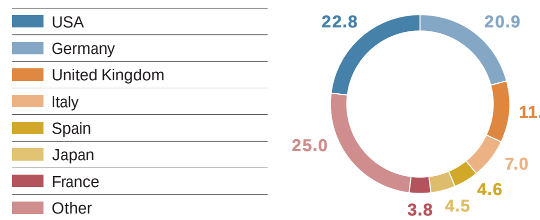
The BMW brand's contribution to this achievement was a sales volume of 1,185,088 units, 5.2 % more than in the previous year. Due to restricted availability caused by capacity extension measures at the Oxford plant and preparations for the launch of the second MINI generation, the sales volume for the MINI brand fell by 6.2 % to 188,077 units in 2006. A total of 805 Rolls-Royce Phantom was handed over to customers in the course of 2006, 1.1 % more than in the previous year.

Sales volume increases in nearly all markets

The BMW Group sold 337,354 BMW, MINI and Rolls-Royce automobiles in North America in 2006, 2.6 % above the previous year's figure. 313,921 vehicles were sold in the USA, the BMW Group's largest single market, representing an increase of 2.1 % compared to the previous year.

In Europe, where a sales volume of 816,829 units was recorded, the BMW Group sold 1.7 % more cars than in 2005. In the two largest markets in Europe (Germany and the United Kingdom), model life-cycle factors relating to the BMW brand and restricted availability of the MINI both had a major impact on sales volumes. In Germany, the sales volume recorded by the BMW Group fell by 2.8 % to 287,715 units. In the United Kingdom, it edged down by 1.4 % to 154,069 units. The number of cars sold on the remaining major European markets either remained at, or surpassed, the previous year's level. In Italy, the BMW Group sold 96,462 units, 6.8 % more than in the previous year. The total number of cars sold in Spain (63,043 units), increased by 12.6 %. At 52,884 units, the sales volume in France remained at a similar level to the previous year (– 0.1 %).

BMW Group – key automobile markets 2006
as a percentage of sales volume

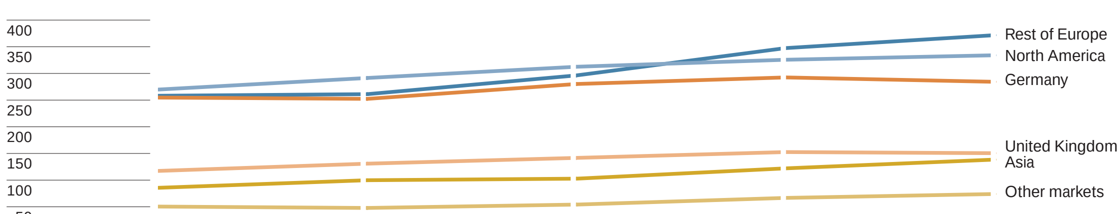


The BMW Group achieved its highest growth rates in 2006 on the Asian markets. With 142,084 vehicles sold, the total sales volume was 13.0 % higher than one year earlier. In Japan, the BMW Group's largest single market in Asia, the increase was 5.6 %, with 62,115 units handed over to customers. The Chinese markets (China, Hong Kong, Taiwan) recorded the highest growth rate. 44,766 units were sold here, up by 35.4 % against the previous year's figure.

The BMW brand remains the world's most successful premium car brand

With 1,185,088 units sold, the sales volume of BMW brand cars in 2006 beat the previous year's high level by 5.2 %. This enabled the BMW brand to recapture the top position at the head of the premium segment.

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



	02	03	04	05	**06**
Rest of Europe	261.6	264.6	299.7	350.8	375.0
North America	273.2	294.9	315.9	329.0	337.4
Germany	258.2	255.8	283.6	295.9	287.7
United Kingdom	120.9	134.5	145.3	156.2	154.1
Asia	89.3	103.5	106.4	125.7	142.1
Other markets	54.2	51.6	57.9	70.4	77.7

* including Rolls-Royce from 2003 onwards

The sales volume of the BMW 1 Series in 2006, with 151,918 cars handed over to customers during the year, was 1.6 % ahead of the previous year. The revised BMW 1 Series becomes available from March onwards and will be followed by the new three-door version from May onwards.

The number of BMW 3 Series vehicles delivered to customers rose sharply in 2006. In total, 508,479 BMW 3 Series cars were sold, representing an increase of 17.1 % over the previous year. Since the market introduction of the new BMW 3 Series Coupé in September 2006, sales of this model have developed exceptionally well. 22,105 units were sold in the fourth quarter 2006 alone, more than three times the number of cars (+ 244.5 %) sold in the corresponding prior year quarter. Over the course of the whole year, the sales volume of the BMW 3 Series Coupé rose by 29.3 % to 41,185 units.

336,232 BMW 3 Series Sedan were delivered to customers in 2006, 12.0 % more than one year earlier. In its first full year on the markets, the sales volume of the BMW 3 Series Touring took a 64.1 % leap to 105,483 deliveries. Due to model life-cycle factors, the sales volume of the BMW 3 Series Convertible fell by 20.3 % to 25,235 units. Demand will be revived by the market introduction of the successor model in March 2007.

The BMW 5 Series recorded a sales volume of 232,193 units, edging up 1.7 % compared to the previous year. This includes 182,539 units (+ 2.7 %) of the BMW 5 Series Sedan and 49,654 units (– 2.0 %) of the BMW 5 Series Touring. An extended version of the BMW 5 Series has been developed specifically for the Chinese markets and has been available there since December.

Sales of the BMW 6 Series were down by 6.0 % to 21,947 units. The sales volume of the BMW 6 Series Coupé decreased by 4.1 % to 11,941 units, and that of the BMW 6 Series Convertible by 8.1 % to 10,006 units.

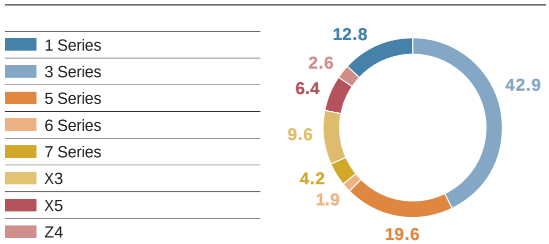
With 50,227 Sedans sold, the sales volume of the BMW 7 Series reached the previous year's level (+ 0.3 %). The sales performance of the BMW 7 Series in China (Mainland) was particularly encouraging; with a sales volume of 7,522 units, this model managed to achieve market leadership in its segment.

The updated Sports Activity Vehicle BMW X3 has been available to customers since September. Compared to the previous year, the sales volume of the BMW X3 increased by 3.0 % in 2006 to a total of 114,000 units.

Seven years on from the market introduction of the first BMW X5, the second generation of this highly successful model has been available since November 2006, initially on the American market. The fact that this model only became available so late in the year meant that it has not yet had a great impact on the annual sales volume. As a result of model life-cycle factors, 75,321 units were sold in 2006, 25.8 % fewer than in the previous year. The BMW X5 will become available in Europe from March 2007 onwards, which is expected to cause a sharp increase in sales volume.

New models and model improvement measures made to the BMW Z4 had a positive impact on sales volume. The updated BMW Z4 Roadster and BMW Z4 M Roadster models have been available on the markets since March and the new BMW Z4 Coupé and BMW Z4 M Coupé models since June. In total, the sales volume of the various BMW Z4 models increased by 7.5 % in 2006 to 30,981 cars.

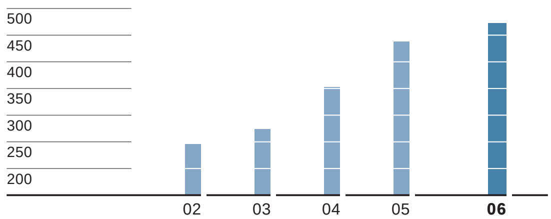
BMW brand cars in 2006 – analysis by series
as a percentage of total BMW brand sales volume



Proportion of cars with diesel engines slightly higher

The proportion of diesel-powered BMW cars is steadily increasing. Altogether 40 % of BMW cars sold in 2006 were equipped with a diesel engine. The percentages for 2005 and 2004 were 39 % and 34 % respectively. In many European markets, the number of diesel cars sold well exceeds the number of petrol cars sold. The highest proportion in Europe is in Portugal where 91 % of all BMW vehicles sold were diesel-driven. The proportion of diesel-powered BMW cars is also very high in France (90 %) and Italy (89 %). In absolute terms, the highest numbers of BMW cars with diesel engines

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



	02	03	04	05	06
units	245.9	273.7	352.5	438.3	472.7
as a percentage of total volume	27	29	34	39	40

are sold in Germany. 153,940 diesel-powered BMW cars were sold in 2006, equivalent to 59 % of the total sales volume on this market.

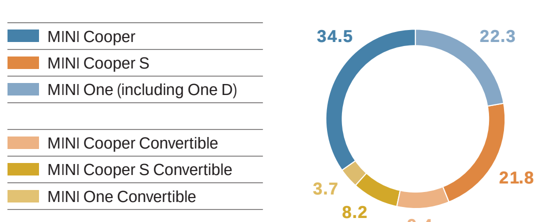
Prior to the Los Angeles Auto Show, the BMW Group announced in November that it would also be offering diesel-powered BMW brand cars from 2008 onwards to customers in the USA, resulting in an even higher proportion of this type of car in the overall fleet.

Second MINI generation continues success story

The second generation of the MINI has been available on the markets since November 2006 in the form of the MINI Cooper and MINI Cooper S versions and is already setting new trends.

As a result of measures aimed at increasing the MINI production capacity and preparations for the launch of the second generation of the MINI, availability of MINI cars was restricted over the course of the year. On a full year basis, the sales volume of the MINI brand therefore dropped by 6.2 %, reaching 188,077 units.

MINI brand cars in 2006 – analysis by engine and model variant
as a percentage of total MINI brand sales volume



The MINI brand continues to generate a very high-value product mix. Including the convertible versions, almost 44 % of customers opted for a MINI Cooper, more than 30 % purchased the MINI model with the most powerful engine (the MINI Cooper S) and almost 26 % opted for the MINI One.

Rolls-Royce Phantom is segment leader

The Rolls-Royce Phantom remains the most successful motor vehicle in its price segment. Customers took delivery of 805 Phantom during 2006, 1.1 % more than in the previous year.

Development of the Rolls-Royce Convertible, which will be launched in 2007, is progressing in line with schedule. The very first Phantom Drophead Coupé, the name by which the new model will be known, will be handed over to its new owner in July 2007.

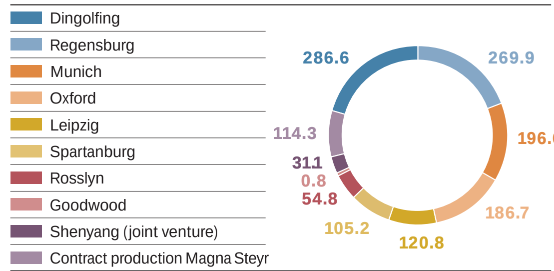
In September 2006, Rolls-Royce Motor Cars announced the development of a further model series which, in terms of both size and price, will be positioned below the Phantom.

Car production volume at all-time high level

The BMW Group manufactured a total of 1,366,838 cars in 2006, 3.3 % above the previous year's level and thus an all-time high.

This includes 1,179,317 BMW brand cars, 51 % more than in the previous year. Capacity expansion measures at the Oxford plant resulted in a reduction in the production volume of MINI brand cars. 186,674 units were manufactured in 2006, 6.7 % fewer than in the previous year. 847 Rolls-Royce Phantom left the Rolls-Royce plant in Goodwood in 2006, 22.4 % more than one year earlier.

Automobile production of the BMW Group by plant in 2006
in 1,000 units



Production network underlines high level of efficiency

In 2006, the BMW Group worldwide production network once again demonstrated its high level of efficiency by its handling of eleven production start-ups. The planned daily production volume was reached within an average period of three months following production process changeover to a new model, thus ensuring fast availability of new products on the market.

The BMW 3 Series Sedan and Touring models are both manufactured at the BMW Munich plant. Due to high demand for the BMW 3 Series Touring, which is manufactured exclusively in Munich, daily production of this model was increased from 450 to 530 vehicles.

It is especially worth mentioning that the integrated series production of a limited edition of the BMW 320si (2,600 units) was also carried out at the Munich plant during 2006. Based on this special model, BMW Motorsport GmbH went on to develop a powerful 275 bhp racing car for the FIA World Touring Car Championship (WTCC). Andy Priaulx of the BMW Team UK subsequently became touring car world champion in this competition for the second time in succession.

In addition the assembly of V-engines at the BMW Munich plant was completely redesigned in 2006 with a view to optimising efficiency, added-value and flexibility. The highly flexible assembly line enables all types of V8 and V10 engines to be constructed within a single cycle, as and when required. The pilot phase of this “Vflex” line began in October 2006 and series production is due to commence in April 2007.

At the BMW plant in Dingolfing, the new axle drive technology centre was commissioned in April 2006. This has further strengthened the BMW Group's position as leader in the field of innovative chassis and powertrain components.

Furthermore, the BMW Dingolfing plant also saw the production start of several new models spread over the course of 2006. In May, the production of parts sets for the BMW 5 Series extended version began. This vehicle is being developed exclusively for the Chinese market. Series production of the BMW M6 Convertible commenced in September. Shortly after that, in October, production of the BMW M5 started, equipped with a manual gear shift to cater to the US market. Towards the end of the year, the BMW Hydrogen 7 went into small series production at the Dingolfing plant.

At the BMW Regensburg plant, a one-line production system is used to manufacture vehicles for all of the following models: the BMW 1 Series; the Sedan, Coupé and Convertible models of the BMW 3 Series; and the BMW M3 Coupé and BMW M3 Convertible.

In 2006, the main focus of attention was placed on production start-ups for the various BMW 3 Series models. Series production of the new BMW 3 Series Coupé began in June, and that of the new BMW 3 Series Convertible in December. For the first time in the history of the BMW Group, a convertible featuring a retractable hardtop is being manufactured in Regensburg. Special engineering systems and testing procedures have been put in place in this context.

In 2006, the BMW Regensburg plant celebrated 20 years of production and marked this historic event by opening its doors to the public at an open day held in the summer. Since production began in 1986, more than 3.5 million BMW brand vehicles have come off the production line at the Regensburg plant.

Following the series production start of the BMW 3 Series at the BMW Leipzig plant, production volumes increased continually during 2006. By the end of the year, more than 600 vehicles were being manufactured each day. Halfway through 2006, the entire plant switched to two-shift operations. In June, the 100,000th BMW 3 Series vehicle since series production began rolled off the production line at the BMW Leipzig plant.

At the BMW Spartanburg plant, series production of several new models commenced during 2006. Production of the BMW Z4 Roadster and BMW Z4 M Roadster started at the beginning of the year, followed by the BMW Z4 Coupé and BMW Z4 M Coupé in April. The first “second generation” BMW X5 came off the production line in Spartanburg in October. In order to be able to react even more flexibly to fluctuations in demand, the production area was modified accordingly at the beginning of the year. This involved changing the previous two-line production system to a single-line, thus allowing the number of manufactured vehicles of any particular model to be varied even more flexibly and in line with market demand. In May, the paint shop switched its entire energy supply to methane gas obtained from a nearby waste disposal site, thus helping the BMW Spartanburg plant to decrease its carbon dioxide emissions by 53,593 tons in 2006.

Since production began in 1994, more than one million BMW vehicles have been manufactured at the BMW Spartanburg plant. The one-millionth BMW brand car rolled off the production line in March 2006.

The BMW Rosslyn plant in South Africa received a special accolade in 2006. For its excellent accomplishments in the field of logistics, it was presented the South African “Logistics Achievers Award” by a jury of recognised logistics experts. Almost 54,800 units of the BMW 3 Series Sedan were manufactured at the BMW Rosslyn plant in 2006.

The BMW Landshut plant was again able to present itself as a reliable manufacturing site for innovative vehicle components made of light alloy casting and plastics, with the focus on intelligent construction using lightweight materials. A completely new type of plastics technology was put to use for the first time in 2006. Specialists at the Landshut Innovation and Technology Centre (LITZ) developed the material for the front thermoplastic side panels of the BMW 3 Series Coupé and Convertible, enabling them, as a standard process, to run through the painting process with the entire body frame in spite of the high temperatures involved in the surface finishing process. This effectively cut out a previously necessary step in the assembly sequence. In addition, the component plant set a new record in the production of cardan shafts. More than 1.3 million units left the Landshut plant, destined for BMW plants the world over. With a view to offering independent apprenticeship training at the Landshut plant, one of the main focuses of attention in 2006 was the start of construction of the Apprenticeship and Further Training Centre, with a capital expenditure sum in 2006 of approximately euro 3 million.

The Shenyang plant in Northern China is operated by the distribution and production joint venture, BMW Brilliance Automotive Ltd. The first units of the BMW 5 Series extended-version, which has been exclusively developed for the Chinese market, were manufactured there in September 2006. This plant manufactures BMW 3 and BMW 5 Series cars.

The first revised BMW X3 vehicles came off the production line at the plant of BMW cooperation partner Magna Steyr Fahrzeugtechnik in Graz, Austria, in August.

The largest engine manufacturing plant in the BMW Group is located in Steyr, Austria. More than 703,000 engines were manufactured there in 2006, of which more than 68 % were diesel engines. The first part of an environmentally sustainable process and waste water concept had been commissioned in Steyr in 2005. By the end of 2006, the waste water connection at the BMW plant in Steyr was closed off: in other words, production at the Steyr plant now operates without creating any waste water whatsoever. Using an innovative combination of technologies, the water used in the plant’s various production processes is purified and fed back into the production system. This saves the Steyr plant 30 million litres of water p.a., thereby helping to conserve the environment.

At the Hams Hall plant, engines are manufactured for both the BMW and the MINI brands. A total of 217,434 four-cylinder petrol engines were produced at the British plant in 2006. This included 25,157 units of the new MINI engine generation, which has been developed in cooperation with PSA Peugeot Citroën. The other 192,277 engines were manufactured for BMW brand cars and supplied to the various BMW plants in Leipzig, Munich, Regensburg, Spartanburg and Rosslyn as well as to the BMW cooperation partner, Magna Steyr Fahrzeugtechnik, in Austria.

MINI Production Triangle started

The series production start for the new MINI also heralds the beginning of a new cooperation network of BMW Group plants in the United Kingdom. The BMW Group has invested almost GBP 200 million in the MINI Production Triangle with its plants in Hams Hall, Oxford and Swindon. In the medium term, the maximum production capacity will be boosted by 20 % to a total of 240,000 MINI brand cars p.a. Once full production capacity has been reached, the number of employees working within the Production Triangle will increase from the current figure of 6,350 to a workforce of approximately 6,800 employees.

At the Hams Hall plant, some GBP 30 million have been invested in the manufacture of a new family of petrol-driven engines to power the latest MINI. When the full production capacity of the new MINI has been reached, the total number of BMW and MINI engines manufactured at the Hams Hall plant will increase in the medium term from an original figure of 180,000 to over 300,000 units p.a. The workforce at the engine plant will increase accordingly from 750 to at least 1,000 employees.

More than GBP 100 million has been invested in the Oxford plant, in order to increase the maximum production capacity from a current figure of 200,000 units to 240,000 p.a. and to equip the chassis construction, paint shop and the vehicle assembly areas with state-of the-art process technology for the manufacture of the new MINI. When full production capacity has been reached here, this will lead to the creation of 200 additional jobs, bringing the total workforce at the Oxford plant up to 4,700 employees.

The BMW Group has invested around GBP 60 million in the Swindon plant for the production of pressed parts and the pre-assembly of chassis components. This plant, with around 1,100 employees, has undergone a comprehensive programme of modernisation over the last three years and now works with up-to-date pressing and mating technology.

Two model variants of the Phantom manufactured in Goodwood

At the Rolls-Royce plant in Goodwood, England, two variants of the Phantom are currently being manufactured. Alongside the Sedan, a special extended-wheelbase version is also being manufactured in Goodwood. From summer 2007 onwards, the new Rolls-Royce Convertible, the Phantom Drophead Coupé, will be added as a third model. The planned production volume of the Phantom Drophead Coupé for 2007 is already covered by customer orders.

BMW Group receives Excellence Award

On 7 November, the European Foundation for Quality Management (EFQM) presented the Excellence Award to the BMW Group. This award is presented in recognition of outstanding management achievements relating to the promotion of competitiveness, employee and customer satisfaction, social responsibility and, last but not least, careful use of resources.

The Chassis and Powertrain Component Production Unit, representing the company as a whole, entered the competition for the Excellence Award. More than 3,000 employees from the BMW sites in Dingolfing, Berlin, Landshut and Munich took part.

The Excellence Award is presented to companies and organisations in Europe which have achieved a leading position internationally, not only as a result of their technical and business achievements, but primarily because of a sustainable business strategy, showing at least three successive years of proven practise. One important factor here is the rigorous pursuit of stakeholder interests – for customers and employees just as much for shareholders, business partners or other interested parties. The BMW Group’s strategic, customer-friendly approach and its sustainable corporate culture based on partnership were particularly acclaimed.

New record sales of motorcycles

For the first time in its corporate history, the BMW Group sold more than 100,000 BMW motorcycles in a single financial year. With a sales volume of 100,064 motorcycles in 2006, the previous year's figure was topped by 2.7%. The R 1200 GS Adventure and the new two-cylinder models of the F-Series, which have been available since March 2006, contributed particularly to this positive development.

Markets still performing inconsistently

As in previous years, the BMW Group's motorcycle business reflects diverging market developments.

In Europe, sales of BMW motorcycles totalled 73,850 units, a 2.7% increase over the previous year. Within this total, increased sales volumes were registered in particular for the markets of Southern Europe. A sharp increase was registered in Spain, where, with 10,002 motorcycles sold in 2006, the BMW Group achieved a new sales volume record, surpassing the previous year's figure by 25.0%. 13,651 motorcycles were sold in Italy, 7.5% more than one year earlier. Sales volumes in Greece (1,338 units, +10.2%) and Portugal (535 units, +32.1%) developed positively, even though each of these markets contracted as a whole.

By and large, the sales volume recorded for the remaining European countries failed to reach the previous year's level. With a sales volume of 23,617 units, the BMW Group sold 1.9% fewer motorcycles in Germany than in the previous year, even though some products were purchased during the final months of 2006 to avoid the forthcoming increase in value added tax. With a market share of 18.5%, the BMW Group was nevertheless able to defend its position as market leader in Germany, where the market has now been in decline for seven consecutive years. In France, the sales volume of 7,701 units meant that 2.5% fewer customers took delivery of motorcycles than in the previous year. In the United Kingdom, where the number of motorcycles sold decreased by 3.9%* to 5,213 units, the performance should be seen against the background of an overall contracting market.

In the USA, the Motorcycles segment was able to repeat its previous year's performance. With 12,825 units sold, the sales volume here was marginally higher than in the previous year (+0.2%). Overall, the American motorcycles market developed positively in 2006. However, the Cruiser and Supersport segments, in which the BMW Group is not currently represented, showed the best performance. The increase in the number of BMW motorcycles sold in Central and South America was very encouraging; the sales volume for these markets was 2,740 units, up by 24.7% on the previous year.

In Japan, the BMW Group recorded sales volume growth in 2006 following three years of declining figures. 2,644 BMW motorcycles were sold there, 10.1% more than in the previous year.

The sale of BMW motorcycles also developed positively in South Africa, with 21.4% more units sold than one year earlier (2,682 units).

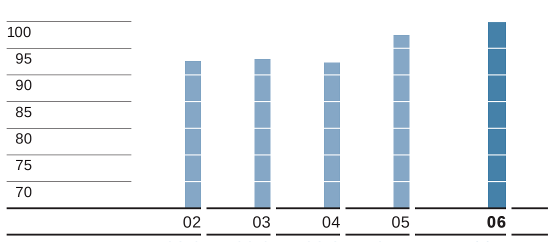
*Previous year's figure adjusted: 5,425 units (excluding Ireland)

R 1200 GS continues to be the BMW Group's best-selling motorcycle

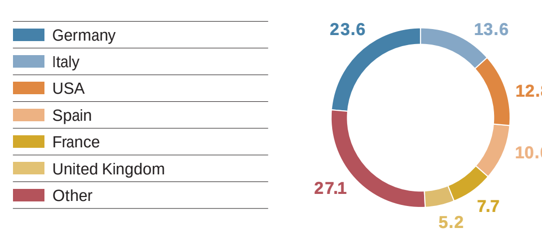
In 2006, the BMW R 1200 GS again headed the list of top-selling BMW motorcycles. Including the Adventure version, 31,138 units of this large, long-distance enduro were delivered to customers. The Motorcycles segment has never before sold as many units of one model in a single year.

Second on the sales volume list for 2006, with 13,384 units, came the R 1200 RT, a large long-dis-

BMW motorcycles delivered
in 1,000 units



BMW Group – key motorcycle markets 2006
as a percentage of sales volume



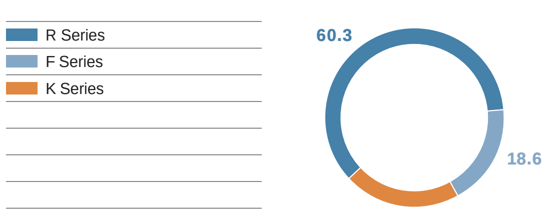
tance tourer, followed by the F 650 GS which, despite nearing the end of its model-life cycle, nevertheless took third position. Including the Dakar version, 12,511 units of this enduro were handed over to customers.

Model initiative continued

The Motorcycles segment's performance in 2006 was positively influenced by the continuation of its model initiative. Two new BMW motorcycles – the long-distance enduro R 1200 GS Adventure and the sporty long-distance K 1200 GT Tourer – were launched in the first quarter 2006, followed in the second quarter by the R 1200 S Sport Boxer and the new, sporty F 800 S. Following the market introduction of the R 1200 R Roadster in September, the whole range of the Boxer model series is now available on the markets. The F 800 ST Sport Tourer, designed more as a touring bike based on the F 800 S, also followed in September. Alongside the well-established single-cylinder, boxer and four-cylinder models, these new motorcycles enhance BMW's motorcycle range within the highly competitive middle class with an in-line twin engine.

The Motorcycles segment will again continue its model initiative in 2007. The first new models to come onto the market in 2007 were presented back in October 2006 at the world's largest motorcycle fair, INTERMOT, in Cologne. The BMW Group presented a completely new single-cylinder model range at that fair. The G 650 Xcountry Scrambler, the G 650 Xchallenge Hard-Enduro and the G 650 Xmoto Streetmoto are all based on the same underlying technology, yet are each completely different in character. In addition, the K model range has been expanded by the K 1200 R Sport version, which is equipped with a sporty and dynamic fairing. In addition, the HP2 Megamoto (based on the HP2 Enduro) will compliment the exclusive HP (High Performance) range of the Motorcycles segment.

BMW motorcycles in 2006 – analysis by series
as a percentage of sales volume



Motorcycle production well ahead of previous year's volume

For the first time in its corporate history, the BMW Group manufactured more than 100,000 BMW motorcycles in a single financial year. Of the 103,759 BMW motorcycles produced in 2006 (+12.8 % compared to the previous year), 101,352 units were manufactured at the BMW Berlin plant, also a new record for that plant. Furthermore, since September 2006, BMW motorcycles for the new G 650 X single-cylinder series are being manufactured by Piaggio S.p.A. in Noale, Italy. During the year under report, 2,407 units came off the production line there.

Financial Services segment completes successful year

The Financial Services segment continued to grow profitably in 2006, again making an important contribution to the overall performance of the BMW Group. The business volume of the segment in balance sheet terms rose by 8.9 % to euro 44,010 million. Adjusted for exchange rate impact, the increase would have been as much as 14.4 %. At the year-end, 2,270,528 lease and financing contracts were in place with dealers and retail customers, equivalent to a growth of 8.8 % in comparison with one year earlier. The proportion of new cars of the BMW Group leased or financed by the Financial Services segment was 42.4 %, 1.3 percentage points above the proportion recorded in 2005.

Regional expansion continuing

The business activities of the Financial Services segment were further expanded over the course of 2006 with four new ventures based on cooperation agreements in Bulgaria, Kuwait, Romania and Slovenia. In addition, a newly founded unit started operations in Greece, offering financing services to retail customers and dealers. In total, the Financial Services segment looks after customers in more than 50 markets, either with its own companies or in the form of ventures based on cooperation agreements.

Retail customer business again up on the previous year

Finance and leasing business with retail customers, the segment's largest line of business, was also expanded in 2006. In total, new contracts were signed with retail customers with the value of euro 24,449 million, representing a 4.0 % increase over the previous year. This corresponds to 916,005 new contracts, or 5.7 % more than in 2005. Approximately 63 % of these contracts related to new vehicles manufactured by the BMW Group.

The increase in the number of new contracts was attributable to credit financing (+ 7.3 %) and leasing (+ 3.1 %). At 31 December 2006, leases accounted for 37.4 % of all new retail customer contracts, roughly maintaining the level of the previous year.

In the area of used car financing, the number of new contracts increased by 3.1 %. Most of these were related to the credit financing of used BMW and MINI brand cars.

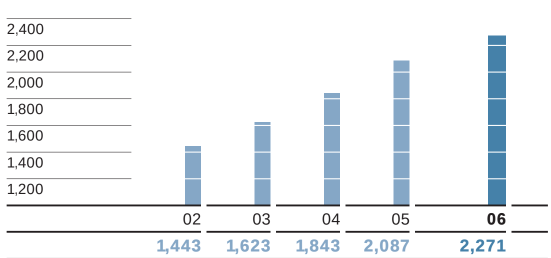
The number of contracts in place with retail customers at the year-end rose to 2,076,312 units, 9.3 % above the previous year's figure. Growth was recorded in all regions. The portfolio of retail customer business contracts was up by 4.4 % in Germany, by 15.1 % in the remaining European markets and by 10.7 % for the markets in the Asia/Oceania/Africa region. The largest proportion of the worldwide contract portfolio again related to the Americas region; the number of contracts there increased by 8.0 % to a total of 681,623 units.

Multiple-brand financing on growth course

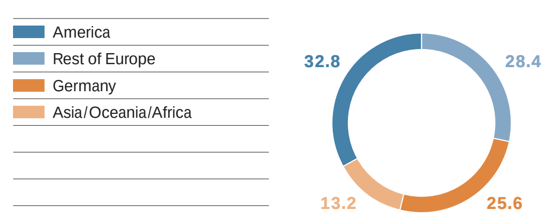
The multiple-brand financing line of business continued to make good progress in 2006. In the meantime, credit financing and leasing are being marketed under the brand name "Alphera" in as many as 21 countries, either via multiple-brand dealerships or directly by group companies.

On the one hand, the year under report was influenced by geographical expansion, including within the USA. In addition, organisational structures and IT systems were enhanced at the level of the group's national companies, thus laying the foundation for further growth. Compared to the previous year, new business grew by a very pleasing 17.8 % in 2006 to more than 60,000 contracts.

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



Contract portfolio retail customer financing of BMW Group Financial Services 2006
as a percentage by region



Continued growth in the area of dealer financing

The total volume of dealer financing contracts managed by the Financial Services segment stabilised at a high level in 2006. The total volume of dealer financing at 31 December 2006 amounted to euro 7,246 million, with more than 194,000 contracts in place at that date. This represents a volume increase of 2.3 % compared to one year earlier. New areas of growth were opened up during the year under report by increasing geographical coverage and by expanding the range of dealer financing products offered to multiple-brand dealers. These areas represent significant potential growth factors for the future.

Fleet business remains on growth course

The BMW Group brand-neutral fleet business, which offers its services on the markets under the name Alphabet, operates in the fields of financing, full-service leasing and fleet management.

Despite greater competition in this area, the pace of growth achieved in the previous year was maintained. In this vein, Alphabet achieved an important milestone in the second quarter of 2006, topping the figure of 150,000 contracts. At the year-end, 13 Alphabet companies were managing a total portfolio of 179,884 contracts. This represents an increase of 29.9 % over the year, with the previous year's level being surpassed in all markets.

In December 2006, the BMW Group signed a contract to acquire LHS Leasing- und Handelsgesellschaft mbH and DSL Fleetservices GmbH. The acquisition is still subject to approval by the EU antitrust authorities and had not been completed by the reporting date. With the purchase of these two companies, Alphabet would move into the top ten companies of its kind in Europe and its portfolio would grow to over 230,000 contracts.

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 via cooperations with local insurance companies. This service is now being offered in more than 30 markets. In 2006, several new products were brought onto the market in a number of countries, including Switzerland, Hungary and Russia. On top of this, the range of products on offer in existing markets was also expanded. The motor vehicle insurance line of business continued to perform strongly in 2006, reflected in a 17.1 % increase in new business. At the end of 2006, the segment had a worldwide portfolio of 603,939 insurance contracts, a figure 39.8 % higher than one year earlier.

Deposit business influenced by increased competition

The Financial Services segment is currently engaged in deposit business in Germany, the United Kingdom and the USA (in the latter via brokers). Since the beginning of 2006, the segment has been conducting deposit business in the United Kingdom in conjunction with a cooperation agreement with the Newcastle Building Society.

The Financial Services segment derives great benefit from the first-class credit ratings of its financing companies. In June 2006, for example, Moody's Investors Service issued an A1 and Prime-1 rating to the BMW Bank of North America (USA) for its short-term and long-term deposits, reflecting its above-average profitability and solid capital resources.

In the face of greater competition, the segment's deposit volume worldwide was 9.6 % lower than one year earlier, totalling euro 5,781 million at 31 December 2006. The total deposit volume includes approximately euro 1,200 million of deposits brokered by agents in the USA.

The objective of encouraging deposit customers to move into more diversified forms of investment is successfully being realised with the help of the tried and tested product combination of "Save & Invest" as well as with the new savings model "Save & Plan". This model allows wealth to be built up on a long-term basis by regular savings which are split between a savings account and a fund investment.

In the investment funds business, the range of funds on offer was expanded by the addition of several attractive investment funds over the course of the year. Furthermore, Express Certificates were also offered for the first time. Despite the overall positive development of the stock markets, investors in Germany withdrew funds, resulting in the net cash inflow for investment funds in 2006 falling by 10.5 % to euro 84 million. By the year-end, the number of customer deposit accounts had increased by 10.3 % to 30,011.

The credit card business continued to grow strongly and was expanded further in 2006. At 31 December 2006, 339,824 customers owned a BMW or MINI Card, 16.5 % more than at the end of 2005.

The BMW Card was introduced in the United Arab Emirates and in Bahrain in June 2006 and was already available in Australia, Germany, the United Kingdom, Japan, New Zealand, Austria, Spain, Thailand and the USA. As part of the expansion of banking activities, the MINI Card has also been available since mid-2006 in the USA and the United Kingdom (previously only in Germany and Japan).

Balanced risk situation

During the financial year 2006, the credit risk for credit and lease financing activities was at a similar level to the previous year. Bad debts increased slightly by 4 basis points to 0.41%. 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*, decreased from euro 44.2 million to euro 34.9 million.

*based on a 99 % confidence level and a holding period of 10 days

Softlab: premium advice from a single provider

The Softlab Group operates in the IT consultancy services market, working with its customers' systems along the whole value-added chain from process consultancy, the implementation of tailored IT solutions through to their operation. Strategic acquisitions made by the Softlab Group in recent years have contributed to this development. In 2006, it took over F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, thus enabling it to strengthen its market position, particularly in the field of consulting.

Slight increase in workforce

The BMW Group's workforce increased by 777 employees (+ 0.7 %) during the financial year 2006 to reach 106,575 employees at 31 December 2006. Approximately 75 % of the workforce is employed in Germany, where the number of employees remained practically unchanged.

The employee fluctuation rate at BMW AG has been low for many years, both in comparison with other car manufacturers and other sectors.

The BMW Group recruits staff continuously on a targeted basis in order to compensate for fluctuation. In 2006, for example, in addition to more than 1,200 newly filled apprenticeship positions, 664 posts were also advertised and filled externally.

Number of apprenticeship positions remains at high level

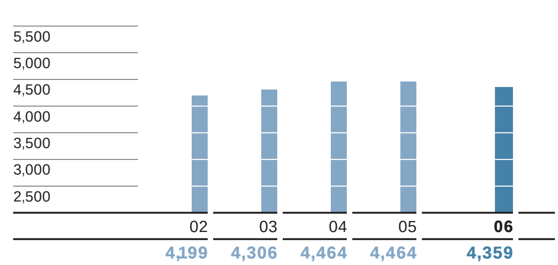
1,207 young people commenced their training with the BMW Group at the start of the training year. In total, the BMW Group employed 4,359 apprentices at the year-end, 2.4 % fewer than one year earlier. The slight reduction was partly due to the earlier final examination dates for some apprentices. These vacated positions will not be replaced until the next recruitment round. For this reason, the apprentice ratio in Germany (i.e. the ratio of apprentices to the total workforce) fell by 0.1 percentage points in 2006 to a level of 4.9 %.

Starter programmes for high school leavers and university graduates are also in place to complement the range of opportunities available to those about to start their careers at the BMW Group.

Further training tailored to suit requirements

Both primary and further training of employees are especially significant for a premium manufacturer like the BMW Group in order to maintain high quality

BMW Group apprentices at 31 December



BMW Group employees	31.12.2006	31.12.2005	Change in %
Automobiles	98,505	98,260	0.2
Motorcycles	2,782	2,838	– 2.0
Financial Services	3,478	3,093	12.4
Other	1,810	1,607	12.6
thereof consultancy/software	1,743	1,541	13.1
BMW Group	**106,575**	**105,798**	**0.7**
unadjusted*	106,575	106,174	0.4

* Figure for end of previous year including acquired entities

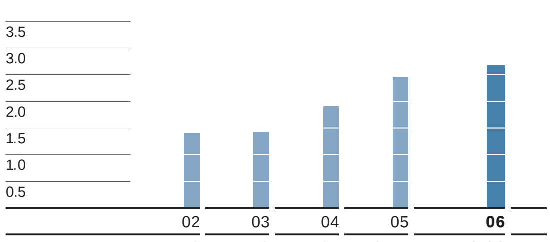
standards for all processes. Training activities are always planned and implemented in line with requirements. During the financial year 2006, the BMW Group invested euro 184 million in primary and further training for its employees, 5.2 % less than in the previous year, whereby the reduction was attributable to a realignment of training measures.

High demand for international positions

The transfer of know-how across borders and networking at all levels are crucial factors for businesses with international operations such as the BMW Group. As an example, specialists are moved around between the individual production sites as production start-ups commence for new models, thus ensuring the same high quality during each individual start-up. The sales companies located in 39 countries around the world also cooperate closely with the corporate headquarters in Munich.

In 2006, more than 800 employees from BMW AG were working at locations outside Germany. The main target countries were the group's business locations in markets currently experiencing dynamic growth, in particular North America, the United Kingdom and Asia. Apart from this, approximately 200 employees from non-German locations were working in Germany or at another international location away from their home countries. In the case of longer-term projects, employees remain abroad for an average period of three years. This represents a suitable time scale in which employees can 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 subsequent course of their careers. Apart from more than 1,000 employees who have worked abroad for longer periods, more than 400 employees were called up for international duty on a short-term basis.

Employee fluctuation ratio BMW AG*
as a percentage of workforce



* Number of employees on unlimited employment contracts leaving the company

Attractive employer

The BMW Group remains one of the most attractive enterprises to work for. This was again confirmed in 2006 by numerous studies and rankings. In the study “Germany's Most Popular Employers” (Trendence), young academics from both the business and engineering fields chose the BMW Group for the fifth time in a row as the most popular employer. At a European level, the BMW Group was also voted the most popular employer by engineers in the study “The European Student Barometer 2006”. The good reputation of the BMW Group as an employer is an important factor in being able to attract outstanding talent to work for it. This high level of attractiveness as an employer is not only restricted to external aspects; it is also reflected in the outcome of the most recent employee survey from the year 2005. 92.6 % of employees stated that they were either satisfied or very satisfied with their work at the BMW Group. Employee satisfaction was measured on the basis of a total of 16 questions.

The outcome of the survey was that the high level of satisfied employees (91.1%) registered in the previous survey made in 2002, was once again surpassed.

Joint agreement for blue-collar and white-collar staff

As part of the ERA (Entgelt Rahmenabkommen/ Remuneration Framework Agreement) collective bargaining tariff agreement signed at the end of 2005, companies affiliated to the Bavarian metal and electrical industry gave a commitment to implement ERA within four years. This new collective bargaining agreement creates a uniform remuneration system, removing the outdated distinction between blue-collar and white-collar staff. Under ERA, twelve remuneration groups and uniform performance evaluation systems will apply for all of BMW AG's German sites, for which the metal and electrical industry collective bargaining agreement is valid, as well as for sites within the collective bargaining regions of Saxony and Berlin (excluding sales branches).

A significant element of the arrangements, anchored in agreements between the General Works Council and corporate management which go beyond ERA, is the basic understanding that retirement models will still be made available to employees after 2009 (when state support of early retirement part-time working arrangements in Germany is expected to come to an end). In the light of demographic developments, company agreements of this kind are becoming increasingly significant. In a similar vein, a voluntary company agreement was concluded concerning the BMW Additional Pension (AVWL). On the basis of this agreement (as stipulated in the collective bargaining tariff agreement), a pension-related payment of euro 319.08 p.a. (euro 159.48 p.a. for apprentices) is to be transferred in future to individual savings accounts for all employees to whom the tariff agreement applies.

"Excellence in Human Resources" (EHR) programme continued

Following the introduction of new IT core systems and the employee portal "MyNetwork", which is currently used by approximately 80,000 employees, the BMW Group is pushing ahead with the EHR programme, with the aim of further increasing the efficiency of activities related to human resources work. Since the commencement of the project in 2005, this has involved analysing and redesigning all major processes and, where necessary, implementing appropriate IT systems to support this. The objective is to ensure that employees receive efficient service and competent advice from members of the human resources department and a swift response to their enquiries. At the same time, it provides more support to management to deal with personnel-related issues and find appropriate solutions to department-specific problems.

The Human Resources department rolled out new business processes at all German sites, including providing access to the channels "Personnel Direct" and "Personnel Management". The objective of the new business processes is to lend personnel support to both employees and senior management staff even more efficiently and directly and with an even greater degree of expertise than before. The new business model is constructed around the uniform access channels mentioned above, each of which clearly distinguishes between the range of tasks relevant for senior management and employees. The new business model allows the Human Resources department to provide better quality information regarding personnel and strategic matters to the various business departments that require such information. It also allows enquiries from employees to be processed more efficiently by applying standardised processes and "bundling" certain topics for specialists. One further advantage of "Personnel Direct" is that Human Resources department staff can be reached under one single number throughout Germany.

"Today for Tomorrow" project – taking a pro-active approach to demographic realities

The ageing population in many industrial countries, and in particular in Germany, also has an impact on business as a whole as well as on each individual company. Within an ageing society, companies which are able to improve their workforce's skills and then put those skills and know-how to best use will be at a distinct advantage. The BMW Group is implementing this by means of an all-embracing project which has been given the title "Today for Tomorrow". The objective is to exploit the continual demographic change as an opportunity for the business.

The project's five main areas of emphasis are:

– the creation of a working environment for the future Workplaces are continuously improved in ergonomic terms, in order to avoid physical strain and damage as far as possible. In the production area, this can, for example, be achieved by using rotary sling technology and creating height-adjustable workstations.

– health-care management and prevention
The BMW Group promotes the good health of its workforce by installing fitness centres and making fitness courses available at almost all of its production sites, by encouraging health-care measures for specific target groups and by providing extensive medical facilities. In 2006, Health-Care Days were held at both the Munich and the Leipzig plants. The new concept behind this project is to help to identify health risks, to put targeted follow-up measures in place and to promote a better awareness of good health. Some 8,000 employees participated in these health-care days and plans are now underway to do the same at other locations in 2007.
– training and expertise management
Lifetime learning has always had a big role to play at the BMW Group. The company's future know-how requirements are quantified at an early stage with the aid of qualitative personnel planning. Work-based methods of learning, which closely link material learned to occupational activities, will be encouraged even more in the future. This so-called "Project Camp" method of learning encourages the transfer of know-how between young employees on the one hand and experienced employees on the other, and actively gets the best out of inter-generational learning.
– individual employee working lifetime models
The aim is to be in a position in which the BMW Group can offer its employees retirement programmes which meet the needs of both employee and employer. Financial scope has already been created in this area by reallocating parts of the profit share scheme.
– communication
Information should be communicated in such a way as to make both senior management and employees more aware of changes affecting society and business. As part of the process of encouraging each individual to take responsibility for future provisions for health and retirement needs, the BMW Group launched the electronic portal "My Future Provision" on its intranet.

High standards for environmental protection
High environmental and quality standards are maintained at all BMW Group sites. This was borne out once again in December 2006 when the certification audit of the production function, in accordance with DIN EN ISO 9001 and DIN EN ISO 14001 respectively, was successfully concluded. The audit was again conducted using a matrix approach, in which each manufacturing site is audited on a three-year cycle. Central functions of the production area and control functions within the management system are both subject to annual scrutiny. Furthermore, at the beginning of 2006, system operations in the Research and Innovation Centre were successfully validated in accordance with the European Eco-Management and Audit Scheme, EMAS II. Specialist external auditors (the German TÜV organisation) confirmed a very high standard in terms of quality and environmental performance, highlighting several processes as exemplary.

The BMW Group follows a concept of preventative environmental protection and is committed to the efficient management of resources. This is evident from a number of key figures. Over the last ten years, for example, energy consumption has been reduced by more than 26 % and CO_2 emissions by approximately 24 %. Apart from using natural gas, district-wide heating and combined heat and power generation technologies, a number of innovative energy projects which have been implemented at the various BMW Group sites are also making a significant contribution to this reduction. The use of the groundwater cooling system enables the BMW Group to air-condition parts of the Research and Innovation Centre using near-surface groundwater from drains for the underground railway. This reduces CO_2 emissions by approximately 5,000 tons a year. This groundwater cooling project was awarded the Bavarian Energy Prize in May 2006.

The BMW Spartanburg plant in the USA meets more than half of its energy requirements through the use of methane gas obtained from a nearby waste landfill site. This helped to reduce CO_2 emissions by 53,593 tons in 2006. The U.S. Environmental Protection Agency (EPA) honoured the BMW Spartanburg plant and system supplier Dürr with the "Energy Partner of the Year" award.

A further contribution towards reducing energy usage is an integrated painting process used at the MINI plant in Oxford. This process, which was introduced in May 2006, reduces the number of coats of paint necessary from four to three. The primer coat application and oven stage has now been integrated into one of two newly developed base coats. This also enabled the use of solvents per vehicle to be reduced by 1.4 % compared with the previous year. Through innovative use of water-based and powder-based clear coating technologies, the BMW Group has been able to reduce emissions of solvents by more than 50 % over the last ten years.

During the last five years, the BMW Group has also succeeded in significantly reducing the amount of waste water created. Since 1996, the amount of processing water required per manufactured vehicle has gone down by 47 %, partly as a result of the continuous development of circulation systems at all BMW Group sites. The BMW engine plant in Steyr reached a major milestone in the area of efficient waste water treatment and circulation systems at the end of 2006. Using an innovative combination of membrane technologies, the water used in the plant's production processes is purified and fed back into the production system. This made it possible to close off the production's waste water connection at the end of 2006. The use of this technology will lead to a saving of 30 million litres of water p.a. in the future.

Implementation of the EU End-of-Life Vehicles Directive

Over the last few years, a network of recovery centres for end-of-life vehicles has been set up in the countries of 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 2006, the number of recovery centres taking back BMW Group end-of-life vehicles increased by 23 %. The establishment of a comprehensive recovery and recycling infrastructure in the Eastern European EU countries involved considerable efforts because of the short space of time between implementation of regulations into national law and having to demonstrate that a comprehensive network was in place. This is also due to the fact that the necessary recycling infrastructure had previously been extremely limited.

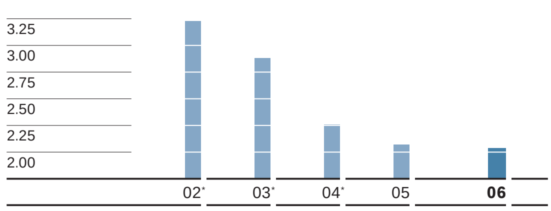
All BMW Group vehicles are already optimised at the development phase with a view to subsequent recycling. For example, all components through which liquids will flow are designed in such a way that operating liquids, such as oil, fuel, brake fluid and coolant can be emptied quickly and easily. All pyrotechnical components within the vehicle (airbags, seat belt tensioners, safety battery terminals, etc.) are designed so that they can be released by means of a central connector, thus simplifying the recycling process and saving time. Moreover, many components built into BMW Group vehicles are made with materials derived from recycled parts. This saves valuable resources and conserves the environment.

Environment-friendly transportation solutions

The BMW Group's environmental care activities also cover logistics. The aim is to reduce the volume of pollutants which are emitted along the entire chain, from the procurement of materials, supply lines between locations, right up to the final delivery of the vehicle to the customer. The BMW Group therefore focuses on more ecologically sound transportation methods, such as ship and rail. In 2006, for example, 32 % of over-land transportation was accomplished by rail, thereby maintaining the high level attained in 2005.

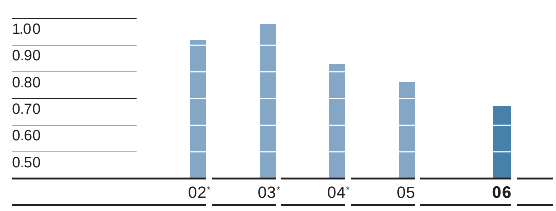
Logistics experts within the BMW Group are also working on a project to reduce the use of wax or adhesive foils currently employed to protect the outside surfaces of vehicles. In total, approximately

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



* Variance to reported figures from previous years due to larger basis of data

Process effluent per manufactured car
(m^3/unit)



* Variance to reported figures from previous years due to larger basis of data

53 % of vehicles were delivered without protection in 2006, compared with 42 % in the previous year. The detrimental impact of protecting outside surfaces was therefore significantly reduced.

The BMW Group long-term energy strategy – innovation for lower fuel consumption

The BMW Group supports the Kyoto targets and has been working intensively for years to reduce its fleet's fuel consumption. The energy strategy pursued by the BMW Group is sub-divided into three steps. In the short and medium term, the fuel consumption of vehicles will be reduced by new, highly efficient engine generations, active aerodynamics, the use of innovative lightweight materials and intelligent energy management within the vehicle. For the BMW Group, all of these activities fall under the concept of BMW EfficientDynamics. In the medium term, the BMW Group is working on achieving additional consumption benefits through various measures such as increasing the electrification of the drivetrain and hybridisation. From the BMW Group's perspective, the most sustainable technology in the long-term is the use of hydrogen in the combustion engine, since hydrogen can be produced from various regenerative energy sources with practically no CO_2 emission. In November 2006, the BMW Group presented the BMW Hydrogen 7, based on the BMW 7 Series, the first hydrogen-powered vehicle to be offered in the premium segment.

Good progress made towards reducing fleet consumption

In recent years the BMW Group has made good progress in reducing the fuel consumption level of its fleet. In accordance with the agreement made by the German Automobile Industry (VDA) to reduce fleet consumption by 25 % in the period from 1990 to 2005, the BMW Group has contributed significantly to this commitment by reducing its fleet consumption by almost 30 %. The BMW Group is also making an active contribution towards fulfilling the voluntary commitment given by the European Automobile Manufacturers (ACEA) to the EU Commission. This voluntary commitment envisages a 25 % reduction in CO_2 emissions over the period 1995 to 2008. This means that the European fleet average for passenger cars should be reduced to 140 gram per kilometre driven by the year 2008.

The extent to which engineers within the BMW Group have achieved fuel consumption reductions in recent years can be demonstrated by a comparison of the enterprise's best-selling models, the BMW 3 Series and the BMW 5 Series, over four model cycles.

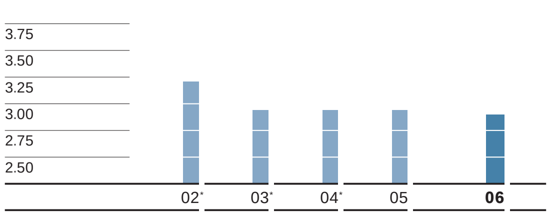
The new BMW 525i requires 33 % less fuel than the BMW 525i from the model year 1982. The toxicity of emissions has been reduced by 95 % over the period. At the same time, the BMW 525i from the model year 2007 with 160 kW generates approximately 45 % more power than the equivalent model from 1982. These substantial improvements were achieved despite the fact that much higher level of safety and comfort requirements now in place make the new BMW 525i 16 % heavier than the equivalent model from 1982.

There has also been a significant reduction in fuel consumption for the BMW 3 Series Sedan when compared over four generations. Compared to the fuel consumption of the BMW 320i from the model year 1983, the consumption level of the current BMW 320i is almost 23 % lower.

EfficientDynamics

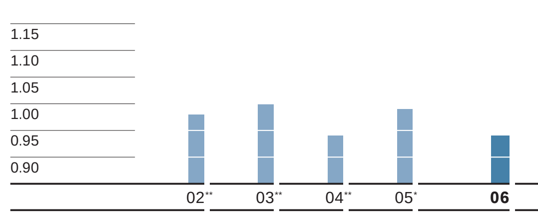
Through its EfficientDynamics concept, the BMW Group is continually generating fuel consumption reductions with the aim of offering the most efficient vehicle in each relevant premium segment. Measures

Energy consumed per unit produced
in MWh



*Variance to reported figures from previous years due to larger basis of data

CO_2 emissions per unit produced
in tons



*The increase is attributable to a change in the energy mix.
**Variance to reported figures from previous years due to larger basis of data

Efficiency improvement of the BMW 525i[1]
(Index = BMW 525i model year 1982, compared with the BMW 525i available from spring 2007)

Difference in %		BMW 525i (1982)	BMW 525i (2007)
Power	+45	110 kW	160 kW
Torque	+26	215 Nm	270 Nm
Weight[2]	+16	1,365 kg	1,585 kg
Drag	–18	0.74 m²	0.61 m²
Exhaust gas emissions[3]	–95	ECE R15-04	EU 4
Fuel consumption[4]	–33	11.1 l/100 km	7.4 l/100 km

1] Sedan, manual transmission (1982: five-gear economy transmission) 2] In 1982, weight was given as a DIN (= German Industry Norm) unladen weight. The values shown here have been adjusted to the new measurement method valid in the EU (unladen weight including 75 kg for driver and luggage). 3] Reduction of statutorily restricted exhaust gas emissions (CO, HC, NOx) by 90–95 %, in line with the currently valid Euro-4 norm. 4] Combined EU fuel consumption. In 1982, consumption was calculated using the DIN-1/3-Mix method (until 1996). The value shown here has been adjusted to the currently valid New European Driving Cycle.

Efficiency improvement of the BMW 320i[1]
(Index = BMW 320i model year 1983, compared with the BMW 320i)

Difference in %		BMW 320i (1983)	BMW 320i (2006)
Power	+20	92 kW	110 kW
Torque	+18	170 Nm	200 Nm
Weight[2]	+28	1,125 kg	1,435 kg
Drag	–19	0.73 m²	0.59 m²
Exhaust gas emissions[3]	–95	ECE R15-04	EU 4
Fuel consumption[4]	–23	9.6 l/100 km	7.4 l/100 km

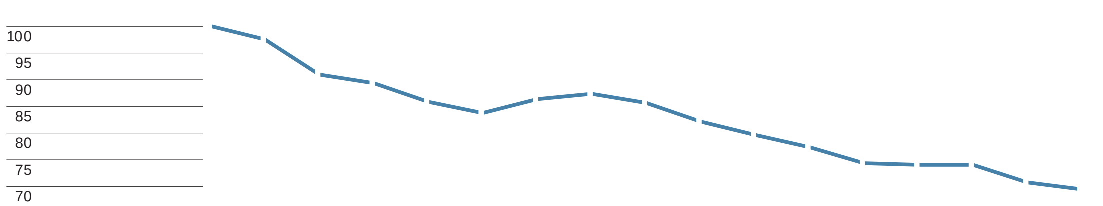
1] Sedan, manual transmission. 2] In 1982, weight was given as a DIN unladen weight. The values shown here have been adjusted to the new measurement method valid in the EU (unladen weight including 75 kg for driver and luggage). 3] Reduction of statutorily restricted exhaust gas emissions (CO, HC, NOx) by 90–95 %, in line with the currently valid Euro-4 norm. 4] Combined EU fuel consumption. Consumption was measured until 1996 using the DIN-1/3-Mix method. The value shown here has been adjusted to the currently valid New European Driving Cycle.

Efficiency improvement of the BMW 118i revised model[1]
(Index = BMW 118i model year 2004, compared with the 118i available from spring 2007)

Difference in %		BMW 118i (2004)	BMW 118i (2007)
Power	+10	95 kW	105 kW
Torque	+5	180 Nm	190 Nm
Weight	+2	1,325 kg	1,350 kg
Drag	–3	0.65 m²	0.63 m²
Exhaust gas emissions		EU 4	EU 4
Fuel consumption[2]	–19	7.3 l/100 km	5.9 l/100 km

1] manual transmission 2] Combined EU fuel consumption

Fuel consumption of BMW Group cars according to VDA commitment
(Index: 1990 = 100; Basis: fleet consumption of newly registered cars in Germany measured on the basis of the New European Driving Cycle in accordance with the VDA commitment for passenger/estate cars*)



90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	**06**
100.0	97.5	90.9	89.3	85.8	83.7	86.3	87.3	85.6	82.1	79.6	77.3	74.3	74.0	74.0	70.7	**69.4**

* The adoption of the uniform VDA computation method for the various DIN-1/3-Mix measurement methods (used up to 1996) and the New European Driving Cycle (used from 1997 onwards) gives rise to minor discrepancies compared to earlier BMW Group Annual Reports.

taken to improve EfficientDynamics contribute to further reductions in fuel consumption and vehicle emissions, simultaneously enhancing both dynamics and performance. BMW Group's engineers consider all potential areas for optimising a vehicle, including improved aerodynamics, more efficient engine technologies, lightweight construction through to a comprehensive system of energy and heat management within the vehicle. The BMW Group endeavours to make any new fuel consumption reducing technologies available to as many customers as possible, as soon as possible. This is seen as the only way to achieve ecological progress for the fleet as a whole. The new "High Precision Injection" petrol injection technology gives the BMW Group the world's first jet-guided direct fuel injection system suitable for large-scale serial production and actually provides a practical solution for reducing consumption using a lean operation approach in ways which other technologies have been unable to exploit. In spring 2007, this technology will be introduced to the four-cylinder Otto engines of the BMW 1 Series and the six-cylinder Otto engines of the BMW 5 Series.

In addition, the BMW Group will successively introduce the Auto Start/Stop Function feature to their range of models, starting with the BMW 1 Series. This innovation automatically switches off the engine as soon as the vehicle stops moving and starts it again extremely quickly as soon as the driver wishes to continue the journey. This technology can help to save a great deal of fuel, especially in urban stop-and-go driving conditions.

The Brake Energy Regeneration system will also increase efficiency. Beginning in spring 2007, this technology will be included in all BMW 1 Series and 5 Series vehicles and will then be successively integrated into an increasing number of other models as they come onto the market. Electrical energy is then only produced for the vehicle's on-board electrical system during the engine's run-over and braking phases. The Brake Energy Regeneration system offers two practical benefits. Firstly, it reduces fuel consumption significantly. Secondly, the driver benefits directly from the fact that the alternator is decoupled during load phases. Since no electricity is produced during this phase, more thrust is available to the driver when accelerating. This not only makes the vehicle more economical to run, but also gives a more dynamic drive.

The optimum shift point was made ready for series production in 2006 and, from spring 2007 onwards, will also be successively introduced into volume models. The engine's electronics system calculates the optimum moment to change gear in terms of fuel economy, dependent of the actual driving situation. A shift point indicator on the instrument panel – an illuminated arrow symbol which also indicates the optimum gear to change to – prompts the driver to change gear at the ideal moment.

The potential offered by these EfficientDynamics measures is evident when looking at the fuel consumption figures of the revised BMW 1 Series, which will become available on the markets from spring 2007 onwards. Improved fuel economy in the new BMW 1 Series models is achieved by the use of new lean operation engines and the Auto Start/Stop function. This saves around 14% of fuel in the 120i and around 19 % in the 118i. The revised models of the 118d and 120d diesel-engine vehicles also require around 15 % less fuel than their predecessors. In this way, the BMW Group is making a significant contribution to lowering fleet fuel consumption within the context of the voluntary ACEA commitment.

Electrification of the powertrain continues to make progress

The BMW Group is also working on a hybrid version of the powertrain for its high-performance models. In cooperation with General Motors and DaimlerChrysler, the BMW Group is working on the development of a "Two-Mode" hybrid drive-system capable of reducing fuel consumption by up to 20 %. The new system offers for the first time an increase in efficiency and performance, both for urban driving and on highways.

A "Two-Mode" hybrid drive system of this type was presented by the cooperation partners at the Engine Symposium in Vienna in April 2006. This is a fully integrated combination of electric motors and a fixed-ratio transmission system.

General Motors, DaimlerChrysler and the BMW Group are developing this hybrid system with a view to reducing the volume of power transmitted through the less efficient electrical section of the system. This makes it possible to use smaller electric motors, thereby reducing power loss in the drive system.

The new concept will be used initially in rear-wheel drive vehicles. The objective of this partnership is the joint development of the key technical components for hybrid vehicles of the future. As a consequence of these cooperation arrangements, the BMW Group expects to minimise series development times considerably, achieve higher market maturity, larger volumes and faster market entry. In spite of the close cooperation in creating a common hybrid module, this solution still leaves enough scope to take into account the specific design concept applicable to each relevant brand.

Hydrogen 7 – the first series-developed vehicle with a hydrogen combustion engine

In the long term, the BMW Group is working towards hydrogen as the fuel source of the future. The BMW Group presented the BMW Hydrogen 7 in November 2006 in Berlin, the world's first hydrogen-driven luxury Sedan. This vehicle is practically emission-free and suitable for everyday use. The new model, based on the BMW 760Li, represents a milestone en route to a new era of sustainable mobility. The BMW Hydrogen 7 is powered by a combustion engine capable of running on both hydrogen and petrol. This vehicle has gone through the entire series development process and is the result of a clearly-defined strategy, which already enables the BMW Group to put tomorrow's hydrogen technology to use in today's vehicles. In addition, the new technology will be able to benefit from the whole range of efficiency improvement measures right up to the full hybrid version.

The BMW Hydrogen 7 is capable of covering over 200 kilometres powered by hydrogen and a further 500 kilometres in the conventional petrol mode. The BMW Hydrogen 7 holds approximately eight kilograms of liquid hydrogen and its conventional petrol tank has a capacity of 74 litres.

The introduction of the BMW Hydrogen 7 by the BMW Group will create momentum to increase hydrogen supply coverage. At the same time, the BMW Group calls on the relevant networking partners in the fields of politics, science, research and business to build up infrastructures and promote technologies related to hydrogen as an energy source.

Research and development expenditure increased

At the end of 2006, the BMW Group's worldwide research and development network consisted of ten locations in five countries with a total of approximately 9,400 employees.

Research and development expenses totalled euro 3,208 million in 2006, 3.0 % higher than in the previous year. The research and development expenditure ratio was 6.5 %.

Leading position amongst premium manufacturers

The leading position of the BMW Group amongst premium manufacturers in the area of technology and innovation was again underlined in 2006 by the numerous international awards it received.

In February, the BMW Group was presented with the "Design Award of the Federal Republic of Germany" for the BMW 6 Series Coupé and Convertible models. This is the highest official German design award and is presented by the German Design Council under the auspices of the Federal Ministry for Business and Technology. Companies and individuals do not apply for the design award; they are nominated by the economics ministries of the various federal states or by the Federal Ministry for Economic Affairs. The prerequisite is that a product must already have won a national or international award. A maximum of 25 products are presented with awards.

In April, the BMW 3 Series was voted the "World Car of the Year". Under the "World Car of the Year Award" programme, a panel of 46 international automotive journalists adjudicate the most important new models on the basis of 20 criteria, including styling, performance, handling, comfort and utility. The award was presented during the New York International Auto Show.

For the first time in the history of the "Engine of the Year Award", an engine achieved the unusual feat of being voted engine of the year for two years in succession, namely the V-10 High Performance engine used in the BMW M5/M6. The BMW Group's engines won awards in no less than five categories:

- the V10-5.0 litre engine (BMW M5 and BMW M6): Best Engine 2006
- the V10-5.0 litre engine (BMW M5 and BMW M6): Best Performance Engine 2006

- the V10-5.0 litre engine (BMW M5 and BMW M6): Winner in the 4.0 plus litre category
- the 3.2 litre straight six cylinder engine (BMW M3, BMW Z4 M Roadster and Z4 M Coupé): Winner in the 3.0 to 4.0 litre category
- the 3.0 litre twin turbo diesel engine (BMW 535d): Winner in the 2.5 to 3.0 litre category

In November, ten days even before its official market launch, the new MINI won one of the most prestigious international car awards, the Golden Steering Wheel 2006. An international panel of 25 jurors comprising motor sports personalities, automobile experts and well-known car drivers tested the vehicles for two days and adjudicated them in 15 categories. In its class, the new MINI came out as winner in seven of the 15 categories.

New absorber facilities built to test electromagnetic tolerance

In October 2006, new facilities to test electromagnetic tolerance were commissioned at the BMW Group's Research and Innovation Centre (FIZ) in Munich. For the first time, this test equipment enables specialists to simulate the interaction of electronic systems and assist functions under realistic driving conditions in order to ensure their reliable functioning. In this context, engineers have to take into account the fact that these systems create electromagnetic fields of varying strengths which, under given circumstances, can interact with or be affected by electromagnetic fields from outside the car. All incidences of interference are analysed punctiliously in order to rule out malfunctions.

The new test complex, unique in this configuration in the automobile industry, is also equipped with roller testing facilities and computer-controlled moveable dummies. It therefore allows the activation of driving stability systems at exactly defined speeds and the impact of other driver assist systems to be simulated.

Driver assist systems make for the perfect drive

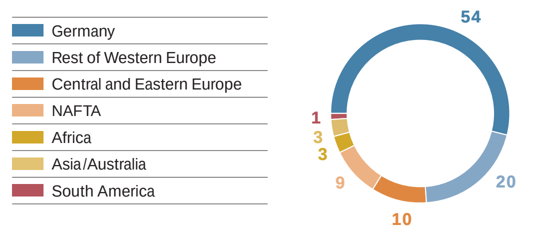
The BMW Group presented in July 2006 the Active Cruise Control system with Stop & Go function at one of its innovation days. This is an assist system conceived first and foremost for driving on motorways and fast roads. It covers a range of speeds from 180 km/h down to zero. Active Cruise Control with Stop & Go function accelerates and slows down the car fully automatically, thus relieving the driver not only in long convoy driving conditions, at slow speeds and in traffic jams, but also ensuring more comfort and safety in flowing traffic conditions.

The system will become available in BMW brand cars during the course of 2007.

New dynamic driving simulator

In July 2006, the BMW Group's new dynamic driving simulator was commissioned, a further step forward towards improving development and testing in realistic conditions. This driving simulator enables specialists to create test conditions that had previously only been possible with real cars on testing grounds. In terms of the efficiency of development work, it is essential that functionality, reliability and the handling of innovative systems, such as driver assist systems, can be fully tested at an early stage in the development process. The driving simulator therefore allows the timing of the practice test for new systems to be brought forward. Being able to carry out development work under laboratory conditions brings significant benefits compared to a real test drive. Every situation can be recreated as often as necessary, thus enhancing the validity of statistically evaluated results.

Regional mix of BMW Group purchase volumes 2006
in %, basis: production material



Purchasing structures influenced by model life-cycles

In 2006, the BMW Group purchased approximately one half of its bought-in parts in Germany. Across the rest of Western Europe, the purchase volume changed in line with production volumes within the BMW Group. Due to the sales growth of the BMW 3 Series, the volume of parts bought in from Central and Eastern Europe increased correspondingly. This was largely attributable to the fact that suppliers for these model series are located to an increasing extent in newly acceded countries within the European Union. The NAFTA market is used primarily to purchase parts for cars manufactured at the BMW Spartanburg plant. The production line change and the BMW X5 model change caused the purchase volume in this region to fall. The volume of parts bought in from South America was mainly attributable to the lower production volume of the MINI at the Oxford plant, brought about by capacity expansion measures.

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 2006. Significantly higher costs had to be paid for supplies of steel, plastic, aluminium and copper.

The annual average market price of aluminium, copper and plastic went up in 2006 by 34%, 76% and 13% respectively. Only in the case of steel did the annual average market price in 2006 remain at its 2005 level.

The price of industrial raw materials went up by 31% in US dollar terms and by 30% in euro terms. The price of non-precious metals increased by 56% in US dollar terms and by 55% in euro terms. Energy supplies saw a price increase of 21% and 22% in US dollar and euro terms respectively.

In the case of precious metals (rhodium, palladium, platinum), purchase price hedges reduced the impact for the BMW Group of extreme market price rises. Compared to the previous year, the price of precious metals relevant for the BMW Group went up in 2006 by rates of between 27% and 116%.

Measures were put in place in the area of raw materials to ensure that additional costs were fairly spread over the entire added-value chain, with the BMW Group also bearing its share of the cost. Although the purchase price predictions of various institutes have indicated, since the year-end, that the commodity markets may have eased somewhat, it is likely that high price levels will persist in 2007.

Purchasing centres help to enhance innovative strength

The BMW Group's international network of purchasing centres is committed to the process of opening up new procurement markets. Focus has been sharpened in particular on the so-called "emerging markets". By realising cost benefits in these markets, the BMW Group can generate a positive impact on purchase prices, thus improving its competitiveness. By analogy to the way that the BMW Group's competitiveness is being improved, suppliers are also encouraged to take better advantage of the cost benefits available on emerging markets and to modify their process chains accordingly. At the same time, measures must be put in place to ensure that stipulated quality and availability levels are constantly maintained.

The BMW Group's purchasing centres are part of the innovation management process. They investigate whether the innovative technical solutions offered by the supply markets meet the requirements of the BMW Group's product profile and assess whether they can make a contribution to the product creation process. This is an essential factor helping to enhance the BMW Group's innovative strength.

Supplier management further optimised

As a manufacturer of premium vehicles, the BMW Group also attaches great importance to the efficiency of its suppliers. Using a range of targeted measures, the BMW Group was again able to improve its supplier management systems in 2006.

The BMW Group fosters relationships with its suppliers at an early point in the creative process in order to elucidate potential topics of innovation. The technical and commercial feasibility of new ideas is then jointly evaluated. The BMW Group also involves its large system suppliers in the initial phase of the development process for new products. At supplier workshops, also held early on in the creative process, joint solutions are worked on to reduce manufacturing costs and optimise technical issues, such as vehicle weight reduction.

The growing complexity and inter-connectivity of modern vehicles increases the responsibility of suppliers within the supply chain. The BMW Group encourages its suppliers to be aware of this responsibility, particularly in the area of quality management using web-based quality planning tools and further training.

An electronic standard has been put in place to monitor the core processes involved in working together with suppliers. Inquiries, purchase orders and specific supply requests for series and test components are sent electronically via EDI (Electronic Data Interchange) or the internet. The same channels can also be used to obtain information on parts origin, materials balance details regarding recycling requirements or change management information.

As part of the process of increasing the level of responsibility that suppliers are expected to assume for quality, the BMW Group also provides real-time data to its suppliers. Data regarding supply quality from all plants can be retrieved, as can information concerning customer complaints and warranty costs.

High ecological and social standards expected of suppliers

The BMW Group also expects its suppliers to adhere to high social and ecological standards. The BMW Group's national and international purchasing guidelines also stipulate social and ecological standards.

Surveys are regularly made about how suppliers comply with, and implement, those standards. This data is recorded in the BMW Group's supplier database. In 2006, the BMW Group, together with its suppliers, successfully implemented all current requirements stipulated by the EU End-of-Life Vehicle Directive with regard to prohibited materials.

Sales network expanded further

In 2006, the main challenge for the BMW Group in terms of sales and marketing activities was the strengthening of its global sales network.

The BMW Group continued to expand its presence, especially in developing markets. The Group also invested in its established markets by strengthening its sales organisation in these areas. Although the Group's highest growth rates were achieved in emerging markets, the market triad of Western Europe, the USA and Japan still generates around 85 % of the BMW Group's total sales volume.

In 2006, the BMW Group continued its preparations for entering the Indian market. The new sales company in Delhi started operations on 1 January 2007. The official opening of the new BMW Group plant in the southern Indian city of Chennai is planned for March.

The BMW Group also opened its own sales organisations in the Czech Republic and Slovakia with effect from 1 July 2006 and in Slovenia with effect from 1 January 2007. This is all part of a Group strategy to assume direct market responsibility in all EU countries within Central and Eastern Europe.

At a dealership level too, the BMW Group pressed ahead with its engagement in new markets. The number of dealerships in China was increased to 61 in 2006, representing a rise of approximately one third compared to one year earlier. The first steps were also taken to create a dealership network in India.

In the established markets, by contrast, activities aimed at strengthening the quality of the existing sales organisation dominated. Here too, the main focus was on retail sales. In the final analysis, nine out of ten BMW and MINI customers purchase their vehicles at one of over 3,000 BMW or 1,500 MINI dealerships around the world.

It is essential for the overall success of the BMW Group that dealerships are given support in the development of common business interests. Measures taken in this respect in 2006 included continued implementation of the Customer Relationship Management Programme and the Used Vehicle Programme as well as investments in training centres for dealers, such as in the United Kingdom, Italy or Mexico. The availability of spare parts was also greatly improved in a number of countries, such as South Africa or Malaysia.

In addition to external dealerships, the BMW Group also has a network of 36 branches around the world that, in many markets, serve as a source of reference.

The Rolls-Royce dealership network was further expanded and now comprises 74 sales partners worldwide.

Investment in strong brands

Apart from the substance and emotionality of its products, the BMW Group also benefits from the strength of its various brands. To this end, it continues to invest substantial sums on precise measures to improve their profile.

With consideration to the separate market positioning of the BMW und MINI brands, the BMW Group selected two new creative partners in 2006 – Media Arts Lab for the BMW brand and Plantage for the MINI brand. From 2007 onwards, these two agencies will not only work on the German market, but also on the development of launch and brand campaigns that can be rolled out internationally.

In 2006, various innovative marketing campaigns contributed towards the strengthening of the BMW brand. One example of this is the current worldwide "Expertise Campaign" and another is the "Company of Ideas" campaign used in the USA, BMW's largest market. The "Expertise Campaign" explains various BMW technological advances in an unconventional and humorous way, such as the workings of the xDrive four-wheel-drive system, demonstratively using a jumping jack toy figure. The "Company of Ideas" advertisements make general allusions to the idea of independence and the company's ability to innovate.

In the field of sports marketing, the BMW brand entered into new territory with the "F1 Pit Lane Park", presenting a "Hands-On Formula 1" pit lane accessible to all visitors over a series of five race weekends. The BMW Group's involvement with golf was expanded in the form of a partnership with the PGA Tour and Western Golf Association to create the "BMW Championship". In the area of sailing, activities were already fully aimed towards the Americas Cup 2007 in Valencia.

Altogether, great consideration was given to communicating the BMW brand in view of the changing ways customers use various media and this has been reflected in a number of innovative offers tailored to suit these new media. One example is the internet campaign for the new BMW X5 with a version of the BMW website optimised for portable electronic devices, including BMW audio and video podcasts about the automobile trade fairs in Detroit, Geneva and Tokyo or with free downloads of BMW audio book thrillers.

In 2006, marketing activities for the MINI brand were wholly directed towards the market launch of the new MINI. The integrated launch campaign under the motto "Incredibly MINI. The new MINI" not only introduced the new models, but also highlighted attitudes and lifestyles associated with the MINI brand using unconventional activities and formats – coupled with a dash of the typical humour also associated with the MINI.

Weak dollar unable to dampen stock market mood

The renewed weakening of the US dollar against the euro and the persistently high price level of key commodities determined the mood on the stock markets in 2006. In 2005, the US dollar had strengthened by 13 % against the euro; over the course of 2006 it weakened again. Compared to the exchange rate at the beginning of the year, the US currency lost 11.9 % in value against the euro, moving in a range of US dollar 1.18 – 1.33 to the euro during the year under report and reaching its lowest level of US dollar 1.33 to the euro on 5 December.

The situation on the commodity markets eased towards the end of 2006, but only after experiencing strong fluctuations during the year. For example, one barrel of Brent Crude cost US dollar 58.51 at the end of the year, whereas in August the price had been in the region of US dollar 80. In fact, compared to the beginning of the year, the price of this raw material – which is crucial for the automobile industry – went down by 5.4 %.

Despite the deterioration in exchange rates affecting export-orientated companies in the euro region, the stock markets nevertheless saw some sharp rises.

Compared to its level at the beginning of the year, the EURO STOXX 50 rose by almost 15.1 % during the period under report. The leading German stock index, the DAX, improved by as much as 21.9 %. The Prime Automobile sector index also performed well within this favourable market environment, closing at 569.56 points and thus gaining 25.7 % compared to one year earlier.

BMW common stock closed on 29 December 2006, the final day of trading for the year, at euro 43.51, 17 % ahead of its January price. The increase in value registered in recent years therefore continued, albeit with a small amount of volatility.

By contrast, BMW preferred stock once again outperformed the overall market, closing on 29 December at a price of euro 43.52. During the year under report, BMW preferred stock therefore gained 34.3 % in value.

Programme to buy back shares of common stock

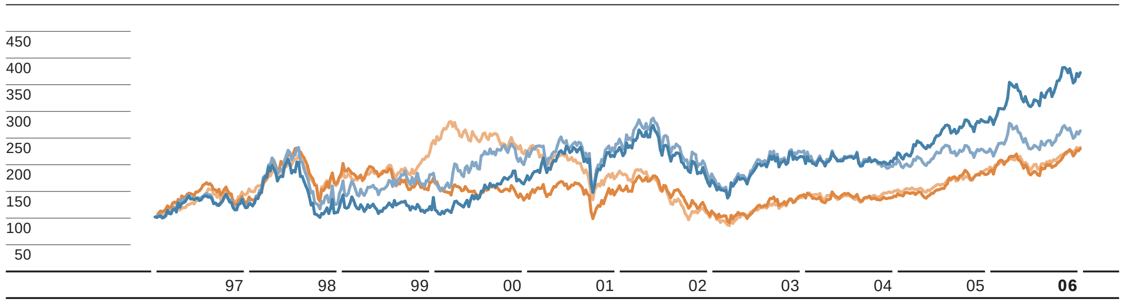
At the Annual General Meeting of BMW AG on 12 May 2005, the shareholders authorised the Board of Management to acquire up to a maximum of 10 % of the share capital in place at the date of the resolution and to withdraw these shares from circulation without any further resolution by the Annual General Meeting.

In conjunction with this authorisation, 3 % of the share capital was acquired. This involved the acquisition of 20,232,722 shares of BMW common stock at an average stock exchange price of euro 37.47. The shares were withdrawn from circulation in accordance with the resolution of the Board of Management taken on 21 February 2006. At the Annual General Meeting of BMW AG held on 16 May 2006, the Board of Management was again authorised to acquire shares of common and/or preferred stock via the stock exchange, up to a maximum of 10 % of the share capital in place at the date of the resolution. This authorisation replaces the previously valid one and expires on 15 November 2007.

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

Since 1989, employees have been able to participate in the success of the Company through the acquisition of below-market priced shares of preferred

Development of BMW stock compared to stock exchange indices
(Index: 29.12.1996 = 100)



stock. In the meantime, this instrument of employee participation has spanned a timeframe of more than 30 years. This successful programme will be continued in 2007. As notified in the Federal Gazette on 21 December 2006, up to 800,000 shares will be acquired during the course of 2007 for the purpose of issue to employees. As in the past, the buy-back will be executed under the leadership of a number of securities houses or banks, which are able to determine the timing of individual buy-backs independently of, and uninfluenced by, BMW AG.

Successful bond issues

In order to refinance the unabated high rate of growth of the Financial Services segment, the BMW Group increased its issuing activities with bonds and asset-backed-security transactions (ABS) during 2006. These issues were made by the group's relevant financing companies. The American capital market was used primarily via ABS transactions and money market instruments such as Commercial Paper.

In 2006, a benchmark bond of euro 1 billion was placed on the European capital market. Bonds were also issued in British pounds, US dollars and Swiss francs.

The BMW Group was able to benefit from the favourable conditions prevailing on the lending markets. Issue activities were aided by the BMW Group's policy of keeping the markets well informed and by the above-average good ratings that the group enjoys. As in previous years, financial terms and conditions were particularly attractive in the euro region. The bonds were highly sought after by institutional and private investors alike. The strength of the BMW Group's three authentic premium brands is therefore reflected in the global capital markets.

Scope of information for investors and analysts continuously expanded

The continuous improvement in the quality of communication with the financial markets was well appreciated by market participants. In 2006, the BMW Group's investor relations team was judged to be the best in the sector, winning first place in the Extel Survey, published in summer 2006. Readers of the investor magazine "Börse Online" judged the investor relations work of the BMW Group to be the best of any DAX 30 company.

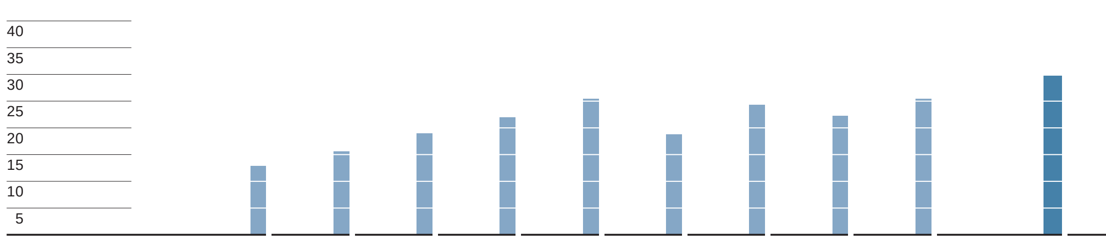
The internet plays a key role in the process of communicating financial information. Within this context, the on-going development of the BMW Group's investor relations website is of major significance (www.bmwgroup.com/ir). Apart from financial publications and other important information for shareholders, since 2005 it has been possible, for example, to listen to quarterly conferences in the form of audio podcasts. This service was widely used during the period under report.

Increasing importance of sustainability as analysis criterion for the stock markets

Business sustainability aspects are becoming increasingly important as an element of the BMW Group's capital market work. In addition to regular capital market discussions focused on Socially Responsible Investment (SRI), the BMW Group also held SRI Roadshows in both London and Paris.

In September 2006, the BMW Group was again included as sector leader in the Dow Jones Sustainability Indexes. The BMW Group is therefore the only enterprise in the sector to have been included in this important group of indices for sustainable investment for the eighth time in succession. For the last five years, it has also been a member of the

Development in the value of a BMW stock investment in euro thousand
Investment of euro 10,000 at 1.1.1997, including dividends and proceeds from subscription rights, values at end of year



	97	98	99	00	01	02	03	04	05	**06**
euro thousand	12.9	15.6	19.0	22.0	25.4	18.8	24.3	22.3	25.4	**29.8**

relevant FTSE4Good index group. For the second time in succession, the BMW Group was judged by the Carbon Disclosure Project to be "Best in Class in 2006" for its strategy in the face of climate change. The BMW Group is now included in the Climate Leadership Index. The Carbon Disclosure Project is an initiative started by institutional investors evaluating companies on the basis of how they face up to the challenges of climate change.

BMW stock	2006	2005	2004	2003	2002
Common stock					
Number of shares in 1,000	601,995	622,228	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	43.51	37.05	33.20	36.75	28.92
High	46.47	39.97	37.44	38.40	47.60
Low	35.52	32.04	31.78	21.12	27.97
Preferred stock					
Number of shares in 1,000	52,196	52,196	52,196	52,196	51,468
Stock exchange price in euro[1]					
Year-end closing price	43.52	33.00	24.80	24.65	18.60
High	45.91	33.98	26.20	26.25	31.99
Low	31.80	24.48	22.86	14.86	18.17

	2006	2005	2004[5]	2003	2002
Key data per share in euro					
Dividend					
Common stock	0.70[2]	0.64	0.62	0.58	0.52
Preferred stock	0.72[2]	0.66	0.64	0.60	0.54
Earnings per share of common stock[3]	4.38	3.33	3.33	2.89	3.00
Earnings per share of preferred stock[4]	4.40	3.35	3.35	2.91	3.02
Cash flow[6]	8.21	9.17	9.13	7.37	6.76
Equity	29.24	25.17	24.52	23.95	20.59

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

The Company's share capital, totalling euro 654,191,358 is, pursuant to Article 4 (1) of the Articles of Incorporation (status: 9 March 2006) 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.

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 common and preferred shares, provided the shareholders do not resolve otherwise at the Annual General Meeting.

The right of shareholders to have their shares issued in individual share certificates 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 specified 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 specified 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 telefax, 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).

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. They only confer voting rights in exceptional cases stipulated by law.

The Company's Board of Management is not aware of any other restrictions relating to voting rights or the transfer of shares.

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	15.4		1.4.2002*
Johanna Quandt	1.3	15.4	1.4.2002*
Susanne Klatten GmbH & Co. KG für Automobilwerte	11.5		1.4.2002
Susanne Klatten	1.0	11.5	1.4.2002
Stefan Quandt GmbH & Co. KG für Automobilwerte	16.1		1.4.2002*
Stefan Quandt	1.3	16.1	1.4.2002*

* confirmed by notifications as at 20 January 2007.

The shareholdings 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.

The appointment and removal of members of the Board of Management are based on the rules contained in § 84 and § 85 AktG. 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).

There is no authorised or conditional capital at the reporting date.

In accordance with the resolution passed at the Annual General Meeting on 16 May 2006, the Board of Management is authorised, up to 15 November 2007 and subject to the price limits stipulated in the resolution, to acquire common and/or non-voting preferred shares 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 shares) 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.

The BMW AG is party to the following significant agreements which contain special provisions for the event of a change of 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 DaimlerChrysler 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 a 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 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 contractual party is materially weaker following the direct or indirect acquisition of the 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 take-over 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 as a whole. 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 the cash flows 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:

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

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. This involves the continual monitoring of projects as well as determining and implementing measures necessary to achieve the defined targets.

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) 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 (i. e. the project's added-value) can be documented when the project decision is taken. Targets and performance are each controlled using 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 the main 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 described above is subject to basic conditions which result from periodic planning. The aim here is to monitor and manage periodic targets on a long-term basis. 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

Key performance indicators in %	2006	2005	2004*	2003	2002
Return on Capital Employed					
Automobiles	21.7	23.2	25.4	23.8	30.1
Motorcycles	17.7	17.8	10.4	16.7	22.3
Return on Assets					
Financial Services	1.4	1.3	1.4	1.4	1.4
BMW Group	6.3	5.6	6.5	6.6	7.6

* adjusted for new accounting treatment of pension obligations

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 (e.g. Value at Risk).

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

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

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

Long-term creation of value

The overall target set for earnings is continuous growth for which the group's minimum rate of return is used as the relevant performance indicator. 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 annual earnings and rates of return. "Multi-project planning" data gleaned from these procedures allows on-going comparison between dynamic multi-period targets and periodic performance.

Earnings performance

The BMW Group recorded a net profit of euro 2,874 million (2005: euro 2,239 million) for the financial year 2006. The post-tax return on sales was 5.9 % (2005: 4.8 %). The group therefore generated earnings per share of common stock of euro 4.38 and earnings per share of preferred stock of euro 4.40.

Group revenues rose by 5.0 % compared to the previous year. Adjusted for exchange rate factors, group revenues would have increased by 5.5 % or euro 2,574 million. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars went up by 1.9 %, Revenues from motorcycles business grew by 3.1 %. Revenues from financial services business climbed by 19.0 % due to higher business volumes. Revenues from other activities of the Group totalled euro 193 million and related mainly to the softlab Group. The comparable figure for the previous year was euro 119 million.

Revenue trends varied from region to region. Whereas group revenues decreased in Germany by 3.6 %, they increased in the rest of Europe by 6.8 %. Revenues generated in the Americas region rose by 6.7 %. For the Africa, Asia and Oceania regions, they grew in total by 11.6 %, mainly on the back of marked sales volumes increases in specific Asian markets.

Group cost of sales increased at a slightly lower rate than revenues. The impact of additional costs anticipated by the BMW Group since the beginning of 2006 – namely the effect of unfavourable exchange rates and higher raw material prices – were offset by efficiency improvements and an improved product mix. Despite the adverse factors stated above, gross profit increased in absolute terms by 6.3 %, giving a gross profit percentage of 23.1 % (2005: 22.9 %). The gross profit percentage for both Industrial operations and Financial operations was 0.6 percentage points lower than in the previous year. Information about the composition of the sub-groups is provided in Note [1].

Sales and administrative costs increased by 4.4 % due to the higher business volume; the increase was, however, lower than the increase in revenues. They represented 10.1 % of revenues, 0.1 percentage points lower on a year-to-year comparison.

Research and development costs were 3.2 % higher than in 2005, and represented 5.2 % of revenues (2005: 5.3 %). Research and development costs include amortisation of capitalised development costs amounting to euro 872 million (2005: euro 745 million). Total research and development costs amounted to euro 3,208 million (2005: euro 3,115 million). This figure comprises research costs, development costs not recognised as assets and

- New car and motorcycles sales volume records
- Group and segment earnings above previous year's level
- Adverse external factors hold down reported earnings, qualitative key performance figures nevertheless positive
- Settlement of Rolls-Royce exchangeable bond has one-off impact on earnings
- Capital expenditure reaches new high level

Group Income Statement

in euro million	1.1. to 31.12. 2006	1.1. to 31.12. 2005
Revenues	48,999	46,656
Cost of sales	– 37,660	– 35,992
Gross profit	**11,339**	**10,664**
Sales and administrative costs	– 4,972	– 4,762
Research and development costs	– 2,544	– 2,464
Other operating income and expenses	227	355
Profit before financial result	**4,050**	**3,793**
Result from equity accounted investments	– 25	14
Other financial result	99	– 520
Financial result	74	– 506
Profit before tax	**4,124**	**3,287**
Income taxes	– 1,250	– 1,048
Net profit	**2,874**	**2,239**

capitalised development costs. The research and development expenditure ratio for 2006 was 6.5 % (2005: 6.7 %).

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 totalled euro 3,272 million (2005: euro 3,025 million).

The positive net amount from other operating income and expenses went down by 36.1 % compared to the previous year. Other operating income decreased primarily as a result of lower income from the reversal of provisions. In the previous year, a provision relating to the Rover disengagement had been reversed. Other operating expenses increased by euro 28 million or 5.7 %.

The profit before financial result was up by euro 257 million or 6.8 % against the previous year, therefore reaching a new high level.

The financial result improved by euro 580 million. This includes the one-off gain of euro 386 million arising on the partial settlement of the exchangeable bond on Rolls-Royce plc, London shares. This gain is reported mostly in "Sundry other financial result" and the remainder in "Net interest result". A fair value loss of euro 14 million was recognised on the remaining exchangeable bond option obligation relating to the BMW Group's investment in Rolls-Royce plc, London, and is also included in the line item "Sundry other financial result". In the previous year, fair value measurement had resulted in a loss of euro 356 million. Fair value losses on other derivative financial instruments had a negative impact on "Sundry other financial result". The net result from using the equity method decreased by euro 39 million, primarily as a result of an impairment loss recognised on TRITEC Motors Ltda., Campo Largo. The net positive result from investments was up by euro 4 million. Net interest expense decreased by euro 41 million. The net negative amount resulting from unwinding the discounting on pension obligations and recognising income for the expected return on pension plan assets decreased by 6.5 % on a year-on-year basis.

In the light of the financial result performance described above, the group profit before tax improved by 25.5 % compared to the previous year. The pre-tax return on sales was 8.4 % (2005: 7.0 %). Excluding the impact of the gain arising on the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London, and the fair market loss arising on the option obligation, the profit before tax improved by 3.0 % to euro 3,752 million.

The group net profit was up by euro 635 million or 28.4 % against the previous year. The marginally lower effective tax rate was attributable to the fact that the gain recognised on the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London, was tax-exempt. In accordance with the provisions of § 37 (5) of the German Corporation Tax Act, tax reimbursement receivables of euro 123 million have been recognised as an asset on the basis of their present value.

The Automobiles segment recorded a 3.5 % increase in sales volume and a 4.2 % increase in revenues, with product mix shifts having a positive impact on revenues. Segment profit increased by only 1.2 % to euro 3,012 million due to the effect of adverse external factors.

Motorcycles segment revenues increased by 3.4 %, whilst segment profit improved by 10.0 %. Efficiency improvement programmes in particular contributed to improved profitability in this segment.

The Financial Services segment again expanded its business successfully in 2006, enabling segment profit to be improved by 13.2 % compared to the previous year.

Reconciliations to the Group profit in 2006 are positive (2005: negative) mainly as a result of the gain arising on the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London.

Financial position

The group cash flow statement shows the sources and applications of cash flows for the financial years 2006 and 2005, 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 financial 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.

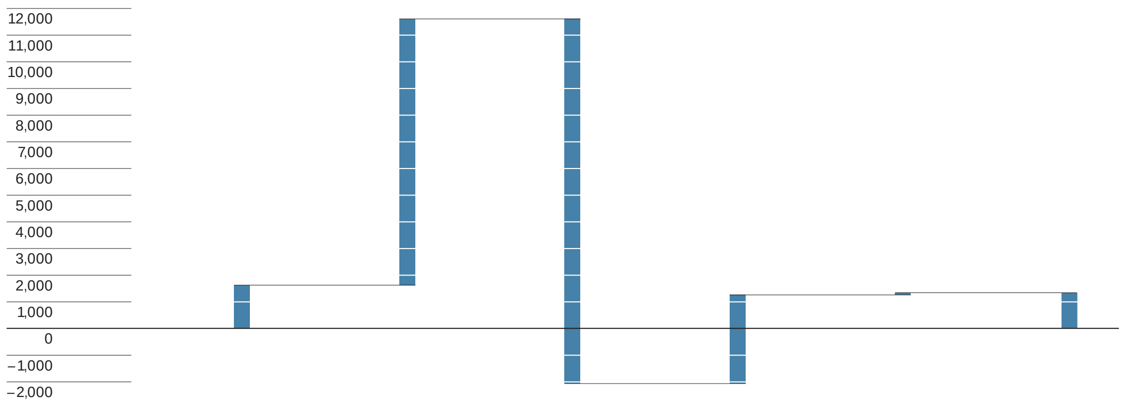
Revenues by segment

in euro million	1.1. to 31.12. 2006	1.1. to 31.12. 2005
Automobiles	47,767	45,861
Motorcycles	1,265	1,223
Financial Services	11,079	9,408
Reconciliations	– 11,112	– 9,836
Group	**48,999**	**46,656**

Profit before tax by segment

in euro million	1.1. to 31.12. 2006	1.1. to 31.12. 2005
Automobiles	3,012	2,976
Motorcycles	66	60
Financial Services	685	605
Reconciliations	361	– 354
Group	**4,124**	**3,287**

Change in cash and cash equivalents
in euro million



Cash and cash equivalents 31.12.2005	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 31.12.2006
1,621	**+9,980**	**–13,670**	**+3,323**	**+82**	**1,336**

Operating activities of the BMW Group generated a positive cash flow of euro 9,980 million in 2006, down by euro 711 million or 6.7 % compared to one year earlier. Changes in net current assets during 2006 resulted in a net cash outflow of euro 49 million (2005: net inflow of euro 923 million). The net cash outflow was due to the higher level of inventories.

The cash outflow for investing activities amounted to euro 13,670 million and was therefore euro 1,707 million higher than in 2005. The marked increase in cash outflow for investing activities was due, on the one hand, to increased capital expenditure in 2006 and, on the other, to the receipt, in 2005, of the final sales price instalment of euro 1,000 million from the sale of Land Rover. Capital expenditure on intangible assets and property, plant and equipment resulted in the cash outflow for investing activities increasing by euro 438 million compared to the previous year. The cash outflow for net investments in financial services activities also rose steeply and was euro 505 million higher than in the previous year.

Financing activities in 2006 generated a positive cash flow of euro 3,323 million (2005: euro 699 million). Cash inflows from the issue of bonds totalled euro 6,876 million (2005: euro 5,819 million), whilst cash outflows to repay bonds totalled euro 4,491 million (2005: euro 3,432 million). The dividend payment made during the financial year 2006 was euro 419 million. The share buy-back programme involved a cash outflow in 2006 of euro 253 million.

73.0 % (2005: 89.4 %) 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 inflow from operating activities exceeded the cash outflow for investing activities by 21.6 % (2005: 150.7 %). By contrast, the cash flow statement for Financial operations shows that, due to the high level of capital expenditure on leased products and receivables from sales financing, the cash inflow from operating activities did not cover the cash outflow for investing activities. The short fall was 50.2 % (2005: 52.5 %).

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group which resulted in a positive amount of euro 82 million (2005: euro 66 million), the various cash flows resulted in a decrease in cash and cash equivalents of euro 285 million (2005: decrease of euro 507 million).

Net interest-bearing assets relating to Industrial operations (including receivables from the financial operations sub-group) amounted to euro 5,385 million at 31 December 2006, an increase of euro 508 million compared to one year earlier. Net interest-bearing assets relating to Industrial operations comprise cash and cash equivalents (euro 1,235 million), marketable securities relating to Industrial operations (euro 1,993 million) and receivables from Financial operations (euro 4,276 million) less financial liabilities relating to Industrial operations. Excluding interest and currency derivatives, the latter amounted to euro 2,119 million.

Net assets position

The group balance sheet total increased by euro 4,491 million or 6.0 % to euro 79,057 million. Currency effects, largely attributable to a weaker US dollar, held down the increase in the balance sheet total in 2006. Adjusted for changes in exchange rates, the balance sheet total would have increased by 10.0 % or euro 7,162 million. The main factors behind the increase on the assets side were the increased level of leased products (+19.9 %), financial assets (+19.8 %), intangible assets (+15.7 %) and receivables from sales financing (+ 4.5 %). On the equity and liabilities side of the balance sheet, the main increases related to equity (+12.7 %) and financial liabilities (+ 5.2 %).

Intangible assets increased by 15.7 % to euro 5,312 million. Within intangible assets, capitalised development costs went up by 16.0 % to euro 4,810 million. Development costs recognised as assets during the year under report amounted to euro 1,536 million (+10.0 %), equivalent to a capitalisation ratio of 47.9 % (2005: 44.8 %). As in the previous year, increased capitalised development costs resulted from the higher number of projects in the series development phase. Amortisation on intangible assets totalled euro 872 million (+17.0 %).

The carrying amount of property, plant and equipment increased by 1.8 % to euro 11,285 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 2,656 million, 10.3 % more than in the previous year. Important areas of capital expenditure included expansion of the Oxford and Spartanburg plants. Depreciation on property, plant and equipment totalled euro 2,313 million (+4.6 %). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 22 million. Capital expenditure on intangible assets and property, plant and equipment totalled euro 4,313 million (+ 8.0 %), which, as in the previous year, was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 8.8 % (2005: 8.6 %).

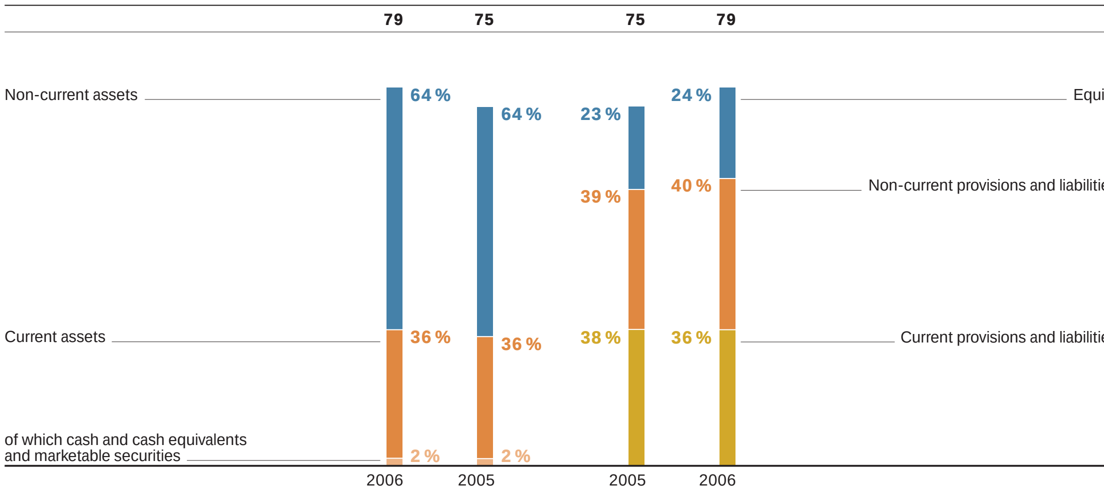
As a result of the growth of business, the total carrying amount of leased products increased sharply by 19.9 % to euro 13,642 million. Adjusted for changes in exchange rates, leased products would have risen by 29.9 %.

The carrying amount of other investments decreased by 66.0 % to euro 401 million, mainly as a result of the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. The market value of the remaining investment is now euro 99 million above its historical cost. Fair value gains or losses on the shares are recognised directly in other accumulated equity.

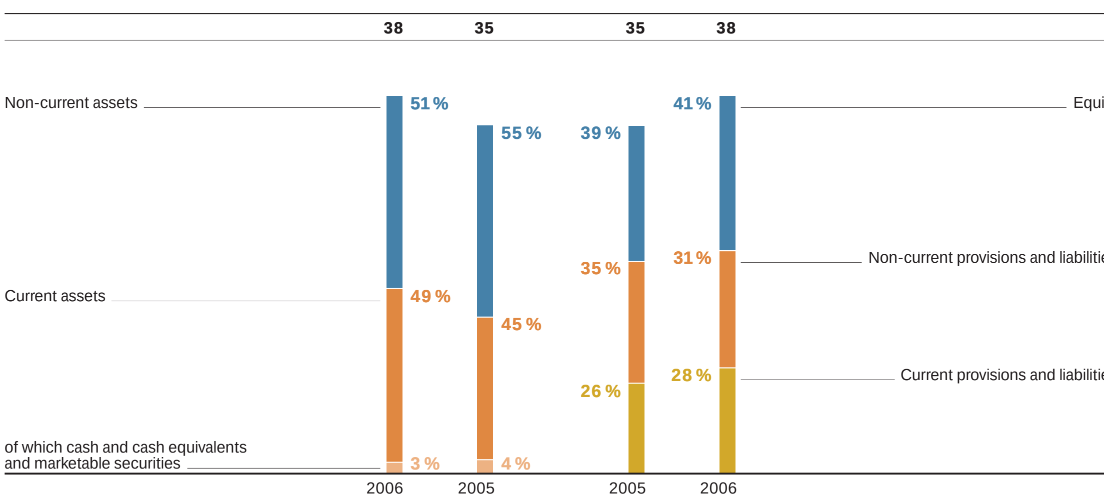
Receivables from sales financing were up by 4.5 % to euro 30,368 million due to the higher business volume. Of this amount, customer and dealer financing accounted for euro 23,038 million (+ 3.3 %) and finance leases accounted for euro 7,330 million (+ 8.6 %).

Inventories increased by euro 267 million (+4.1 %) to euro 6,794 million, mainly as a result of the inclusion of new sales companies in the group reporting entity. Trade receivables went up by 5.8 % compared to 31 December 2005.

Balance sheet structure Group
in euro billion



Balance sheet structure industrial operations
in euro billion



Financial assets increased by 19.8 % to euro 3,950 million, mainly as a result of higher fair values of derivative financial instruments.

Liquid funds fell by 8.8 % to euro 3,370 million. Whereas marketable securities were roughly at the previous year's level, cash and cash equivalents decreased by euro 285 million compared to one year earlier.

On the equity and liabilities side of the balance sheet, equity grew by 12.7 % to euro 19,130 million. The profit for the year attributable to shareholders of BMW AG increased equity by euro 2,868 million. Fair value changes recognised directly in other accumulated equity reduced equity by euro 43 million (2005: reduction of euro 875 million). This was the result of translation differences and the fair value measurement of financial instruments and available-for-sale securities. In addition, the increase in discount factors applied in Germany and the United Kingdom in 2006 gave rise to actuarial gains totalling euro 515 million. In the previous year, actuarial losses of euro 736 million had been recognised as a result of lower interest rates. The dividend payment for the financial year 2005 and the buy-back of shares in the first quarter 2006 reduced equity by a further euro 672 million. Minority interest amounted to euro 4 million. Overall, the equity ratio of the BMW Group improved by 1.4 percentage points to 24.2 %.

The equity ratio for Industrial operations was 40.6 % compared to 39.1 % at the end of the previous year. The equity ratio for Financial operations remained at 10.4 %.

The amount recognised in the balance sheet for pension obligations decreased by 4.5 % to euro 5,017 million. Following the change in accounting policy for pension obligations 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 fact that higher discount factors were applied in Germany and the United Kingdom.

Other provisions decreased by 6.3 % to euro 5,536 million, mainly due to lower obligations for on-going operational expenses. The main factor here was the reduction in warranty provisions. Provisions for other obligations were also lower. By contrast, personnel-related obligations increased by euro 138 million.

Deferred tax liabilities increased by 9.4 % to euro 2,758 million, primarily as a result of the higher level of capitalised development costs.

Financial liabilities increased by 5.2 % to euro 36,456 million. Within financial liabilities, bonds increased by 8.3 % to euro 16,420 million, mainly as a result of the higher volume of the medium term note programme. Liabilities to banks and obligations under asset-backed financing transactions were also up, whereas liabilities from customer deposits (banking) were down by 9.6 %.

Trade payables amounted to euro 3,737 million and were thus 5.4% higher than one year earlier.

Other liabilities totalling euro 5,856 million were up by 11.8 %. This was mainly attributable to the increase in other taxes and in deferred income relating to service and repair agreements.

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 121 to 124. 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 nets 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 2006 increased by 8.8 % to euro 13,585 million. The increase in comparison to the previous year was attributable primarily to the higher level of revenues. The increase in gross valued added, at 10.8 %, was even more pronounced since it is not affected by depreciation and amortisation, which are higher than in the previous year.

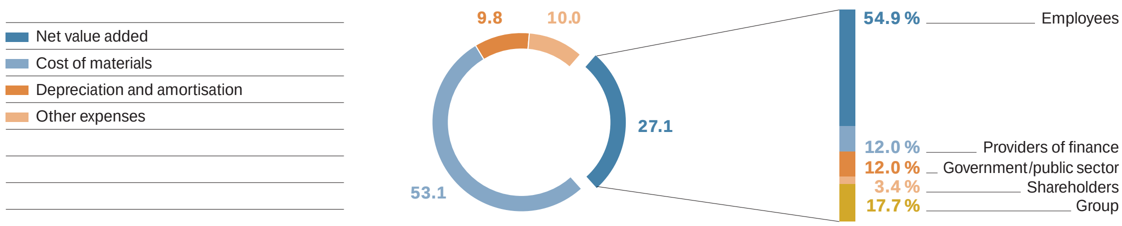
The bulk of the net value added (54.9 %) is applied to employees. The amount applied to providers of finance increased to 12.0 %. The government/public sector also accounted for 12.0 % (including deferred taxes). The proportion of net value added applied to shareholders, at 3.4 %, was similar to the previous year's level. The remaining proportion of net value added (17.7 %) will be retained in the Group to finance future operations. In absolute terms, this amount increased by 32.4 %.

BMW Group value added statement

in euro million	2006	2006 in %	2005	2005 in %	Change in %
Work performed					
Revenues	48,999	97.7	46,656	98.6	
Financial income	393	0.8	–188	–0.4	
Other income	744	1.5	844	1.8	
Total Group output	**50,136**	**100.0**	**47,312**	**100.0**	**6.0**
Cost of materials	26,598	53.1	25,694	54.3	
Other expenses	5,037	10.0	4,925	10.4	
Bought-in costs	**31,635**	**63.1**	**30,619**	**64.7**	**3.3**
Gross value added	**18,501**	**36.9**	**16,693**	**35.3**	**10.8**
Depreciation and amortisation	4,916	9.8	4,207	8.9	
Net value added	**13,585**	**27.1**	**12,486**	**26.4**	**8.8**
Applied to:					
Employees	7,448	54.9	7,306	58.5	1.9
Providers of finance	1,627	12.0	1,351	10.9	20.4
Government/public sector	1,636	12.0	1,590	12.7	2.9
Shareholders	458	3.4	419*	3.3	9.3
Group	2,410	17.7	1,820*	14.6	32.4
Minority interest	6	–	–	–	–
Net value added	**13,585**	**100.0**	**12,486**	**100.0**	**8.8**

* adjustment to dividends due to acquisition of treasury shares

BMW Group value added 2006
in %



Key performance figures

		2006	2005
Gross Margin	%	23.1	22.9
EBITDA Margin	%	14.9	14.6
EBIT Margin	%	8.3	8.1
Pre-tax return on sales	%	8.4	7.0
Post-tax return on sales	%	5.9	4.8
Pre-tax return on equity	%	24.3	19.9
Post-tax return on equity	%	16.9	13.5
Equity ratio – Group	%	24.2	22.8
Industrial operations	%	40.6	39.1
Financial operations	%	10.4	10.4
Coverage of intangible assets, property, plant and equipment by equity	%	115.3	108.2
Return on Assets			
BMW Group	%	6.3	5.6
Financial Services	%	1.4	1.3
Return on Capital Employed			
Automobiles	%	21.7	23.2
Motorcycles	%	17.7	17.8
Cash inflow from operating activities	euro million	9,980	10,691
Cash outflow from investing activities	euro million	13,670	11,963
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	73.0	89.4
Net financial assets of industrial operations	euro million	5,385	4,877

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 2006 rose by 3.3 % to 1,366,838 units. At 31 December 2006, BMW AG had 76,156 employees, 380 fewer than one year earlier. Wage earners account for approximately 53 % of the workforce.

In 2006, revenues were 1.5 % higher than in the previous year. Sales to foreign group sales companies accounted for euro 30.8 billion, or approximately 73 % of the total revenues of euro 42.4 billion. Cost of sales remained at approximately the same level as in 2005, and therefore went up at a slightly slower rate than revenues. The gross profit, at euro 6.1 billion, was 11.6 % higher than in the previous year.

Adverse currency factors relating to the US dollar and Japanese yen, alongside continued intense competition on the automobile markets and increases in raw material prices, all had a negative impact on BMW AG's earnings. By contrast, the increase in the interest rate used to measure pension provisions (from 4.25 % to 4.40 %) and the discounted tax reimbursement resulting from a change in German law with regard to the corporation tax credit, had a positive effect.

In the financial year 2006, capital expenditure on intangible assets and property, plant and equipment totalled euro 1,324 million (2005: euro 1,472 million). This represents a decrease of 10.1 % and was mainly due to completion of structural investment at the Leipzig plant. Depreciation and amortisation amounted to euro 1,765 million.

By 17 February 2006, a total of 20,232,722 shares of common stock had been bought back via the stock exchange at a total acquisition cost of euro 758 million, and withdrawn from circulation in accordance with the resolution taken by the Board of Manangement on 21 February 2006. Of the total number of shares withdrawn, 13,488,480 shares, with an acquisition cost of euro 506 million, had already been held by BMW AG at 31 December 2005. Equity decreased by the amount of the buy-back value of the shares withdrawn from circulation. The equity ratio fell from 25.8% to 23.4%. Long-term external capital (registered profit-sharing certificates, pension provisions, the liability to the BMW Unterstützungsvereins e.V. and liabilities due after one year) increased marginally (+1.3 %) to euro 4.8 billion.

As in previous years, the cash inflow from BMW AG's operating activities was used to finance subsidiaries.

BMW AG **Balance Sheet at 31 December** in euro million	2006	2005
Assets		
Intangible assets	80	86
Property, plant and equipment	5,268	5,717
Investments	4,823	4,774
Tangible, intangible and investment assets	**10,171**	**10,577**
Inventories	2,866	2,764
Trade receivables	1,075	1,054
Receivables from subsidiaries	4,478	2,751
Other receivables and other assets	693	558
Marketable securities	1,583	1,488
Cash and cash equivalents	106	518
Current assets	**10,801**	**9,133**
Prepayments	**73**	**92**
	21,045	**19,802**

Equity and liabilities		
Subscribed capital	654	674
Nominal value of shares acquired for withdrawal from circulation		– 13
Issued capital		661
Capital reserves	1,991	1,971
Revenue reserves	1,818	2,052
Unappropriated profit available for distribution	458	424
Equity	**4,921**	**5,108**
Registered profit-sharing certificates	**34**	**35**
Special untaxed reserve for emission rights granted free of charge	**1**	**–**
Pension provisions	4,347	4,174
Other provisions	6,131	6,447
Provisions	**10,478**	**10,621**
Liabilities to banks	607	500
Trade payables	2,046	1,858
Liabilities to subsidiaries	1,618	941
Other liabilities	1,313	710
Liabilities	**5,584**	**4,009**
Deferred income	**27**	**29**
	21,045	**19,802**

BMW AG **Income Statement** in euro million	2006	2005
Revenues	42,417	41,801
Cost of sales	– 36,364	– 36,379
Gross profit	**6,053**	**5,422**
Sales costs	– 2,560	– 2,731
Administrative costs	– 917	– 904
Research and development costs	– 2,966	– 2,917
Other operating income and expenses	654	893
Result on investments	304	647
Net interest result	– 8	– 23
Profit from ordinary activities	**560**	**387**
Income taxes	– 60	50
Other taxes	– 15	– 13
Net profit	**485**	**424**
Profit carried over from previous year	4	–
Transfer to revenue reserves	– 31	–
Unappropriated profit available for distribution	**458**	**424**

Revenues generated with car rental companies involving a repurchase commitment are derecognised. Based on the draft Pronouncement issued on 1 July 2004 by the German Institute of Public Accountants (IDW) relating to the “Specific Issues in connection with Transfer of Ownership and Profit Realisation in accordance with HGB” (IDW ERS HFA 13), the vehicles involved are presented within current assets, measured at amortised cost, since economic 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 2006 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.

Risk management in the BMW Group

As a globally operating enterprise, the BMW Group is confronted with numerous risks. At the same time, opportunities can arise from changing circumstances, which the BMW Group endeavours to anticipate and exploit to improve its competitive position. Business risks are only consciously entered into when it is considered that the value of the business can be increased and the potential outcome can be controlled. The Board of Management and Supervisory Board are regularly informed about risks which could have a significant impact on business development.

In order to identify, evaluate and document the main risks, the BMW Group uses a comprehensive risk management system which involves the following processes:

- Business decisions are reached after in-depth project analyses, including detailed information concerning potential risks and opportunities, have been taken into consideration. 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 Group reporting system keeps all decision-makers fully informed and up-to-date about performance against targets and highlights changes affecting the market and competitors. By continuous monitoring of critical success factors, variances are identified at an early stage, thus allowing appropriate counter-measures to be implemented.
- Overall risk management is supervised by the corporate controlling department and is reviewed for its appropriateness and effectiveness by external auditors and by the Group's internal audit department. Throughout the BMW Group, a network of risk managers is in place, regularly carrying out risk reviews to identify and analyse significant risks. The results of the reviews are summarised in a separate risk report which is then presented to the Board of Management.
- By regularly sharing experiences with other companies, the BMW Group ensures that innovative ideas and approaches flow into the risk management system and that operational risk management is subjected to continual improvement.

At present, no risks have been identified which could threaten the existence of the 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:

Risks relating to the general economic environment

- As a result of its global activities, 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 main single source of risk within the BMW Group's foreign currency portfolio. Exchange rate fluctuations of the British pound and the Japanese yen in relation to the euro can also have a material impact on earnings. Based on group forecasts, these three currencies account for some 80 % 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. Currency risks are hedged in the short and medium term 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.
- Changes in the international commodity 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 volatility also entails an element of risk for future business development. Unforeseeable 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 using early warning indicators. Risk is also spread due to the worldwide nature of the BMW Group's activities. 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 economic situation, the international capital markets and hence the business development of the BMW Group.

Specific industry risks
- Changes in fuel prices, which may be either market-induced or due to governmental tax policies, and the increasingly stringent requirements to reduce fleet fuel consumption as well as CO_2 and NO_X emissions, all continue to place high demands on the BMW Group's engine and product development.
- The statutory regulations for CO_2 emissions targeted by the European Commission could have a materially adverse effect on the business development of the Automobiles segment and consequently on the group's earnings performance.

Operating risks
- Risks arising from business interruption and loss of production are insured up to economically reasonable levels. The BMW Group's extremely flexible production network and working time models also help to reduce operating risks.
- Close cooperation between manufacturers and suppliers is usual in the automotive sector, and although this provides economic benefits, it also creates a certain 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 these risks 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 growth of lease business, the BMW Group faces an increased residual value risk on the vehicles which are returned to the Group at the end of lease contracts. Changes in the residual values of BMW Group vehicles on the used car markets are therefore constantly monitored and forecasted. The overall risk position is measured each quarter by comparing forecasted market values and contractual values according to model and market.
  Provisions and write-downs on leased-out cars are recognised in the balance sheet to cover all identified risks. This risk is also reduced by measures such as active life-cycle management and management of used car markets at an international level, both of which have a stabilising effect on the residual values of BMW Group vehicles.
- Operating risks relating to the provision of financial services are managed by the BMW Group by means of a process which records and measures risks and incorporates specific measures to avoid risk. In this way, the BMW Group minimises the risk of losses which could arise as a result of inappropriate or failed internal procedures and systems, human error or external factors. This includes measures to ensure that operations can be continued at an appropriate level in the event of impairment caused by external factors.
- The BMW Group mitigates liquidity and interest rate change risks by matching maturities and employing derivative financial instruments. The liquidity situation is monitored continually by

means of a rolling cash flow forecast. As part of a value-based interest rate management system, interest rate risks are measured and limited using a value-at-risk approach. The risk-return ratio is tested continuously using simulated computations. In addition, sensitivity analyses are prepared to measure the potential impact of interest rate changes on earnings.

– In order to avoid currency risks, financing and lease business is refinanced, as a general rule, in the currency of the relevant market.
– 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 valid, enabling the BMW Group to obtain competitive conditions. Moody's issued an A1 rating and Standard & Poor's an A+ rating, both with stable outlook.
– Various methods and systems such as credit-rating and scoring are in place to manage credit risk, partly in the light of Basle II requirements. 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 corporate credit committees for approval. A two-step credit application process helps to reduce the risk of default affecting the Group's worldwide financial services operations. This process, which is based on clear and binding credit risk rules applicable throughout the group, also specifies the maximum amounts of unsecured credit volumes permitted ("unsecured risks"). The dual control principle applies worldwide and is rigorously implemented. In another measure to reduce risk, the BMW Group is continuously making efforts to standardise its credit-decision processes and the quality of those processes on a worldwide basis, and to ensure that uniform rating systems are in place. Close contact to borrowers, a thorough knowledge of the vehicle products sold, local credit checks and on-going measurement of collateral all make a vital contribution towards avoiding losses, particularly in the case of lower rating categories. On top of this, the dynamic global credit markets will continue to supply highly flexible instruments to mitigate risk (e.g. securitisation, coverage using credit derivatives, credit syndication).
For retail customer financing purposes, the BMW Group uses validated scorecards in order to reach credit decisions more quickly and to monitor risk. Criteria such as arrears and bad debt ratios are analysed monthly and used to actively manage the credit portfolio and to improve portfolio quality.

Legal risks

– The BMW Group is not involved in any court or arbitration proceedings which could have a significant impact on the economic position of the Group.
– 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 on-going 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.

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 managerial staff. Employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift.
– 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 changes will give rise to risks and opportunities which enterprises will be increasingly faced with in coming years. The BMW Group carefully reviews the effects of demographic change on operations, focusing in particular on the following issues:

  - the creation of a working environment for the future
  - promotion and maintenance of the workforce's ability to perform with the appropriate set of skills
  - training
  - increasing employees' awareness of their responsibility to make personal provisions for their future
  - 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 separately from corporate assets and are mainly invested in fixed-income securities with a high level of creditworthiness, and in equities. In Germany, by contrast, the funds remain part of the enterprise's assets.

Information and IT risks
The BMW Group protects data, business secrets and innovative developments against unauthorized access, damage and misuse using security measures appropriate to the risk involved. These measures encompass manual, process design and IT controls.

Group directives are in place requiring employees to handle information appropriately and ensure that information systems are properly used. Targeted communication measures increase employees' awareness of security requirements.

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. Together with the related IT infrastructure, the group's core process "Product development" has been audited and certified to international security standard (ISO 27001/17799). Certification had already been received back in 2003 and was again achieved in 2006.

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.

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 especially protected. In addition, staff members working in IT functions are increasingly receiving specific training in the area of data protection.

Outlook

The economic environment in 2007

The BMW Group predicts that the global economy will lose some of its momentum in 2007, with the growth rate tailing off towards the end of the year, but that it will nevertheless continue to grow overall at a high level. Higher interest rates across the board and the persistent high level of oil prices are, in the meantime, beginning to have an impact. For the year as a whole, it is forecast that prices will remain at a similarly high level compared to 2006. Although marginally lower global demand for oil and the fact that new production and refinery capacities are coming on line do not point to a sharp increase in prices, the oil market will nevertheless remain strained and consequently subject to volatility.

In 2007, the US economy is not expected to grow as fast as in recent years. However, even taking a sharp rise in interest rates, higher energy and raw material prices and a more sluggish property market into account, it is still not expected to weaken significantly. Growth rates are also likely to drop slightly in Japan and the euro region. Nevertheless, the overall economic situation in these regions still remains robust. In the euro region, it is most likely to be Germany that will put the brake on the growth rate, with consumer spending, already on the weak side, being held down by the value added tax increase. The emerging markets of Asia, Eastern Europe and Latin America will continue to grow strongly. Here, too, the global slow-down will, however, result in slightly lower growth rates.

Economic outlook for the automobile industry in 2007

The fast-growing Asian markets will continue to give impetus to the global automobile economy in 2007. These markets will continue to grow dynamically, albeit at a slightly slower pace. China's and India's automobile markets will continue to expand, with high growth rates in the double-digit range. The equivalent markets in Latin American will also enjoy another year of strong growth.

By contrast, the triad of traditional car markets (USA, Japan and Western Europe) will again generate little momentum; the overall forecast here is one of market stagnation. In Germany, purchases brought forward into 2006 may even cause a small contraction of the market in 2007.

Motorcycle markets still developing divergently

The motorcycle markets relevant to the BMW Group (500 cc plus) are forecast to register a low growth rate in 2007, with the individual markets developing divergently. Stronger growth is expected in the Southern European countries.

Interest rates to remain at high level

Interest rates rose sharply in 2006 and will remain at that high level throughout 2007. Within the euro region, the European Central Bank is expected to continue to raise interest rates. For the US dollar region, the BMW Group anticipates that the US Federal Reserve Bank will increase rates again by the second half of the year at the latest.

Outlook for the BMW Group in 2007

Within the economic parameters described above, the BMW Group expects overall that it will continue to make good progress in the financial year 2007.

The sales volume of the Automobiles segment is forecast to rise further, with each of its three brands – BMW, MINI and Rolls-Royce – expected to achieve new high levels. Seasonal effects will again be evident during the year, albeit reflecting an opposite pattern to the year 2006. Whilst sales volume growth is likely to be on the moderate side during the early months of the year, it should be much stronger during the second half of the year.

Adverse external factors attributable to the foreign exchange impact and to higher raw material prices will continue to affect the reported earnings of the Automobiles segment in 2007. Nonetheless, the BMW Group aims to improve segment profit before tax, given that the continuing positive trend in sales volumes, plus the benefit of on-going efficiency improvement measures, will help profitability.

As far as the motorcycles business is concerned, the BMW Group forecasts that the individual markets will continue to develop extremely divergently in 2007. Numerous new models, the related entry into new segments and intensified market activities will again have a positive impact on business development. Efficiency improvement programmes will be continued on an on-going basis, thus contributing to sustainable profitable growth.

The BMW Group's Financial Services business will continue to grow in 2007. It will, however, be confronted with increased refinancing costs in the wake of higher interest rates. The Financial Services segment will counter the resulting pressure on earnings by purposeful expansion across all lines of business. This strategy will be accompanied by further geographical expansion and a wider range of products. The BMW Group considers that financial services will generally become more significant in terms of vehicle sales. Overall therefore, the segment's business volume is expected to continue its upward trend. This growth, together with a programme of continuous efficiency improvement, will make a positive contribution towards improved earnings.

With the exchangeable bond option on the BMW Group's investment in Rolls-Royce plc, London, largely settled in 2006, reconciliations to group profit will not benefit from any comparable positive earnings impact in 2007.

The BMW Group will continue to make good use of opportunities to achieve further growth over the coming years and, with that aim in mind, invest in both new products and in the further expansion of its sales and production networks. Based on current forecasts, total capital expenditure for the period from 2005 to 2009 is still forecast to be in the region of approximately euro 19 billion.

The number of people employed by the BMW Group will remain more or less constant in 2007. The necessary build-up of the workforce during the product and market initiative was completed in 2005 and in the coming years, it will only be necessary to offset normal fluctuation.

Foreign exchange rate factors and the on-going high price levels on international commodity markets will again influence the BMW Group's earnings in 2007. However, it is anticipated that these external factors will have less of an impact than in the past and that the additional cost to the BMW Group will be correspondingly lower than in the previous year. Growth in the operating segments as well as continuous efficiency and productivity improvements will continue to have a positive impact on group earnings.

Based on the general economic environment and segment forecasts discussed above, the BMW Group anticipates a continuation of its good performance in 2007. Adjusted for the one-off gain on the Rolls-Royce exchangeable bond in 2006, pre-tax group earnings for the financial year 2007 are forecast to be better than in 2006.

The extent of this improvement in earnings will largely depend on whether opportunities arise to improve group earnings against a background of adverse currency factors, high raw material prices, changes in interest rates and greater competition. The BMW Group is rising to these challenges by achieving sales volume growth and continuously improving efficiency.

The BMW Group aims to continue its growth course in the coming years and, in comparison to the sector, will continue to generate above-average returns.

Contents

in euro million	Notes	Group 2006	Group 2005	Industrial operations* 2006	Industrial operations* 2005	Financial operations* 2006	Financial operations* 2005
Revenues	[8]	48,999	46,656	49,227	47,206	11,349	9,801
Cost of sales	[9]	– 37,660	– 35,992	– 39,238	– 37,343	– 10,050	– 8,623
Gross profit		**11,339**	**10,664**	**9,989**	**9,863**	**1,299**	**1,178**
Sales and administrative costs	[10]	– 4,972	– 4,762	– 4,464	– 4,312	– 535	– 479
Research and development costs	[11]	– 2,544	– 2,464	– 2,544	– 2,464	–	–
Other operating income and expenses	[12]	227	355	176	275	50	24
Profit before financial result		**4,050**	**3,793**	**3,157**	**3,362**	**814**	**723**
Result from equity accounted investments	[13]	– 25	14	– 25	14	–	–
Other financial result	[14]	99	– 520	383	– 488	– 33	46
Financial result		74	– 506	358	– 474	– 33	46
Profit before tax		**4,124**	**3,287**	**3,515**	**2,888**	**781**	**769**
Income taxes	[15]	– 1,250	– 1,048	– 1,066	– 934	– 246	– 242
Net profit		**2,874**	**2,239**	**2,449**	**1,954**	**535**	**527**
Attributable to minority interest		6	–	6	–	–	–
Attributable to shareholders of BMW AG		**2,868**	**2,239**	**2,443**	**1,954**	**535**	**527**
Earnings per share of common stock in euro	[16]	4.38	3.33				
Earnings per share of preferred stock in euro	[16]	4.40	3.35				

* 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 2006	Group 2005	Industrial operations* 2006	Industrial operations* 2005	Financial operations* 2006	Financial operations* 2005
Intangible assets	[19]	5,312	4,593	5,276	4,569	36	24
Property, plant and equipment	[20]	11,285	11,087	11,260	11,060	25	27
Leased products	[21]	13,642	11,375	254	230	16,364	14,110
Investments accounted for using the equity method	[22]	60	94	60	94	–	–
Other investments	[22]	401	1,178	388	1,147	13	31
Receivables from sales financing	[23]	17,865	17,202	–	–	17,865	17,202
Financial assets	[24]	816	642	61	126	755	516
Deferred tax	[25]	755	772	1,192	1,144	–1,828	–1,674
Other assets	[26]	378	613	875	908	255	273
Non-current assets		**50,514**	**47,556**	**19,366**	**19,278**	**33,485**	**30,509**
Inventories	[27]	6,794	6,527	6,784	6,521	10	6
Trade receivables	[28]	2,258	2,135	2,214	2,086	44	49
Receivables from sales financing	[23]	12,503	11,851	–	–	12,503	11,851
Financial assets	[24]	3,134	2,654	2,348	2,022	786	632
Current tax	[25]	246	267	222	238	24	29
Other assets	[26]	2,272	1,955	5,574	3,411	772	753
Cash and cash equivalents	[29]	1,336	1,621	1,235	1,372	101	249
Current assets		**28,543**	**27,010**	**18,377**	**15,650**	**14,240**	**13,569**
Total assets		**79,057**	**74,566**	**37,743**	**34,928**	**47,725**	**44,078**
Total assets adjusted for asset backed financing transactions		74,556	70,667	–	–	43,224	40,179

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

Equity and liabilities in euro million	Notes	Group 2006	2005	Industrial operations* 2006	2005	Financial operations* 2006	2005
Subscribed capital		654	674				
Capital reserves		1,911	1,971				
Revenue reserves		18,121	16,351				
Accumulated other equity		– 1,560	– 1,517				
Treasury shares		–	– 506				
Minority interest		4	–				
Equity	[30]	**19,130**	**16,973**	**15,315**	**13,672**	**4,965**	**4,581**
Pension provisions	[31]	5,017	5,255	4,983	5,220	34	35
Other provisions	[32]	2,865	3,243	2,462	2,921	403	322
Deferred tax	[33]	2,758	2,522	2,012	1,611	464	658
Financial liabilities	[34]	18,800	16,830	882	1,070	17,918	15,760
Other liabilities	[35]	1,932	1,659	1,458	1,224	1,732	1,457
Non-current provisions and liabilities		**31,372**	**29,509**	**11,797**	**12,046**	**20,551**	**18,232**
Other provisions	[32]	2,671	2,663	2,489	2,367	207	328
Current tax	[33]	567	462	437	322	130	140
Financial liabilities	[34]	17,656	17,838	1,407	655	16,249	17,183
Trade payables	[36]	3,737	3,544	3,288	3,118	449	426
Other liabilities	[35]	3,924	3,577	3,010	2,748	5,174	3,188
Current provisions and liabilities		**28,555**	**28,084**	**10,631**	**9,210**	**22,209**	**21,265**
Total equity and liabilities		**79,057**	**74,566**	**37,743**	**34,928**	**47,725**	**44,078**
Total equity and liabilities adjusted for asset backed financing transactions		74,556	70,667	–	–	43,224	40,179

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

BMW Group
Group and sub-group Cash Flow Statements

in euro million	Notes	Group 2006	Group 2005
Net profit		2,874	2,239
Depreciation of leased products		3,808	3,441
Depreciation and amortisation of tangible, intangible and investment assets		3,340	3,025
Change in provisions		137	764
Change in deferred taxes		242	236
Other non-cash income and expense items		– 329	176
Gain/loss on disposal of non-current assets and marketable securities		– 68	– 99
Result from equity accounted investments		25	– 14
Changes in current assets and liabilities			
Change in inventories		– 265	187
Change in receivables		– 566	– 239
Increase in liabilities		782	975
Cash inflow from operating activities	[39]	**9,980**	**10,691**
Investment in intangible assets and property, plant and equipment		– 4,313	– 3,875
Proceeds from the disposal of intangible assets and property, plant and equipment		39	42
Expenditure for investments		– 29	– 74
Proceeds from the disposal of investments		110	13
Proceeds from sale of Land Rover		–	1,000
Investment in leased products		– 10,754	– 9,461
Disposals of leased products		3,719	3,197
Additions to receivables from sales financing		– 50,313	– 45,365
Payments received on receivables from sales financing		47,848	42,634
Investment in marketable securities		– 2,654	– 455
Proceeds from marketable securities		2,677	381
Cash outflow from investing activities	[39]	**– 13,670**	**– 11,963**
Buy-back of treasury shares		– 253	– 506
Payment of dividend for the previous year		– 419	– 419
Proceeds from the issue of bonds		6,876	5,819
Repayment of bonds		– 4,491	– 3,432
Internal financing of financial operations		–	–
Change in financial liabilities		1,027	– 214
Change in commercial paper		583	– 549
Cash inflow/outflow from financing activities	[39]	**3,323**	**699**
Effect of exchange rate and changes in composition of group on cash and cash equivalents	[39]	**82**	**66**
Change in cash and cash equivalents		**– 285**	**– 507**
Cash and cash equivalents as at 1 January		1,621	2,128
Cash and cash equivalents as at 31 December	[39]	**1,336**	**1,621**

* unaudited

Industrial operations* 2006	Industrial operations* 2005	Financial operations* 2006	Financial operations* 2005	
2,449	1,954	535	527	Net profit
4	5	3,560	2,899	Depreciation of leased products
3,315	2,997	25	28	Depreciation and amortisation of tangible, intangible and investment assets
236	441	–104	304	Change in provisions
77	–54	227	418	Change in deferred taxes
–436	342	107	–166	Other non-cash income and expense items
–70	–99	2	–	Gain/loss on disposal of non-current assets and marketable securities
25	–14	–	–	Result from equity accounted investments
				Changes in current assets and liabilities
–261	184	–4	3	Change in inventories
–330	–73	–70	218	Change in receivables
364	501	329	276	Increase in liabilities
5,373	**6,184**	**4,607**	**4,507**	**Cash inflow from operating activities**
–4,272	–3,834	–41	–41	Investment in intangible assets and property, plant and equipment
31	39	8	3	Proceeds from the disposal of intangible assets and property, plant and equipment
–24	138	–5	–212	Expenditure for investments
76	6	34	7	Proceeds from the disposal of investments
–	1,000	–	–	Proceeds from sale of Land Rover
–392	–369	–10,362	–9,092	Investment in leased products
364	355	3,355	2,842	Disposals of leased products
–	–	–50,313	–45,365	Additions to receivables from sales financing
–	–	47,848	42,634	Payments received on receivables from sales financing
–2,619	–183	–35	–272	Investment in marketable securities
2,419	381	258	–	Proceeds from marketable securities
–4,417	**–2,467**	**–9,253**	**–9,496**	**Cash outflow from investing activities**
–253	–506	–	–	Buy-back of treasury shares
–419	–419	–	–	Payment of dividend for the previous year
1	–	6,875	5,819	Proceeds from the issue of bonds
–1	–	–4,490	–3,432	Repayment of bonds
–1,040	–3,456	1,040	3,456	Internal financing of financial operations
–129	–108	1,156	–106	Change in financial liabilities
644	129	–61	–678	Change in commercial paper
–1,197	**–4,360**	**4,520**	**5,059**	**Cash inflow/outflow from financing activities**
104	**18**	**–22**	**48**	**Effect of exchange rate and changes in composition of group on cash and cash equivalents**
–137	**–625**	**–148**	**118**	**Change in cash and cash equivalents**
1,372	1,997	249	131	Cash and cash equivalents as at 1 January
1,235	**1,372**	**101**	**249**	**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	Fair value measurement of marketable securities	Derivative financial instruments	Pension obligations			
31 December 2004*	**674**	**1,971**	**14,531**	**–763**	**62**	**1,072**	**–1,013**	**–**	**–**	**16,534**
Acquisition of treasury shares	–	–	–	–	–	–	–	–506	–	–506
Dividends paid	–	–	–419	–	–	–	–	–	–	–419
Translation differences	–	–	–	117	–	110	–	–	–	227
Financial instruments	–	–	–	–	515	–1,780	–	–	–	–1,265
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	–736	–	–	–736
Deferred tax on transactions recognised directly in equity	–	–	–	–	–15	627	287	–	–	899
Net profit 2005	–	–	2,239	–	–	–	–	–	–	2,239
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**

see also Note [30]

* adjusted figures

BMW Group
Statement of Income and Expenses recognised directly in Equity

in euro million	2006	2005
Fair value gains and losses on available-for-sale investments recognised directly in equity	– 370	515
Fair value gains and losses on financial instruments used for hedging purposes recognised directly in equity	218	– 1,670
Exchange differences arising on the translation of foreign subsidiaries	– 191	117
Actuarial gains and losses on defined benefit pension and similar obligations	515	– 736
Deferred tax on gains and losses recognised directly in equity	– 215	899
Gains and losses recognised directly in equity	**– 43**	**– 875**
Profit after tax attributable to shareholders of BMW AG	**2,868**	**2,239**
Aggregate amount of net profit for period and gains and losses recognised directly in equity	**2,825**	**1,364**

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

[1] Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft ("BMW Group financial statements" or "Group financial statements") at 31 December 2006 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as applicable in 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 2006 are also applied.

The Group financial statements comply in their present form 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 operations 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 2006 totalled euro 4.5 billion (31 December 2005: euro 3.9 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.

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

The Group Financial Statements, drawn up in accordance with § 315a HGB, and the Group Management Report for the financial year 2006 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.

[2] Consolidated companies

The BMW Group financial statements include, besides BMW AG, all material subsidiaries, 17 special securities funds and 19 trusts (almost all used for asset backed financing transactions) both in Germany and abroad.

The number of subsidiaries, special purpose funds and other special purpose entities included in the Group financial statements changed in 2006 as follows:

	Germany	Foreign	Total
Included at 31.12.2005	44	136	180
Included for the first time in 2006	1	12	13
No longer included in 2006	–	4	4
Included at 31.12.2006	**45**	**144**	**189**

68 subsidiaries (2005: 72), 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 1.5 % (2005: 1.7 %).

Two joint ventures have been consolidated using the equity method. With effect from the beginning of the financial year 2006, F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, became a fully consolidated subsidiary following the acquisition of the remaining 50 % of the voting rights. Three equity investments are not consolidated 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.

[3] Changes in the group reporting entity

BMW Hellas Trade of Cars SA, Athens, Park Lane Ltd., Bracknell, BMW Portugal Lda., Lisbon, BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, BMW Malaysia Sdn Bhd, Kuala Lumpur, BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur, BMW China Automotive Trading Ltd., Peking, BMW Leasing (Thailand) Co., Ltd., Bangkok, BMW Danmark A/S, Kolding, BMW International Investment B.V., Rijswijk, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, were consolidated for the first time in 2006.

Bavaria Insurance Brokers Limited, Dublin, is no longer a consolidated company.

The group reporting entity also changed by comparison to the previous year as a result of the first-time consolidation of two special purpose entities and the deconsolidation of three special purpose entities.

The changes in the composition of the group reporting entity do not have a material impact on the earnings, financial and net assets position of the Group.

[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.

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 are accounted for as a general rule using the purchase method. Investments in other companies are accounted for 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 on 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	
	31.12.2006	31.12.2005	2006	2005
US Dollar	1.32	1.18	1.26	1.24
British Pound	0.67	0.69	0.68	0.68
South African Rand	9.20	7.47	8.52	7.91
Japanese Yen	156.88	139.11	146.06	136.83
Australian Dollar	1.67	1.61	1.67	1.63

[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, in accordance with IAS 18 (Revenue) and IAS 11 (Construction Contracts), recognised using the stage 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 financial services business and interest expense from refinancing the entire financial services business, including the expense of risk provisions and write-downs, 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 interest, 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 finite 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 production 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 and are measured at acquisition or manufacturing cost. Depreciable assets are reduced by systematic 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 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 manufactured 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.

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. 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. 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 (except when the investment is impaired) measured at the group's share of equity taking account of fair value adjustments on acquisition.

Investments in non-consolidated group companies reported in other investments are measured at cost, or at their lower 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.

Loans and receivables which are not held by the Group for trading purposes, 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. They 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 allowances are recognised to take account of all identifiable risks.

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

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 in order to reduce the currency, interest rate and market price risks from operating activities and 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 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 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 the 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. Actual amounts could in certain cases differ from those assumptions and estimates. Where new information comes to light, differences are reflected in the income statement.

[7] New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2006

The following revised financial reporting standards were applied for the first time in the financial year 2006:

- Amendments to IAS 39 and IFRS 4 (Financial Guarantee Contracts)
- Amendment to IAS 21 (Effects of Changes in Foreign Exchange Rates)

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

- IFRIC 4 (Determining whether an Arrangement contains a Lease)
- IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds)
- IFRIC 6 (Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment)

The financial reporting rules applied for the first time in 2006 did not have a significant impact on the BMW Group.

(b) New financial reporting rules issued in 2006

The IASB issued IFRS 8 (Operating Segments) in 2006. IFRS 8 will replace IAS 14 (Segment Reporting) and is mandatory for financial periods commencing after 1 January 2009.

In addition, the following Interpretations were issued:

- IFRIC 8 (Scope of IFRS 2)
- IFRIC 9 (Reassessment of Embedded Derivatives)
- IFRIC 10 (Interim Financial Reporting and Impairment)
- IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions)

IFRIC 8 is mandatory for financial years commencing on or after 1 May 2006. IFRIC 9 is mandatory for financial years commencing on or after 1 June 2006. IFRIC 10 takes effect for financial years commencing after 1 November 2006. IFRIC 11 applies to financial years commencing on or after 1 March 2007. The financial reporting rules issued in 2006 will not have a significant impact on the BMW Group.

[8] Revenues

Revenues by activity comprise the following:

in euro million	2006	2005
Sales of products and related goods	38,769	38,042
Income from lease instalments	4,141	3,322
Sale of products previously leased to customers	3,107	2,759
Interest income on loan financing	1,925	1,632
Other income	1,057	901
Revenues	**48,999**	**46,656**

An analysis of revenues by business segment and geographical region is shown in the segment information on pages 111 to 114.

[9] Cost of sales

Cost of sales comprises:

in euro million	2006	2005
Manufacturing costs	26,449	25,598
Warranty expenditure	1,081	1,553
Cost of sales directly attributable to financial services	6,612	5,586
Interest expense for financial operations	1,308	1,033
Expense for risk provisions and write-downs for financial services business	501	541
Other cost of sales	1,709	1,681
Cost of sales	**37,660**	**35,992**

Cost of sales include euro 8,421 million (2005: euro: 7,160 million) relating to financial services business.

Expense for risk provisions and write-downs includes write-downs of euro 211 million (2005: euro 248 million) on receivables from financial services.

Manufacturing costs for industrial operations include impairment losses on intangible assets and property, plant and equipment of euro 15 million (2005: euro 25 million). Public subsidies in the form of reduced taxes on assets and consumption-based taxes amounted to euro 11 million (2005: euro 15 million).

[10] Sales and administrative costs

Sales costs amounted to euro 4,039 million (2005: euro 3,889 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative costs amounted to euro 933 million (2005: euro 873 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 2,544 million (2005: euro 2,464 million) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs totalling euro 872 million (2005: euro 745 million).

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

in euro million	2006	2005
Research and development costs	2,544	2,464
Amortisation	– 872	– 745
New expenditure for capitalised development costs	1,536	1,396
Total research and development expenditures	**3,208**	**3,115**

[12] Other operating income and expenses

in euro million	2006	2005
Exchange gains	245	135
Income from the reversal of provisions	141	265
Income from the reversal of write-downs	24	66
Gains on the disposal of assets	102	116
Sundry operating income	232	262
Other operating income	**744**	**844**
Exchange losses	219	161
Expense for additions to provisions	109	165
Expenses for write-downs on receivables	34	29
Sundry operating expenses	155	134
Other operating expenses	**517**	**489**
Other operating income and expenses	**227**	**355**

Sundry operating income includes public-sector grants of euro 32 million (2005: euro 36 million).

[13] Result from equity method accounting

The loss of euro 25 million (2005: profit of euro 14 million) from equity method accounting includes the result of the joint venture, BMW Brilliance Automotive Ltd., Shenyang, and an impairment loss on the investment in TRITEC Motors Ltda., Campo Largo.

[14] Other financial result

in euro million	2006	2005
Income from investments	62	28
– thereof from subsidiaries: euro 58 million (2005: euro 3 million)		
Impairment losses on investments in subsidiaries and other companies	– 46	–
Reversals of impairment losses on investments in subsidiaries and other companies	16	–
Result on investments	**32**	**28**
Expected return on plan assets	315	283
Other interest and similar income	259	363
– thereof from subsidiaries: euro 19 million (2005: euro 21 million)		
Interest and similar income	**574**	**646**
Expense from reversing the discounting of pension obligations	– 501	– 482
Expense from reversing the discounting of other long-term provisions	– 35	– 78
Write-downs on marketable securities	– 2	– 10
Sundry interest and similar expenses	– 319	– 318
– thereof to subsidiaries: euro 2 million (2005: euro 1 million)		
Interest and similar expenses	**– 857**	**– 888**
Net interest result	**– 283**	**– 242**
Fair value measurement of financial instruments	350	– 306
Sundry other financial result	**350**	**– 306**
Other financial result	**99**	**– 520**

Income from investments relates principally to dividend income from BMW Asia Pte. Ltd., Singapore and from BMW (P+A) Ltd., Bracknell.

Within sundry other financial result, income and expenses resulting from the fair value measurement of hedged items and hedging instruments have been presented on a net basis. The improvement is mainly attributable to the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Furthermore, the previous year’s figure was affected by a substantial loss recognised on the option obligation.

[15] Income taxes

Taxes on income comprise the following:

in euro million	2006	2005
Current tax expense	993	437
Deferred tax expense	257	611
	1,250	**1,048**

Current tax expense in the previous year included tax reimbursements relating to prior years.

Deferred tax expense decreased mainly as a result of the lower expense to recognise deferred tax liabilities.

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 25.0 % applies in Germany. After taking account of the average multiplier rate (Hebesatz) of 412 % for municipal trade tax and the solidarity charge of 5.5 %, the overall tax rate for BMW companies in Germany is unchanged at 38.9 %. The tax rates for companies outside Germany range from 12.5 % to 40.7 % (2005: 10.0 % to 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:

in euro million	Deferred tax assets		Deferred tax liabilities	
	2006	2005	2006	2005
Intangible assets	–	1	1,859	1,594
Property, plant and equipment	48	127	510	474
Leased products	572	780	3,368	3,255
Investments	2	16	–	–
Other current assets	1,058	807	3,696	3,810
Tax loss carryforwards	849	947	–	–
Provisions	1,540	1,639	134	98
Liabilities	3,653	3,386	827	789
Consolidations	1,600	1,489	403	281
	9,322	**9,192**	**10,797**	**10,301**
Valuation allowance	– 528	– 641	–	–
Netting	– 8,039	– 7,779	– 8,039	– 7,779
	755	**772**	**2,758**	**2,522**

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

The increase of deferred tax liabilities relating to intangible assets was mainly due to the higher level of capitalised development costs recognised in accordance with IFRS.

As at the end of the previous year, no valuation allowance is recognised on deferred tax assets relating to capital allowances on property, plant and equipment in the United Kingdom.

The changes in deferred tax assets and liabilities relating to leased products and other current assets are attributable primarily to financial services business. The figures reflect higher business volumes and the different categorisation of operating and finance lease arrangements for tax and accounting purposes.

Deferred tax assets on tax losses available for carryforward and capital losses increased marginally on a net basis (i.e. after taking account of the amount shown as a valuation allowance). This was due to the expectation that a greater volume of tax losses will be utilisable, especially in the United Kingdom. Tax losses available for carryforward, which for the most part can be carried forward without restriction, totalled euro 1.7 billion at the year-end (31.12. 2005: euro 2.1 billion). A valuation allowance of euro 65 million (2005: euro 188 million) was recognised in 2006 on deferred tax assets relating to tax losses. Deferred tax assets of euro 463 million (31.12. 2005: euro 453 million) relating to capital losses in the United Kingdom of euro 1.5 billion (unchanged) were written down in full since these losses can only be offset against capital gains, but not against operating profits.

The increase of deferred tax assets relating to liabilities was due primarily to the higher level of other liabilities and the related increase in temporary differences.

Deferred taxes recognised directly in equity amounted to euro 512 million (31.12. 2005: euro 727 million), whereby the decrease was mainly due to actuarial gains and losses arising in conjunction with pension obligations. The level of actuarial gains and losses in 2006 was affected in particular by the increase in the discount factors applied.

Deferred taxes are not recognised on retained profits of euro 13,866 million (31.12. 2005: euro 12,413 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 the 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 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 2006 of euro 1,250 million (2005: euro 1,048 million) is euro 354 million (2005: euro 231 million) lower than the expected tax expense of euro 1,604 million (2005: euro 1,279 million) which would theoretically arise if the tax rate of 38.9 % (unchanged), 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	2006	2005
Expected tax expense	**1,604**	**1,279**
Variances due to different tax rates	– 213	– 123
Tax reductions (–)/ tax increases (+) as a result of non-taxable income and non-deductible expenses	– 68	158
Tax expense (+)/ benefits (–) for prior periods	– 94	– 232
Other variances	21	– 34
Actual tax expense	**1,250**	**1,048**

The slightly lower effective tax rate is partially due to lower nominal tax rates in a number of countries. The tax-exempt gain on the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London, also had an impact. Furthermore, legislation relating to the taxation of retained earnings in Germany has changed as a result of § 37 (5) of the German Corporation Tax Act (new version). For this reason, the present value of the tax reimbursements arising under the new rules was recognised as an asset for the first time in 2006.

[16] Earnings per share

		2006	2005
Net profit for the year after minority interest	euro million	2,867.8	2,239.3
Profit attributable to common stock	euro million	2,641.0	2,066.6
Profit attributable to preferred stock	euro million	226.8	172.7
Average number of common stock shares in circulation	number	602,461,673	619,815,630
Average number of preferred stock shares in circulation	number	51,506,787	51,488,137
Earnings per share of common stock	**euro**	**4.38**	**3.33**
Earnings per share of preferred stock	**euro**	**4.40**	**3.35**
Dividend per share of common stock	**euro**	**0.70**	**0.64**
Dividend per share of preferred stock	**euro**	**0.72**	**0.66**

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	2006	2005
Personnel costs		
Wages and salaries	6,207	6,104
Social security, retirement and welfare costs	1,241	1,202
– thereof retirement costs: euro 767 million (2005: euro 713 million)		
	7,448	**7,306**

The average number of employees during the year was:

	2006	2005
Wage earners	52,812	53,708
Other employees	44,394	43,397
	97,206	**97,105**
Apprentices and students gaining work experience	6,521	6,441
	103,727	**103,546**

The fee expense recognised in the financial year 2006 for the auditors of the Group financial statements, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, pursuant to § 314 (1) no. 9 HGB amounted to euro 4 million (2005: euro 4 million) and consists of the following:

in euro million	2006	2005
Fee expense		
Year-end audits	2	2
Tax advisory services	2	2
	4	**4**

The item “Year-end audits” includes fees for the audit of the 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

[18] 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
2] including impairment losses of euro 15 million

Analysis of changes in Group tangible, intangible and investment assets 2005

in euro million	Acquisition and manufacturing cost					
	1.1.2005[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2005
Development costs	5,596	–	1,396	–	399	6,593
Other intangible assets	583	9	189	–	44	737
Intangible assets	**6,179**	**9**	**1,585**	**–**	**443**	**7,330**
Land, titles to land, buildings, including buildings on third party land	5,584	89	314	183	31	6,139
Plant and machinery	18,464	222	1,107	441	1,260	18,974
Other facilities, factory and office equipment	1,957	51	257	21	225	2,061
Advance payments made and construction in progress	820	10	730	– 645	17	898
Property, plant and equipment	**26,825**	**372**	**2,408**	**–**	**1,533**	**28,072**
Leased products	**9,275**	**1,291**	**7,202**	**–**	**3,785**	**13,983**
Investments accounted for using the equity method	**65**	**–**	**29**	**–**	**–**	**94**
Investments in associated companies	150	2	41	–	19	174
Investments in other companies	564	–	438[3]	–	–	1,002
Non-current marketable securities	20	3	17	–	8	32
Other investments	**734**	**5**	**496**	**–**	**27**	**1,208**

1] including the gross balances brought forward of companies consolidated for the first time
2] including impairment losses of euro 25 million
3] total fair value measurement changes recognised directly in accumulated other equity

	Depreciation and amortisation			Reversals		Net book values	
1.1.2006[1]	Translation differences	Current year[2]	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**	**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**	**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**

	Depreciation and amortisation			Reversals		Net book values	
1.1.2005[1]	Translation differences	Current year[2]	Disposals		31.12.2005	31.12.2005	31.12.2004
2,101	–	745	399	–	2,447	4,146	3,495
320	–1	68	44	53	290	447	263
2,421	**–1**	**813**	**443**	**53**	**2,737**	**4,593**	**3,758**
2,174	32	193	17	–	2,382	3,757	3,387
12,404	171	1,783	1,255	–	13,103	5,871	6,059
1,434	37	236	208	–	1,499	562	522
1	–	–	–	–	1	897	756
16,013	**240**	**2,212**	**1,480**	**–**	**16,985**	**11,087**	**10,724**
1,773	**241**	**1,182**	**588**	**–**	**2,608**	**11,375**	**7,502**
–	**–**	**–**	**–**	**–**	**–**	**94**	**65**
25	–	–	–	–	25	149	125
5	–	–	–	–	5	997	559
–	–	–	–	–	–	32	20
30	**–**	**–**	**–**	**–**	**30**	**1,178**	**704**

[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.

Goodwill, with a total carrying amount of euro 66 million (2005: euro 57 million), relates mainly to entory AG, Ettlingen, and to the Axentiv Group. 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.

Reversals of impairment losses on intangible assets totalling euro 26 million (2005: euro 53 million) were recognised during the year.

Changes in intangible assets during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 86 and 87.

[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 86 and 87.

Property, plant and equipment includes leased buildings, plant and machinery and other equipment with a carrying amount of euro 146 million (2005: euro 205 million). This comprises mainly operational buildings used by BMW AG and 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 relating to operational buildings, with a carrying amount of euro 66 million (2005: euro 79 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 46 million (2005: euro 77 million) at 31 December, run for periods up to 2012 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 25 million (2005: euro 38 million) runs until 2018 and may be extended for one year periods thereafter. A purchase option was not agreed.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2006	31.12.2005
Total of future minimum lease payments		
due within one year	91	95
due between one and five years	413	494
due later than five years	257	298
	761	**887**
Interest portion of the future minimum lease payments		
due within one year	16	19
due between one and five years	59	78
due later than five years	111	113
	186	**210**
Present value of future minimum lease payments		
due within one year	75	76
due between one and five years	354	416
due later than five years	146	185
	575	**677**

[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 6,210 million (2005: euro 5,919 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2006	31.12.2005
within one year	3,342	2,908
between one and five years	2,867	3,010
later than five years	1	1
	6,210	**5,919**

Contingent rents of euro 4 million (2005: euro 2 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 86 and 87.

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

Investments accounted for using the equity method include the Group's interests in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, and TRITEC Motors Ltda., Campo Largo. The Group's interest in these joint ventures (50 % in each case), on an aggregated basis, was as follows:

in euro million	31.12.2006	31.12.2005
Disclosures relating to the Income Statement		
Income	589	463
Losses	568	461
Disclosures relating to the balance sheet		
Non-current assets	122	134
Current assets	286	215
Equity	110	99
Non-current liabilities	34	85
Current liabilities	264	165

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 for the companies PT BMW Indonesia, Jakarta, BMW Philippines Corp., Manila, BMW Roma S.r.l., Rome, BMW Distribution S.A.S., Montigny le Bretonneux, and BMW Vertriebs GmbH, Salzburg. They also include the foundation of BMW India Pvt. Ltd., New Delhi, and the acquisition of a majority interest in the Sauber Group.

Disposals of investments in subsidiaries relate mainly to the first-time consolidation of BMW Hellas Trade of Cars SA, Athens, Park Lane Ltd., Bracknell, BMW Portugal Lda., Lisbon, BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, BMW Malaysia Sdn Bhd, Kuala Lumpur, BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur, BMW China Automotive Trading Ltd., Peking, BMW Leasing (Thailand) Co., Ltd., Bangkok, and BMW Danmark A/S, Kolding.

Write-downs on investments in subsidiaries relate mainly to PT BMW Indonesia, Jakarta.

In the case of investments in other companies, the changes in 2006 related to the disposal of shares in Rolls-Royce plc, London, following the exercise of the conversion option relating to exchangeable bond issued by the BMW Group on shares in Rolls-Royce plc, London.

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 86 and 87.

[23] Receivables from sales financing

Receivables from sales financing, totalling euro 30,368 million (2005: euro 29,053 million), comprise euro 23,038 million (2005: euro 22,301 million) for loan financing for retail customers and dealers and euro 7,330 million (2005: euro 6,752 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2006	31.12.2005
Gross investment in finance leases		
due within one year	3,029	2,771
due between one and five years	5,192	4,773
due later than five years	6	3
	8,227	**7,547**
Present value of future minimum lease payments		
due within one year	2,758	2,511
due between one and five years	4,567	4,238
due later than five years	5	3
	7,330	**6,752**
Unrealised interest income	**897**	**795**

Contingent rents recognised as income, generally relating to the distance driven, amounted to euro 7 million (2005: euro 4 million). Write-downs on finance leases amounting to euro 60 million (2005: euro 46 million) were measured and recognised on the basis of specific credit risks.

Receivables from sales financing include euro 17,865 million (2005: euro 17,202 million) with a remaining term of more than one year.

[24] Financial assets

Financial assets comprise:

in euro million	31.12.2006	31.12.2005
Interest and currency derivatives	1,321	806
Marketable securities and investment funds	2,034	2,074
Loans to third parties	67	90
Credit card receivables	239	221
Other	289	105
	3,950	**3,296**
thereof non-current	816	642
thereof current	3,134	2,654

The increase in the line item “Interest and currency derivatives” relates primarily to changed exchange rate parities with the US dollar and to the higher level of interest rates.

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

in euro million	31.12.2006	31.12.2005
Stocks	579	500
Investment funds	487	467
Fixed income securities	943	1,085
Sundry marketable securities	25	22
	2,034	**2,074**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2006	31.12.2005
Fixed income securities		
due within 3 months	1	16
due later than 3 months	942	1,069
Sundry marketable securities		
due within 3 months	3	4
due later than 3 months	22	18
	968	**1,107**

Investment funds and fixed income securities include euro 2 million and euro 64 million respectively assigned as collateral to Deutsche Treuinvest Stiftung, Frankfurt am Main, (2005: cash and cash equivalents of euro 43 million assigned as collateral). to secure obligations relating to pre-retirement part-time work arrangements.

[25] Income tax assets

Income tax assets can be analysed as follows:

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**

31 December 2005 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	772	772
Current tax	267	–	267
	267	**772**	**1,039**

[26] Other assets

Other assets comprise:

in euro million	31.12.2006	31.12.2005
Other taxes	584	418
Receivables from subsidiaries	693	766
Receivables from other companies in which an investment is held	202	87
Prepayments	683	635
Collateral receivables	120	153
Sundry other assets	368	509
	2,650	**2,568**
thereof non-current	378	613
thereof current	2,272	1,955

Receivables from subsidiaries include trade receivables of euro 198 million (2005: euro 160 million) and financial receivables of euro 495 million (2005: euro 606 million). A total of euro 44 million (2005: euro 114 million) has a remaining term of more than one year.

Receivables from other companies in which an investment is held are all due within one year (2005: non-current amount of euro 4 million).

Prepayments of euro 683 million (2005: euro 635 million) relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 522 million (2005: euro 438 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	31.12.2006	31.12.2005
Raw materials and supplies	689	674
Work in progress, unbilled contracts	911	931
Finished goods	4,280	4,042
Goods for resale	914	880
	6,794	**6,527**

At 31 December 2006, inventories measured at their net realisable value amounted to euro 316 million (2005: euro 268 million) and are included in total inventories of euro 6,794 million (2005: euro 6,527 million). Write-downs to net realisable value amounting to euro 12 million (2005: euro 10 million) were recognised in 2006. Amounts recognised as income from the reversal of write-downs were not significant.

[28] Trade accounts receivable

Trade receivables amounting in total to euro 2,258 million (2005: euro 2,135 million) include euro 21 million due later than one year (2005: all due within one year).

[29] Cash and cash equivalents

Cash and cash equivalents of euro 1,336 million (2005: euro 1,621 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 70.

Number of shares issued

At 31 December 2006, 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 advance profit (additional dividend) of euro 0.02 per share. 689,375 of the shares of preferred stock are only entitled to receive dividends with effect from the beginning of the financial year 2007.

During the financial year 2006, BMW Group acquired 689,375 treasury shares of preferred stock at an average price of euro 37.52 per share; these shares were issued to employees at a reduced price of euro 27.84 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.

At the Annual General Meeting of BMW AG on 12 May 2005, the shareholders 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 these shares from circulation without any further resolution by the Annual General Meeting. The authorisation for the buy-back was valid until 11 November 2006.

In conjunction with this authorisation, the Board of Management of BMW AG resolved on 20 September 2005 to put a programme in place to buy back shares via the stock exchange. Under this programme, 3 % of BMW AG's common stock was acquired.

Up to 17 February 2006, a total of 20,232,722 treasury shares of common stock were bought back via the stock exchange at an average price per share of euro 37.47 and a total acquisition cost of euro 758 million. These shares were withdrawn from circulation in accordance with the resolution taken by the Board of Management on 21 February 2006. Equity was reduced by the buy-back amount.

Transaction costs amounted to euro 0.776 million (net of income tax effect) and were recognised directly in equity.

At the Annual General Meeting on 16 May 2006, the shareholders 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 these shares from circulation without any further resolution by the Annual General Meeting. At the same time, the authorisation from 12 May 2005 to acquire treasury shares was rescinded. The authorisation from 16 May 2006 is valid until 15 November 2007.

Capital reserves

The capital reserves comprise additional paid in capital on the issue of shares. The balance reported decreased by euro 60 million to euro 1,911 million as a result of the withdrawal of treasury shares from circulation.

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 18,121 million at 31 December 2006, 10.8% higher than one year earlier. They were increased in 2006 by the amount of the net profit attributable to shareholders of BMW AG amounting to euro 2,868 million and were reduced by the payment of the dividend for 2005 amounting to euro 419 million. As a result of the withdrawal of treasury shares from circulation, revenues reserves decreased by euro 679 million.

The unappropriated profit of BMW AG of euro 458 million for 2006 will be proposed to the Annual General Meeting for distribution. A tax reimbursement claim of euro 12 million arose in 2006 in conjunction with the corporation tax system applicable until 2001.

As a consequence of new German tax legislation relating to transitional taxation measures enacted in conjunction with the introduction of the European company and other changes in tax regulations, the BMW AG's ability to recover tax reduction claims of euro 156 million arising from the previous corporation tax system are no longer linked to actual distributions. The corporation tax credit will now be disbursed in ten equal instalments over a ten-year period between 2008 and 2017. The present value of the tax reimbursement receivable amounted to euro 123 million and has been recognised in full as an asset.

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 financial instruments directly in equity as well as actuarial gains and losses relating to defined benefit pension plans and similar obligations. Accumulated other equity was increased by deferred taxes amounting to euro 512 million (2005: euro 727 million) recognised directly in equity.

Minority interest

The minority interest in the equity of subsidiaries amounted to euro 4 million (2005: euro 0.188 million). This includes a minority interest of euro 6 million (2005: euro 0.098 million) in subsidiaries' results for the year.

[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 surviving 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 U.S. 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 49 million (2005: euro 43 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 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 2006 amounted to euro 6 million (2005: euro 8 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 amounts to euro 409 million (2005: euro 400 million). This includes employer contributions paid to state pension insurance schemes amounting to euro 388 million (2005: euro 381 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 all 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 weighted average values are used in the United Kingdom (UK) and in the other countries:

in %	Germany		UK		Other	
31 December	2006	2005	2006	2005	2006	2005
Discount rate	4.40	4.25	5.11	4.72	5.19	5.28
Salary level trend	3.25	3.25	4.12	3.86	2.59	2.62
Pension level trend	1.75	1.75	3.09	2.83	1.79	1.89

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	Germany		UK		Other		Total	
31 December	2006	2005	2006	2005	2006	2005	2006	2005
Present value of pension benefits covered by accounting provisions	4,412	4,234	–	–	134	112	4,546	4,346
Present value of funded pension benefits	–	–	6,568	6,576	316	315	6,884	6,891
Defined benefit obligations	4,412	4,234	6,568	6,576	450	427	11,430	11,237
Fair value of plan assets	–	–	6,134	5,784	298	233	6,432	6,017
Net obligation	4,412	4,234	434	792	152	194	4,998	5,220
Income (+) expense (–) from past service cost not yet recognised	–	–	–	–	1	– 2	1	– 2
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	5	–	11	10	16	10
Balance sheet amount at 31.12.	**4,412**	**4,234**	**439**	**792**	**164**	**202**	**5,015**	**5,228**
thereof pension provision	4,412	4,234	440	819	165	202	5,017	5,255
thereof pension asset (–)	–	–	– 1	– 27	– 1	–	– 2	– 27

Pension provisions relating to pension plans in other countries amounted to euro 165 million (2005: euro 202 million). This includes euro 80 million (2005: euro 82 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 the pension asset (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		UK		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Balance sheet amounts at 1 January	4,234	3,336	792	678	202	180	5,228	4,194
Expense from pension obligations	329	271	71	90	45	36	445	397
Pension payments or transfers to external funds	– 72	– 67	– 98	– 87	– 55	– 27	– 225	– 181
Actuarial gains (–) and losses (+) on defined benefit obligations	– 167	619	– 241	516	8	– 4	– 400	1131
Actuarial gains (–) and losses (+) on plan assets	–	–	– 98	– 425	– 19	1	– 117	– 424
Employee contributions to the deferred remuneration retirement scheme	87	75	–	–	–	–	87	75
Translation differences and other changes	1	–	13	20	– 17	16	– 3	36
Balance sheet amounts at 31 December	**4,412**	**4,234**	**439**	**792**	**164**	**202**	**5,015**	**5,228**
thereof pension provision	4,412	4,234	440	819	165	202	5,017	5,255
thereof pension asset (–)	–	–	– 1	– 27	– 1	–	– 2	– 27

The defined benefit plans of the BMW Group give rise to an expense from pension obligations in the financial year 2006 of euro 445 million (2005: euro 397 million), comprising the following components:

in euro million	Germany		UK		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Current service cost	160	120	64	53	34	25	258	198
Expense from reversing the discounting of pension obligations	169	151	307	308	25	23	501	482
Past service cost	–	–	–	–	1	–	1	–
Expected return on plan assets (–)	–	–	– 300	– 271	– 15	– 12	– 315	– 283
Expense from pension obligations	**329**	**271**	**71**	**90**	**45**	**36**	**445**	**397**

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 costs by function in the income statement.

The actual return from external pension funds was euro 432 million (2005: euro 707 million).

The level of the pension obligations differs 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.

The net obligation from pension plans in Germany, the United Kingdom and other countries changed as follows:

in euro million	Germany					
	Defined benefit obligation		Plan assets		Net obligation	
	2006	2005	2006	2005	2006	2005
1 January	4,234	3,336	–	–	4,234	3,336
Expense from pension obligations	329	271	–	–	329	271
Payments to external funds	–	–	–	–	–	–
Pension payments	– 72	– 67	–	–	– 72	– 67
Actuarial gains (–) and losses (+)	– 167	619	–	–	– 167	619
Employee contributions to the deferred remuneration retirement scheme	87	75	–	–	87	75
Translation differences and other changes	1	–	–	–	1	–
31 December	**4,412**	**4,234**	**–**	**–**	**4,412**	**4,234**

in euro million	United Kingdom					
	Defined benefit obligation		Plan assets		Net obligation	
	2006	2005	2006	2005	2006	2005
1 January	6,576	5,764	– 5,784	– 5,086	792	678
Expense from pension obligations	371	361	– 300	– 271	71	90
Payments to external funds	–	–	– 98	– 87	– 98	– 87
Pension payments	– 278	– 262	278	262	–	–
Actuarial gains (–) and losses (+)	– 241	516	– 98	– 425	– 339	91
Translation differences and other changes	140	197	– 132	– 177	8	20
31 December	**6,568**	**6,576**	**– 6,134**	**– 5,784**	**434**	**792**

in euro million	Other countries					
	Defined benefit obligation		Plan assets		Net obligation	
	2006	2005	2006	2005	2006	2005
1 January	427	353	– 233	– 180	194	173
Expense from pension obligations	59	48	– 14	– 12	45	36
Payments to external funds	–	–	– 51	– 27	– 51	– 27
Pension payments	– 10	– 9	6	5	– 4	– 4
Actuarial gains (–) and losses (+)	8	– 4	– 19	1	– 11	– 3
Translation differences and other changes	– 34	39	13	– 20	– 21	19
31 December	**450**	**427**	**– 298**	**– 233**	**152**	**194**

Plan assets in the United Kingdom and other countries comprise the following:

in euro million	Components of plan assets					
	United Kingdom		Other countries		Total	
	2006	2005	2006	2005	2006	2005
Equity instruments	1,902	1,471	172	141	2,074	1,612
Debt securities	3,323	3,461	106	85	3,429	3,546
Real estate	664	621	5	4	669	625
Other	245	231	15	3	260	234
31 December	**6,134**	**5,784**	**298**	**233**	**6,432**	**6,017**

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 fair value fluctuations.

[32] Other provisions

Other provisions principally comprise the following items:

in euro million	31.12.2006		31.12.2005	
	Total	thereof due within one year	Total	thereof due within one year
Obligations for personnel and social expenses	1,493	979	1,355	812
Obligations for on-going operational expenses	3,000	1,135	3,414	1,428
Other obligations	1,043	557	1,137	423
	5,536	**2,671**	**5,906**	**2,663**

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. The increase compared to the previous year was mainly attributable to the higher level of obligations relating to early retirement arrangements.

Provisions for obligations for on-going operational expenses comprise primarily warranty obligations. These obligations decreased during the year under report.

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:

in euro million	At 1.1.2006*	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	At 31.12.2006
Obligations for personnel and social expenses	1,356	– 8	877	2	729	5	1,493
Obligations for on-going operational expenses	3,434	– 32	991	23	1,371	45	3,000
Other obligations	1,158	– 24	416	9	302	214	1,043
	5,948	**– 64**	**2,284**	**34**	**2,402**	**264**	**5,536**

* including first-time consolidated entities

Of the amount shown as reversed, euro 123 million are included in costs by function in the income statement.

[33] Income tax liabilities

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**

31 December 2005 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,522	2,522
Current tax	459	3	462
	459	**2,525**	**2,984**

Current tax liabilities of euro 567 million (2005: euro 462 million) comprise euro 88 million (2005: euro 219 million) for taxes payable and euro 479 million (2005: euro 243 million) for tax provisions. In 2006, tax provisions totalling euro 2 million were reversed (2005: euro 90 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 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**

31 December 2005 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	5,057	6,481	3,624	15,162
Liabilities to banks	1,846	1,798	9	3,653
Liabilities from customer deposits (banking)	5,768	624	–	6,392
Commercial paper	3,814	–	–	3,814
Asset backed financing transactions	1,018	2,881	–	3,899
Interest and currency derivatives	156	673	21	850
Bills of exchange payable	2	–	–	2
Other	177	473	246	896
	17,838	**12,930**	**3,900**	**34,668**

Other financial liabilities of euro 715 million at 31 December 2006 (2005: euro 896 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 2,500 million	2.0	0.4
	variable	EUR 805 million	1.7	3.4
	variable	GBP 100 million	1.0	5.2
	variable	CAD 100 million	1.0	4.4
	variable	USD 20 million	2.0	5.4
	fixed	JPY 92,000 million	6.6	1.5
	fixed	EUR 3,139 million	9.1	4.2
	fixed	USD 650 million	4.8	5.0
	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 1,135 million	1.2	3.6
	variable	CHF 100 million	1.5	2.0
	variable	USD 60 million	1.0	5.4
	variable	GBP 25 million	1.0	5.1
	fixed	SGD100 million	1.0	3.3
	fixed	EUR 30 million	1.4	3.8
BMW (UK) Capital plc, Bracknell	variable	JPY 5,000 million	2.0	0.6
	variable	EUR 275 million	2.5	3.7
	fixed	GBP 150 million	7.0	6.0
BMW US Capital, LLC, Wilmington, Del.	variable	JPY 47,750 million	1.9	0.5
	variable	USD 1,400 million	4.0	5.3
	variable	EUR 695 million	2.0	3.7
	fixed	EUR 2,500 million	7.1	4.0
	fixed	JPY 2,200 million	3.0	1.1
	fixed	USD 750 million	6.2	4.3
	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 Ltd., Bracknell	variable	GBP 45.8 million	1.0	5.4
Other	variable	JPY 3,000 million	8.0	0.6
	variable	EUR 1,475 million	2.2	3.7
	variable	USD 120 million	6.0	5.7
	fixed	JPY 82,000 million	13.8	2.3
	fixed	EUR 300 million	4.0	3.0
	fixed	CHF 250 million	4.0	1.6
	fixed	GBP 150 million	3.5	5.8

The following details apply to the 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 775 million	18.1	3.7
BMW Coordination Center V. o. F., Bornem	EUR 475 million	15.7	3.5
BMW Finance N.V., The Hague	EUR 460 million	20.5	3.7
	GBP 50 million	22.0	5.2
BMW (UK) Capital plc, Bracknell	GBP 250 million	26.8	5.2
BMW US Capital, LLC, Wilmington, Del.	USD 2,640 million	8.3	5.3

[35] Other liabilities

Other liabilities comprise the following items:

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**

31 December 2005 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	328	1	–	329
Social security	121	1	–	122
Advance payments from customers	359	7	–	366
Deposits received	60	104	–	164
Subsidiaries	39	–	–	39
Liabilities to other companies in which an investment is held	2	–	–	2
Deferred income	1,026	1,179	216	2,421
Other	1,642	110	41	1,793
	3,577	**1,402**	**257**	**5,236**

Deferred income comprises the following items:

in euro million	31.12.2006 Total	31.12.2006 thereof due within one year	31.12.2005 Total	31.12.2005 thereof due within one year
Deferred income from lease financing	763	484	678	408
Deferred income relating to service contracts	1,295	266	1,083	375
Grants	412	60	443	43
Other deferred income	107	99	217	200
	2,577	**909**	**2,421**	**1,026**

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.

[36] **Trade payables**

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

31 December 2005 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,389	103	52	3,544

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts euro 4,139 million (2005: euro 4,209 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	31.12.2006	31.12.2005
Guarantees	224	62
Performance guarantees	23	15
Bills of exchange	5	16
	252	**93**

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 96 years and in some cases contain extension and/or purchase options. Lease payments of euro 77 million (2005: euro 79 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	31.12.2006	31.12.2005
Nominal total of future minimum lease payments		
due within one year	271	174
due between one and five years	583	521
due later than five years	560	591
	1,414	**1,286**

The above amounts include euro 4 million (2005: euro 2 million) in respect of non-consolidated subsidiaries and euro 65 million (2005: euro 63 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	31.12.2006	31.12.2005
Total of future minimum lease payments		
due within one year	677	802
due between one and five years	497	667
due later than five years	–	–
	1,174	**1,469**

These future obligations are matched, or exceeded, by income on sub-leases.

Purchase commitments for property, plant and equipment amount to euro 1,099 million (2005: euro 1,057 million).

Sundry other financial commitments amount to euro 249 million (2005: euro 217 million).

[38] Financial instruments

Use and control of financial instruments

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which exchange rate risks arise. The BMW Group's operations are financed in various currencies, mainly by the issue of bonds and medium term notes and through bank loans. 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 exposed to risks resulting from changes in interest rates, market prices and exchange rates. Financial instruments are only used to hedge underlying positions or forecast transactions.

Protection against such risks is provided at first instance though 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.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Exchange rate, interest rate and liquidity risks of the BMW Group are managed at a corporate level. At 31 December 2006, 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.

Further disclosures relating to risk management are provided in the management report.

Quantitative disclosures on financial instruments

The carrying amount and fair value of material non-derivative financial instruments are set out in the following table:

in euro million	31.12.2006		31.12.2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from sales financing	30,368	30,183	29,053	29,426
Financial liabilities	36,456	36,244	34,668	34,534

The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2006 on the basis of the following interest rates:

ISO-Code in %	EUR	USD	GBP	JPY
Interest rate for six months	3.8	5.4	5.4	0.6
Interest rate for one year	4.0	5.3	5.6	0.8
Interest rate for five years	4.1	5.1	5.4	1.4
Interest rate for ten years	4.2	5.2	5.1	1.9

These interest rates were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

The nominal amounts of derivative financial instruments correspond to the purchase or sale amounts or contract values of the underlying transactions. The nominal amounts, fair values (and also carrying amounts) and maturities of derivative financial instruments of the BMW Group are shown in the following analysis:

in euro million	Nominal amount	Fair values			
		Total	due within one year	due between one and five years	due later than five years
31 December 2006					
Assets					
Currency hedge contracts	15,567	618	572	46	–
Interest rate contracts	13,411	658	55	468	135
Other derivative instruments	172	45	39	6	–
Total	29,150	1,321	666	520	135
Liabilities					
Currency hedge contracts	9,350	427	269	158	–
Interest rate contracts	3,479	73	10	63	–
Other derivative instruments	209	96	–	96	–
Total	13,038	596	279	317	–
31 December 2005					
Assets					
Currency hedge contracts	6,378	270	163	107	–
Interest rate contracts	11,975	488	41	315	132
Other derivative instruments	209	48	21	27	–
Total	18,562	806	225	449	132
Liabilities					
Currency hedge contracts	14,509	361	154	207	–
Interest rate contracts	5,792	36	2	13	21
Other derivative instruments	561	453	–	453	–
Total	20,862	850	156	673	21

The disclosed fair values of derivative financial instruments, based on their nominal amounts, do not take account of any compensating changes in the value of the underlying transaction. Moreover, the fair values disclosed do not necessarily correspond to the amounts which the BMW Group will realise in the future under the market conditions prevailing at that time.

The currency hedge contracts comprise principally options and forward currency contracts which are designated as a cash flow hedge. The interest rate contracts include swaps which are accounted for on the basis of whether they are designated as a fair value hedge or as a cash flow hedge.

The fair values of financial instruments relating to hedged forecast transactions and available-for-sale securities are recognised directly in accumulated other equity. At 31 December 2006, the positive impact from the fair value measurement of financial instruments (net of deferred taxes) amounted to euro 392 million (2005: euro 591 million) and has been recognised directly in equity. This comprises a positive impact from cash flow hedges of euro 178 million (2005: euro 29 million) and a positive impact from available-for-sale securities of euro 214 million (2005: euro 562 million).

During the year under report, negative changes in fair value measurement amounting to euro 199 million (2005: euro 543 million) were recognised directly in equity. This includes a positive impact of euro 149 million from cash flow hedges (2005: negative impact of euro 1,043 million) and a negative impact of euro 348 million (2005: positive impact of euro 500 million) from available-for-sale securities.

In the financial year under report, positive fair value measurement changes of euro 266 million (2005: euro 661 million) were removed from other accumulated equity and realised in the income statement. Write-downs of euro 2 million (2005: euro 10 million) on available-for-sale securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2006. Reversals of write-downs on current marketable securities of euro 4 million were recognised directly in equity (2005: euro 3 million). In 2006, gains of euro 431 million (2005: euro 33 million) were realised on the disposal of available-for-sale securities and the equivalent amount removed from other accumulated equity and recognised in the income statement.

Credit risk

Financial assets are recognised in the balance sheet net of write-downs for the risk that counter-parties are unable to fulfil their contractual obligations, irrespective of the value of collateral received. In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit-standing of the counter-party 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 exposure entered into. Write-downs are recorded as soon as credit risks are identified on individual financial assets. This credit risk 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.

[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 68 and 69.

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 2006 was euro 42 million (2005: positive impact of euro 60 million).

The cash flows from investing and financial 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.

The cash inflow from operating activities includes the following cash flows in accordance with IAS 7 paragraphs 31 and 35:

in euro million	2006	2005
Interest received	391	283
Interest paid	328	240
Dividends received	62	28
Income taxes paid	733	604

[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 2006, the disclosure requirements contained in IAS 24 only affect the BMW Group with regard to business relationships with affiliated, non-consolidated entities, joint ventures and other entities in which an investment is held as well as with members of the Board of Management and Supervisory Board of BMW AG.

The BMW Group's relationships with affiliated, non-consolidated entities are conducted on the basis of arm's length principles. Transactions with these related parties are small in scale and arise 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 %) and TRITEC Motors Ltda., Campo Largo (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 2006. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. In addition, SOLARWATT AG, Dresden, in which Stefan Quandt has a significant investment, supplied solar modules with a total value of euro 3 million to the BMW Group in 2006. 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, Bad Homburg v.d.H. which purchased vehicles from the BMW Group during the financial year 2006. 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.

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 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.

[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 2006 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 27.7% 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 17.8 million (2005: euro 15.2 million). The compensation consists of the following:

in euro million	2006	2005
Short-term employment benefits	17.2	14.7
Benefits due at end of employment relationship	0.6	0.5
	17.8	**15.2**

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 2006 amounted to euro 14.5 million (2005: euro 12.2 million). This comprises fixed components of euro 2.3 million (2005: euro 2.0 million) and variable components of euro 12.2 million (2005: euro 10.2 million).

In addition, an amount of euro 0.6 million (2005: euro 0.5 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 2006 amounts to euro 2.7 million (2005: euro 2.5 million), comprising fixed components of euro 0.1 million (2005: euro 0.1 million) and variable components of euro 2.6 million (2005: euro 2.4 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 121 to 124. The compensation report is sub-section of the management report.

The remuneration of former Board members and their surviving dependants amounted to euro 3.8 million (2005: euro 2.6 million).

Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to euro 38.8 million (2005: euro 37.0 million), computed in accordance with IAS 19.

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 116 to 119.

[44] Application of exemptions pursuant to § 264 (3) and § 264 b HGB

A number of companies and incorporated partnerships (as defined by § 264a HGB) which are affiliated and 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
– 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
– Rolls-Royce Motor Cars GmbH, Munich

In addition, the following entities also apply the exemption available in § 264 (3) and § 264b HGB with regard to publication:

– Alphabet Fuhrparkmanagement GmbH, Munich
– BMW Leasing GmbH, Munich
– BMW Vertriebs GmbH, Munich
– BMW Vertriebs GmbH & Co. oHG, Dingolfing

[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. Inter-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 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 softlab 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, write-downs, reversal of write-downs 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 activities 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 2006	Automobiles 2005
Revenues with third parties		**37,948**	**37,247**
Change compared to previous year	%	1.9	2.3
Inter-segment revenues		**9,819**	**8,614**
Change compared to previous year	%	14.0	40.2
Total revenues		**47,767**	**45,861**
Change compared to previous year	%	4.2	7.8
Gross profit		**9,636**	**9,512**
Profit before financial result		**3,055**	**3,080**
Change compared to previous year	%	– 0.8	– 7.7
Result from equity method accounting		**– 25**	**14**
Other financial result		**– 18**	**– 118**
Profit before tax		**3,012**	**2,976**
Change compared to previous year	%	1.2	– 5.9
Return on sales	%	**6.3**	**6.5**
Significant non-cash items		**– 117**	**802**
Internal financing		**5,552**	**6,017**
Capital expenditure		**4,185**	**3,832**
Depreciation and amortisation		**3,159**	**2,903**
Additions to leased products		**392**	**369**
Investments accounted for using the equity method		**60**	**94**
Assets		**27,227**	**25,679**
Liabilities		**20,069**	**19,692**
Average workforce during the year		**95,920**	**96,436**

	Motorcycles		Financial Services		Reconciliations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005
	1,255	1,217	**9,603**	8,073	**193**	119	**48,999**	46,656
	3.1	19.1	19.0	18.2	62.2	40.0	5.0	5.2
	10	6	**1,476**	1,335	**– 11,305**	– 9,955	**–**	–
	66.7	– 14.3	10.6	– 4.4	13.6	31.9	–	–
	1,265	1,223	**11,079**	9,408	**– 11,112**	– 9,836	**48,999**	46,656
	3.4	18.9	17.8	14.4	13.0	31.8	5.0	5.2
	322	315	**1,215**	1,067	**166**	– 230	**11,339**	10,664
	75	67	**689**	622	**231**	24	**4,050**	3,793
	11.9	76.3	10.8	20.8	862.5	– 120.5	6.8	0.5
	–	–	**–**	–	**–**	–	**– 25**	14
	– 9	– 7	**– 4**	– 17	**130**	– 378	**99**	– 520
	66	60	**685**	605	**361**	– 354	**4,124**	3,287
	10.0	93.5	13.2	17.5	–	–	25.5	– 8.3
	5.2	4.9	**6.2**	6.4	**–**	–	**8.4**	7.0
	12	3	**3,475**	2,803	**30**	478	**3,400**	4,086
	144	141	**4,095**	3,346	**272**	145	**10,063**	9,649
	64	76	**42**	40	**22**	45	**4,313**	3,993
	77	91	**24**	28	**12**	3	**3,272**	3,025
	–	–	**10,362**	9,092	**– 2,232**	– 2,259	**8,522**	7,202
	–	–	**–**	–	**–**	–	**60**	94
	687	602	**50,529**	47,270	**614**	1,015	**79,057**	74,566
	396	377	**44,480**	41,318	**– 5,018**	– 3,794	**59,927**	57,593
	2,816	2,859	**3,315**	2,958	**1,676**	1,293	**103,727**	103,546

Segment information by region in euro million	External sales 2006	 2005	Capital expenditure 2006	 2005	Assets 2006	 2005
Germany	10,601	11,001	3,089	3,248	28,903	27,278
Rest of Europe	18,440	17,266	665	430	19,789	17,759
The Americas	12,336	11,560	511	239	21,589	19,977
Africa, Asia, Oceania	7,622	6,829	48	76	8,705	7,970
Reconciliations	–	–	–	–	71	1,582
Group	**48,999**	**46,656**	**4,313**	**3,993**	**79,057**	**74,566**

Munich, 20 February 2007

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement, the balance sheet, statement 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 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 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 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 the group management report are examined primarily on a test basis within the framework of the audit. The audit 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 Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. 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, 2 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Schindler	Höfer
Wirtschaftsprüfer	Wirtschaftsprüfer

Members of the Supervisory Board

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
Member of the Mediation Committee

Mandates**
- ● Bertelsmann AG
- ● FESTO AG
- ● MAN AG (Deputy Chairman)

- ○ Deere & Company

Manfred Schoch*
Deputy Chairman
Chairman of the General Works Council

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
and Mediation Committee

Mandates**
- ● DELTON AG (Chairman)
- ● Dresdner Bank AG

- ○ DataCard Corp.

Konrad Gottinger*
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 and Audit Committee

Mandates**
- ● Deutsche Lufthansa AG
- ● ERGO Versicherungsgruppe AG

- ○ Henkel KGaA

Volker Doppelfeld
(until 16.05.2006)
Former member of the Board of
Management of BMW AG

Mandates**

- ○ Bizerba GmbH & Co. KG
- ○ UniCredit S.p.A.

* Employee representative
** Mandates at 31 December 2006 or on final day of office
● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards

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)

Werner Eisgruber*
(until 31.12.2006)
Member of the Works Council, Dingolfing

Franz Haniel
Engineer, MBA

Mandates**
- ● DELTON AG (Deputy Chairman)
- ● Franz Haniel & Cie. GmbH (Chairman)
- ● Heraeus Holding GmbH
- ● secunet Security Networks AG

- ○ Giesecke & Devrient GmbH

Arthur L. Kelly
Managing Partner of KEL Enterprises L.P.

Mandates**
- ● BASF AG

- ○ 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)
- ● ALTANA Pharma AG

- ○ UnternehmerTUM GmbH
- ○ Technical University of Munich

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)

- ○ HEICO Corp.
- ○ SWISS International Air Lines AG

Heinz-Joachim Neubürger
(from 16.05.2006)
Export Merchant, MBA

Mandates**
- ● Allianz Versicherungs-AG

- ○ KKR Guernsey GP Limited
- ○ Gruppo Banca Leonardo S.p.A.

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 AG

Mandates**
- ● Allianz Deutschland AG
- ● BASF AG (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
** Mandates at 31 December 2006 or on final day of office
● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards

Dr.-Ing. Norbert Reithofer
Chairman (from 01.09.2006)

Dr. Helmut Panke
(until 31.08.2006)
Chairman

Mandates**
- ● Microsoft Corp.
- ● UBS AG

Frank-Peter Arndt
(from 01.09.2006)
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. Klaus Draeger
(from 01.11.2006)
Development and Purchasing

Dr. Michael Ganal
Sales and Marketing

Mandates**
- ● BMW Brilliance Automotive Ltd. (Deputy Chairman)

Prof. Dr.-Ing. Dr.-Ing. E.h. Senator E.h. Burkhard Göschel
(until 31.10.2006)
Development and Purchasing

Stefan Krause
Finance

Mandates**
- ● Allianz Deutschland AG

General Counsel:
Dr. Dieter Löchelt

** Mandates at 31 December 2006 or on final day of office
● Membership of other statutory supervisory boards
○ Membership of equivalent national or foreign boards

Corporate Governance

Corporate Governance in the 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 BMW 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 "Government Commission of the German Corporate Governance Code", 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 the German Corporate Governance Code (GCGC) help to enhance the financial markets in Germany, in particular for international investors. At the joint meeting held on 5 December 2006, 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 24 July 2006. With the effect from that meeting, BMW AG complies with the recommendations of the GCGC with one exception only, 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. 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 which is based on the GCGC and takes account of the specific circumstances of the BMW Group. The aim is to provide shareholders and other stakeholders with a comprehensive, 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, such as notifications pursuant to §15a of the German Trade Securities Act (Directors' Dealings) from the BMW Group website. Interested parties can also find other general information about the Group, up-to-date analysts' reports and all financial publications of the Group at www.bmwgroup.com/ir.

A coordinator responsible for all corporate governance issues regular reports to the Board of Management and Supervisory Board.

Good corporate governance requires efficient mechanisms, capable of preventing breaches of law, and a system of regular review.

Additional measures were taken in 2006 within the purchasing function to reduce the risk of irregularities. Furthermore, in addition to the guidelines and training measures already in place, an open letter was sent to all employees working within the purchasing function and to 600 suppliers specifically addressing the issue of "Accepting gifts or other benefits and participating in non-business events". Systematic job rotation is required within the purchasing function, supported by measures taken by the Human Resources department. It was again made absolutely clear that all employees must act with integrity and that any breaches of rules will be dealt with rigorously.

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 made up of representatives from various specialist departments; its 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 with access to insider information are entered into a special register and advised of their legal obligations with regard to insider rules.

Fair treatment and mutual respect of others, equal opportunities and a clear stance against discrimination are core principles, which have been anchored for many years in the BMW Group's "Long-Term Personnel Policies". In 2005, these principles were underlined in a "Joint Declaration of Human Rights and Working Conditions in the BMW Group" signed by the group's management, the EURO Works Council and the International Metalworkers Federation. All employees in Germany are kept informed via the group's intranet of the objectives, rights and duties ensuing from the General Equal Treatment Act (GETA). Staff and senior management, particularly those working in the Human Resources department are regularly given training regarding the content of the GETA. Acknowledgement of the aims incorporated in this law, together with the corresponding guidelines for management and employees are documented in the agreement "Fairness in the Workplace".

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 individually disclosed 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 closely linked 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 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 a 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 remuneration comprises 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 (2006: 84.1 %, 2005: 83.6 %) for financial years in which the BMW Group performs well. The measures used to determine the variable component of compensation are the BMW Group's net profit for the relevant year and the level of the dividend. An upper limit is set for the compensation of each member of the Board of Management.

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. The members of the Board of Management do not receive any loans from the BMW Group. Similarly, they did not receive any payments or benefits from third parties in 2006 on account of their activities as members of the Board of Management.

Pension agreements are in place in 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 reached the age of 60, or are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. 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 civil servants' remuneration level B6 (excluding allowances) is increased by more than 5%.

If a mandate is ended before the member of the Board of Management reaches the age of 60, a transitional payment amounting to 2/3rds 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 correspond to the pension service cost.

Former members of the Board of Management are entitled to lease or purchase cars and motorcycles on the basis of the terms and conditions applicable to senior management.

Compensation of the Board of Management for the financial year 2006 (total)

On the basis of the proposed dividend, the total remuneration of the current members of the Board of Management of BMW AG for the financial year 2006 amounted to euro 14.5 million (2005: euro 12.2 million). This comprises fixed components (including other remuneration) of euro 2.3 million (2005: euro 2.0 million) and variable components of euro 12.2 million (2005: euro 10.2 million).

in euro million	2006		2005	
	Amount	Proportion	Amount	Proportion
Fixed renumeration	2.3	15.9%	2.0	16.4%
Variable renumeration	12.2	84.1%	10.2	83.6%
Total renumeration	14.5	100%	12.2	100%

In addition, an amount of euro 0.6 million (2005: euro 0.5 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.

The amount paid to former members of the Board of Management and their surviving dependants was euro 3.8 million (2005: euro 2.6 million). Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to euro 38.8 million (2005: euro 37.0 million), computed in accordance with IAS 19.

Compensation of the individual members of the Board of Management for the financial year 2006

in euro	Fixed remuneration			Variable remuneration	Remuneration Total	Allocation for year to pension provision
	Salary	Other remuneration	Fixed remuneration Total			
Norbert Reithofer[1]	440,000	13,703	453,703	2,258,600	2,712,303	108,767
Helmut Panke[2]	246,667	13,230	259,897	2,153,333	2,413,230	117,566
Frank-Peter Arndt[3]	100,000	6,788	106,788	523,200	629,988	29,219
Ernst Baumann	360,000	18,451	378,451	1,818,300	2,196,751	97,540
Klaus Draeger[4]	50,000	5,178	55,178	261,600	316,778	14,759
Michael Ganal	360,000	14,644	374,644	1,818,300	2,192,944	125,855
Burkhard Göschel[5]	300,000	26,493	326,493	1,515,250	1,841,743	69,653
Stefan Krause	360,000	16,789	376,789	1,818,300	2,195,089	75,710
Total[6]	**2,216,667**	**115,276**	**2,331,943**	**12,166,883**	**14,498,826**	**639,069**

1] Chairman of the Board of Management from 1 September 2006.
2] Chairman of the Board of Management until 31 August 2006.
3] Member of the Board of Management from 1 September 2006.
4] Member of the Board of Management from 1 November 2006.
5] Member of the Board of Management until 31 October 2006.
6] 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

In addition to the reimbursement of expenses, each member of the Supervisory Board receives a fixed amount of euro 6,000 (payable after the end of the financial year), and 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 the member of the Supervisory Board any value added tax arising on their remuneration.

Compensation of the Supervisory Board for the financial year 2006 (total)

On the basis of the proposed dividend, the compensation of the Supervisory Board for activities during the financial year 2006 amounted to euro 2.7 million (2005: euro 2.5 million). This comprised a fixed component of euro 0.1 million (2005: euro 0.1 million) and a variable component of euro 2.6 million (2005: euro 2.4 million).

in euro million	2006		2005	
	Amount	Proportion	Amount	Proportion
Fixed compensation	0.1	3.7 %	0.1	4.0 %
Variable compensation	2.6	96.3 %	2.4	96.0 %
Total compensation	2.7	100 %	2.5	100 %

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity in 2006. 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

Compensation of the individual members of the Supervisory Board for the financial year 2006

in euro	Fixed compensation[1]	Variable compensation[2]	Total
Joachim Milberg (Chairman)	18,000	297,000	315,000
Manfred Schoch (Deputy Chairman)	12,000	198,000	210,000
Stefan Quandt (Deputy Chairman)	12,000	198,000	210,000
Konrad Gottinger (Deputy Chairman)	12,000	198,000	210,000
Hans-Dietrich Winkhaus (Deputy Chairman)	12,000	198,000	210,000
Volker Doppelfeld[3]	2,238	36,888	39,126
Ulrich Eckelmann	6.000	99,000	105,000
Bertin Eichler	6,000	99,000	105,000
Werner Eisgruber	6,000	99,000	105,000
Franz Haniel	6,000	99,000	105,000
Arthur L. Kelly	6,000	99,000	105,000
Susanne Klatten	6,000	99,000	105,000
Willibald Löw	6,000	99,000	105,000
Hubert Markl	6,000	99,000	105,000
Wolfgang Mayrhuber	6,000	99,000	105,000
Heinz-Joachim Neubürger[4]	3,780	62,384	66,164
Werner Neugebauer	6,000	99,000	105,000
Franz Oberländer	6,000	99,000	105,000
Anton Ruf	6,000	99,000	105,000
Jürgen Strube	6,000	99,000	105,000
Werner Zierer	6,000	99,000	105,000
Total	**156,018**	**2,574,272**	**2,730,290**

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 dividend proposal of the Board of Management and Supervisory Board. The variable compensation for the financial year 2006 will be paid following the resolution of the shareholders at the Annual General Meeting 2007 regarding the utilisation of unappropriated profit.
3] Member of the Supervisory Board until 16 May 2006.
4] Member of Supervisory Board from 16 May 2006.

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). The members of the Supervisory Board do not receive any loans from the BMW Group.

Directors' Dealings

Members of the Board of Management and the Supervisory Board and persons closely related to them, are required, pursuant to §15a of the German Securities Trading Act (WpHG), to give notice of any of their transactions with BMW stock or related financial instruments, if the total sum of such transactions exceeds an amount of euro 5,000 during the calendar year. BMW AG was given notice of the following transactions, which were also posted on the group website at www.bmwgroup.com:

Date of transaction	Person reporting	Person with Management responsibility	Nature of transaction	Financial instrument and ISIN code	Number	Price in euro	Volume notified in euro
2.8.2006	Susanne Klatten	Susanne Klatten Member of the Supervisory Board	Sale, Off-Exchange	BMW common stock DE0005190003	2,343,277	39.80	93,262,424.60
2.8.2006	Stefan Quandt GmbH & Co. KG für Automobilwerte	Stefan Quandt, Member of the Supervisory Board	Sale, Off-Exchange	BMW common stock DE0005190003	3,261,373	39.80	129,802,645.40

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, Bad Homburg v.d.H. The shareholding of the members of the Board of Management is, in total, less than 1 % of the issued stock shares.

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 declare the following with respect to the recommendations of the "Government Commission of the German Corporate Governance Code":

The recommendations published in the official section of the electronic Federal Gazette on 12 July 2005 (Code version dated 2 June 2005) have been complied with, except for the exceptions described in the declaration dated 6 December 2005 relating to section 4.2.2 paragraph 1, section 4.2.4 sentence 2, section 5.4.7 paragraph 3 and section 6.6 paragraph 3.

The recommendations published in the official section of the electronic Federal Gazette on 24 July 2006 (Code version dated 12 June 2006) are being, and will be complied with, with the following 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).

Munich, 5 December 2006

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 of the work of the Personnel Committee.

BMW AG
Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2006	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	176	– 40	100
BMW INTEC Beteiligungs GmbH, Munich[2]	113	–	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	57	2	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	10	100
BMW Maschinenfabrik Spandau GmbH, Berlin	40	[4]	100
BMW Leasing GmbH, Munich[2]	16	–	100
BMW Hams Hall Motoren GmbH, Munich[3]	15	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[2]	11	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[2]	[4]	–	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] profit and loss transfer agreement with a subsidiary of BMW AG
4] below euro 0.5 million
5] 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.

Principal subsidiaries of BMW AG at 31 December 2006	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[5]			
BMW Österreich Holding GmbH, Steyr	1,260	95	100
BMW Motoren GmbH, Steyr	897	209	100
BMW Russland Trading OOO, Moscow	110	40	100
BMW China Automotive Trading Ltd., Beijing	64	40	100
BMW Austria Gesellschaft m. b. H., Salzburg	54	8	100
BMW Holding B.V., The Hague	5,789	703	100
BMW Australia Finance Ltd., Melbourne, Victoria	453	37	100
BMW Finance N.V., The Hague	406	–19	100
BMW Overseas Enterprises N.V., Willemstad	61	1	100
BMW (South Africa) (Pty) Ltd., Pretoria	391	131	100
BMW (Schweiz) AG, Dielsdorf	322	23	100
BMW Japan Corp., Tokyo	274	20	100
BMW Japan Finance Corp., Tokyo	244	19	100
BMW Italia S. p. A., Milan	255	101	100
BMW Canada Inc., Whitby	197	46	100
BMW France S. A., Montigny le Bretonneux	169	40	100
BMW Belgium Luxembourg S. A. / N.V., Bornem	149	76	100
BMW Australia Ltd., Melbourne, Victoria	78	27	100
BMW Portugal Lda., Lisbon	44	30	100
BMW Korea Co., Ltd., Seoul	44	20	100
BMW Hellas Trade of Cars SA, Athens	44	15	100
BMW Sverige AB, Stockholm	43	10	100
BMW Nederland B.V., The Hague	31	18	100
BMW Automotive (Ireland) Ltd., Dublin	25	8	100
BMW New Zealand Ltd., Auckland	10	–1	100
BMW (UK) Holdings Ltd., Bracknell	1,594	46	100
BMW (UK) Manufacturing Ltd., Bracknell	899	227	100
BMW (UK) Ltd., Bracknell	729	272	100
BMW Financial Services (GB) Ltd., Hook	344	29	100
BMW (UK) Capital plc, Bracknell	174	26	100
BMW Malta Ltd., Valletta	776	68	100
BMW Malta Finance Ltd., Valletta	658	49	100
BMW Coordination Center V. o. F., Bornem	590	–1	100
BMW España Finance S. L., Madrid	295	49	100
BMW Ibérica S. A., Madrid	227	84	100
BMW de Mexico, S. A. de C.V., Mexico City	19	7	100
BMW (US) Holding Corporation, Wilmington, Del.	1,259	429	100
BMW Financial Services NA, LLC, Wilmington, Del.	564	127	100
BMW Manufacturing, LLC, Wilmington, Del.	497	20	100
BMW of North America, LLC, Wilmington, Del.	424	55	100
BMW US Capital, LLC, Wilmington, Del.	282	–1	100

BMW Group 10-year Comparison

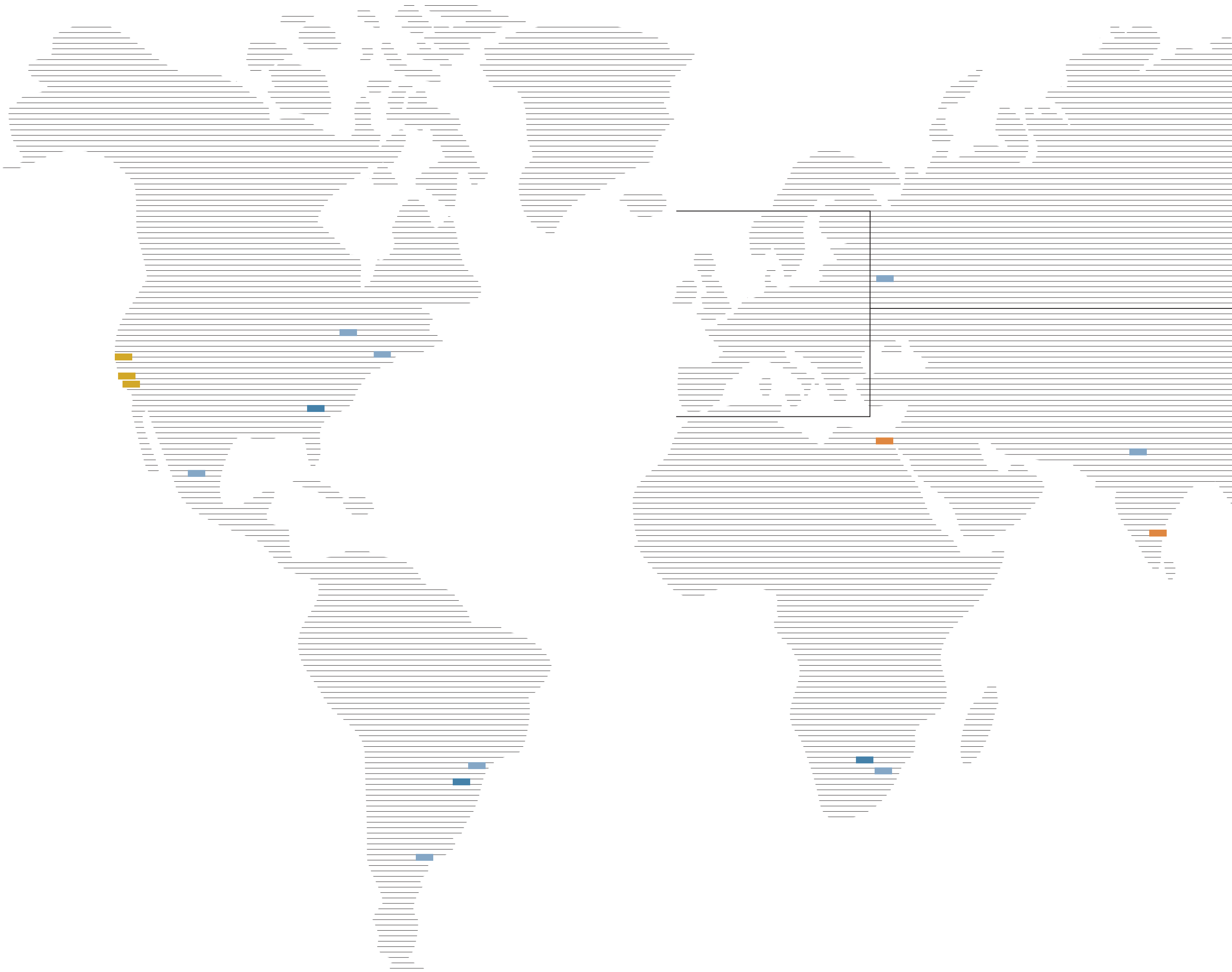
		2006 IASs/IFRSs	2005 IASs/IFRSs
Deliveries to customers			
Automobiles[3]	units	1,373,970	1,327,992
Motorcycles[4]	units	100,064	97,474
Production			
Automobiles[3]	units	1,366,838	1,323,119
Motorcycles[5]	units	103,759	92,012
Financial Services			
Contract portfolio	contracts	2,270,528	2,087,368
Business volume (based on balance sheet carrying amounts)	euro million	44,010	40,428
Income Statement			
Revenues	euro million	48,999	46,656
Gross profit percentage Group	%	23.1	22.9
Gross profit percentage industrial operations	%	20.3	20.9
Gross profit percentage financial operations	%	11.4	12.0
Profit before financial result	euro million	4,050	3,793
Profit before tax	euro million	4,124	3,287
Return on sales (EBT/revenues)	%	8.4	7.0
Income taxes	euro million	1,250	1,048
Effective tax rate	%	30.3	31.9
Net profit / – loss for the year	euro million	2,874	2,239
Balance sheet			
Non-current assets	euro million	50,514	47,556
Current assets	euro million	28,543	27,010
Equity	euro million	19,130	16,973
Equity ratio Group	%	24.2	22.8
Industrial operations	%	40.6	39.1
Financial operations	%	10.4	10.4
Non-current provisions and liabilities	euro million	31,372	29,509
Current provisions and liabilities	euro million	28,555	28,084
Balance sheet total	euro million	79,057	74,566
Cash flow statement			
Cash and cash equivalents at balance sheet date	euro million	1,336	1,621
Operative cash flow[8]	euro million	5,373	6,184
Capital expenditure	euro million	4,313	3,993
Capital expenditure (capital expenditure/revenues)	%	8.8	8.6
Personnel			
Workforce at the end of year[7]		106,575	105,798
Personnel cost per employee	euro	76,621	75,238
Dividend			
Dividend total	euro million	458	419[9]
Dividend per share of common stock/preferred stock	euro	0.70/0.72	0.64/0.66

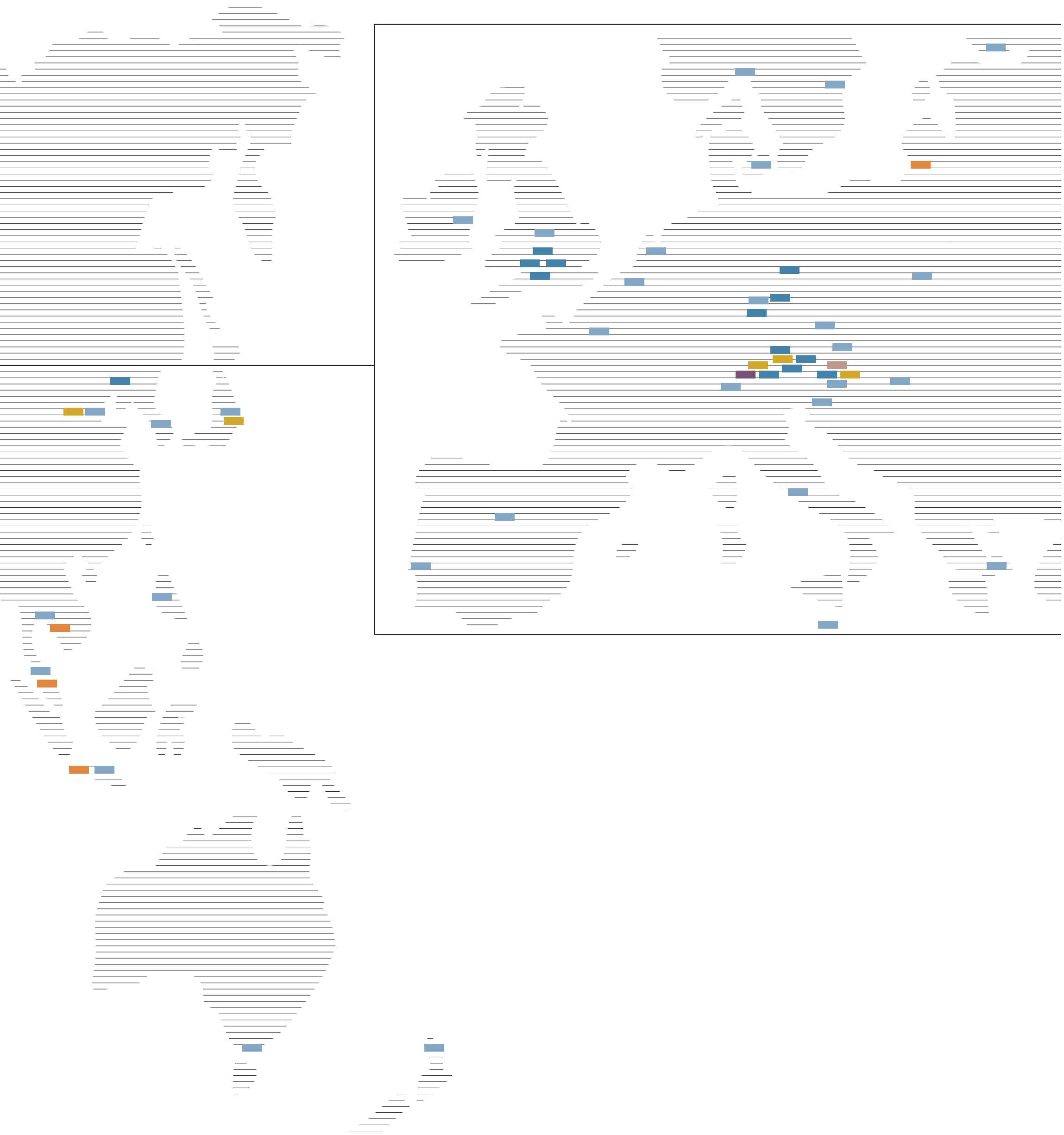
1] adjusted for new accounting treatment of pension obligations 2] reclassified after harmonisation of internal and external reporting systems 3] including Rover Cars up to 9 May 2000
excluding C1 production by Bertone, production volume C1 up to 2002: 33,489 units 6] the net profit before exceptional items amounted to euro 663 million 7] figures since 1998
of treasury shares

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	1997 HGB
1,208,732	1,104,916	1,057,344	905,657	1,011,874	1,011,874	1,180,429	1,187,115	1,196,096
92,266	92,962	92,599	84,713	74,614	74,614	65,168	60,308	54,014
1,250,345	1,118,940	1,090,258	946,730	1,026,775	1,026,775	1,147,420	1,204,000	1,194,704
93,836	89,745	93,010	90,478	74,397	74,397	69,157	60,152	54,933
1,843,399	1,623,425	1,443,236	1,297,702	1,317,150	970,747	1,010,839	855,250	719,861
32,556	28,647	26,505	25,306	24,958	17,578	16,859	12,564	10,862
44,335	41,525	42,411	38,463	37,226	35,356	34,402	32,280	30,748
23.2	22.7	22.8	25.3	22.8	18.1	16.4	16.0	17.1
21.9	22.1	22.7	24.0	23.5	–	–	–	–
12.5	12.3	10.5	16.0	12.0	–	–	–	–
3,774	3,353	3,505	3,356	2,065	1,578	931	1,232	1,451
3,583	3,205	3,297	3,242	2,032	1,663	1,111	1,061	1,293
8.1	7.7	7.8	8.4	5.5	4.7	3.2	3.3	4.2
1,341	1,258	1,277	1,376	823	637	448	537	590
37.4	39.3	38.7	42.4	40.5	38.3	40.3	50.6	45.6
2,242	1,947	2,020	1,866	1,209	1,026	–2,487[6]	462	638
40,822	36,921	34,667	31,282	30,079	20,056	19,857	18,586	16,735
26,812	24,554	20,844	19,977	19,261	15,819	17,650	12,053	10,506
16,534	16,150	13,871	10,770	9,432	4,896	3,932	6,445	5,240
24.4	26.3	25.0	21.0	19.1	13.6	10.5	21.0	19.2
41.6	45.4	43.1	37.0	35.9	19.1	11.9	28.7	25.3
9.7	9.8	9.4	8.4	8.1	8.0	8.7	10.0	10.0
26,517	22,090	20,028	19,223	17,386	13,457	14,785	9,331	10,288
24,583	23,235	21,612	21,266	22,522	17,522	18,790	14,863	11,713
67,634	61,475	55,511	51,259	49,340	35,875	37,507	30,639	27,241
2,128	1,659	2,333	2,437	2,927	2,879	2,055	1,935	1,257
6,157	4,970	4,553	4,304	3,966	–	–	–	–
4,347	4,245	4,042	3,516	2,781	2,138	2,155	2,179	2,311
9.8	10.2	9.5	9.1	7.5	6.0	6.3	6.8	7.5
105,972	104,342	101,395	97,275	93,624	93,624	114,952	118,489	117,624
73,241	73,499	69,560	66,711	63,548	62,307	55,710	51,703	50,493
419	392	351	350	310	310	269	234	203
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	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, 39 sales subsidiaries and a research and development network.





Headquarters

Research and Development

BMW Group Research and Innovation Centre (FIZ), Munich
BMW 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, Peking, 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 (including Wackersdorf)
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
TRITEC Motors Ltda., Curitiba, Brazil (joint venture with DaimlerChrysler)

Contract production

Magna Steyr Fahrzeugtechnik, Austria

Assembly plants

CKD production Cairo, Egypt
CKD production Chennai, India (Opening March 2007)
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
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
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).

[Cash flow, operating]
Cash inflow from industrial operations.

[Common stock]
Stock with voting right (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.

[EMAS]
Abbreviation for “Eco-Management and Audit Scheme”. A management tool that allows companies and organisations to evaluate, report on and improve their environmental performance.

[Equity ratio]
The proportion of equity (= subscribed capital, reserves and accumulated other equity) to the balance sheet total.

[ERA]
Remuneration Framework Agreement.

[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.

[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 material non-cash items, less income tax paid.

[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 non-current provisions, other 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 purposes, non-interest bearing liabilities exclude non-interest bearing provisions and liabilities.

[Return on sales]
The ratio of the profit from ordinary activities to Group revenues. For segment reporting purposes, the computation is based on the profit before financial result.

[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 added-value chain.

[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.

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This version of the Annual Report is a translation from the German version. Only the original German version is binding.

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The BMW Group on the Internet

Further information about the BMW Group is available online at www.bmwgroup.com.
Investor Relations information is available directly at www.bmwgroup.com/ir.
Information about the various BMW Group brands is available at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.

Interim Report to 31 March 2007	3 May 2007
Annual General Meeting	15 May 2007
Interim Report to 30 June 2007	1 August 2007
Interim Report to 30 September 2007	6 November 2007

Assuming responsibility.

Creating values.

Growing profitably, acting responsibly. Challenge and aspiration at once. The BMW Group’s solution: assuming responsibility.

Focus: responsibility Page 36

Ladies and Gentlemen,

I am pleased to inform you that we have achieved our objectives for the year 2006 and, in fact, even exceeded some of them. In the financial year 2006, the BMW Group confirmed its position as the world's leading premium manufacturer in the automobile industry with record sales, revenues and income. Thus, 2006 was the most successful year ever in the Company's history.

The 1,373,970 automobiles and 100,064 motorcycles sold, as well as around 2.3 million contracts in place in the Financial Services segment show that we were again able to continue our growth course in 2006. Never before have so many customers placed their trust in us. We are proud of this and at the same time realise that it is our duty to earn this trust anew each and every day with our automobiles, motorcycles and financial services.

Norbert Reithofer
Chairman of the Board of Management

Our key financial data also improved last year. For the first time in the Company's history, our profit before tax exceeded the four billion euro mark. Admittedly, book profit from the exchangeable bond option relating to shares in Rolls-Royce plc, London, gave us tailwind. However, even without this special effect, our profit clearly tops that of the previous year – despite the well-known adverse external factors arising from negative currency effects and high prices for raw materials.

We achieved all this only because all the employees in the BMW Group work together as a team to attain our objectives. They do so with a dedication and motivation, which cannot be taken for granted. Therefore, my colleagues on the Board of Management and I would like to express our sincere thanks to all of them. Our dealer network and business partners also contributed to the success of the BMW Group in 2006 with great commitment. Their dedication and willingness to invest help to ensure that the BMW Group will continue its growth course in the future.

At this juncture, I would also like in particular to thank my colleagues Dr. Helmut Panke and Professor Burkhard Göschel, both of whom retired from the Board of Management in 2006 upon reaching the statutory age limit. The BMW Group has gained a position of strength as a result of their successful work in recent years.

Today, many of our models hold leading positions in the premium segments of the international automobile markets. Indeed, the BMW 3 and 5 Series are the market leaders worldwide in their respective segments. We aim to strengthen this position in the coming years – and, to this end, we will extend our product range with a variety of new models. Here are a few examples: in March, we will be launching attractive new products such as the new BMW 3 Series Convertible, the revised BMW 1 and 5 Series, and the M5 Touring. The new BMW X5, which has already been introduced successfully in the United States, will also be launched in Europe and Asia during the first months of 2007. Other new products will follow in the course of the year. In 2007, we will continue the model change in the MINI, for example, with the new MINI One and the MINI Cooper D, thus stabilising the brand's extraordinary success. For Rolls-Royce, the year 2007 will be dominated by the market launch of the convertible, the Rolls-Royce Phantom Drophead Coupé, which has already aroused great interest and expectations. As already announced, a new model positioned below the Phantom will also be added to the product range in the coming years.

The new and existing models will enable us to develop new markets and segments in 2007 and the following years. To do this, we will again step up our international presence in 2007. The latest example is our commitment in India where we opened a new sales subsidiary near Delhi at the beginning of the year. A few days ago our new BMW plant in Chennai began production of BMW 3 Series automobiles for the Indian market. The plant will also produce BMW 5 Series models for India from May onwards. Our activities in China continue to develop in a very promising way. In 2006, we sold 36,430 automobiles there, more than a 50 percent increase on the previous year. This significant growth is further proof that we are following the right path with our strategy to develop new markets.

But we will also continue to grow in our core markets in Europe, the United States and Japan. That is how we intend to demonstrate our position as leading premium manufacturer. I am firmly convinced that we will succeed in this because one thing is perfectly clear: the BMW Group stands for premium and no other manufacturer in the world can do this better than we can. Steadily rising sales volumes for BMW, MINI and Rolls-Royce, robust business with BMW motorcycles as well as years of continuing growth for BMW Financial Services are all impressive evidence of this.

However, a record year such as 2006 should not mislead us. Our Company, like the entire automobile industry, faces formidable challenges. The continuing weakness of the US dollar against the euro, comparatively high prices for raw materials and still very intense competition on the world's automobile and motorcycle markets will again influence the course of business in the year ahead. This is the environment in which we have to maintain the upper hand if we are to end the coming year as successfully as the year 2006.

At the same time, we as company have to rise to the huge challenges we all face and make our contribution – first and foremost the reduction of CO_2 emissions and their consequences for climate change. Here all members of society are called upon to contribute whatever they can. And that is exactly what the BMW Group will do – as so often in its own way, which is typical of our Company. As automobile manufacturer we have a responsibility in many fields. We must continue to develop our business success, increase the Company's profitability and, at the same time, safeguard employment. We have to meet our customers' wishes for efficient and dynamic vehicles and, at the same time, continue to keep environmental protection in mind. And we must push ahead with innovations and develop drive concepts that guarantee individual mobility even in an age without fossil fuels.

Against this background, it is decisive to consider and balance the interests of shareholders, customers, employees and other stakeholders in order to master the challenges and, at the same time, to safeguard the success of the BMW Group in the future. We at the BMW Group aim to devote even greater attention to this objective and to our responsibility as company in the next few years. So there is good reason why the subject of responsibility should play a special role in this Annual Report. For it is the answers to the challenges mentioned earlier that determine a company's future viability; a characteristic that is to be found neither in the Balance Sheet nor in the Income Statement. But it is this characteristic that determines decisively the value of a company such as the BMW Group. This is the value which we aim to increase – in 2007 and in the years that follow.

Yours,

Norbert Reithofer
Chairman of the Board of Management

The BMW Group

The Company is unique in the automobile industry. It is among the most profitable manufacturers in its sector. It concentrates exclusively on the premium segments of the international automobile and motorcycle markets. And it does so with a consistency of purpose that is unequalled. Premium and nothing else – that is the philosophy behind the BMW Group's success. An aspiration that determines the character of the entire Company: not only in the automobile and motorcycle business, but also in the business with financial services for corporate and private customers.

Premium – and nothing else.
Growing profitably – worldwide.
Anticipating the future – sustainably.

Premium – and nothing else. Anyone who purchases a BMW, a MINI or a Rolls-Royce knows exactly what to expect. All the vehicles of these three brands stand for top quality and innovative technical solutions – in short: product substance. At the same time, the vehicles of all three brands, however much they differ from one another, have something else in common: they convey a particular lifestyle and exert a defining influence on the spirit of their time. In other words: they arouse emotions. This combination of product substance and emotions endows with the automobiles and motorcycles of the BMW Group with their unique character.

Premium is what the BMW Group does best. Premium is this Company's inherent strength. Each of the three brands – BMW, MINI and Rolls-Royce – has its own unmistakable profile, authenticity and individual history. Thus, each brand appeals to a particular type of customer. We aim constantly to meet all the expectations of these clearly defined groups of customers. This means we will always supply the customer with 100 percent BMW, 100 percent MINI or 100 percent Rolls-Royce. Conversely, the BMW Group does not claim to provide something for everyone. Rather, the BMW Group does what it can do best – with consistency of purpose and without compromises.

Growing profitably – worldwide. The BMW Group aims to continue its success with this strategy in the future. Numerous potentials for further growth exist. For example, demand for premium automobiles is increasing worldwide, with premium automobile markets growing more strongly than the so-called volume segments. The BMW Group intends to participate in this growth. That is why it is extending its product range and is pressing forward into new segments with new models. In doing so, the Company is meeting the customers' wish for individualised vehicle concepts. With success: in the last six years alone, the BMW Group's automobile sales have risen by almost two thirds. This growth is the result of the most extensive product and market initiative in the Company's history. At the same time, the financial services segment also grew steadily and is now one of the mainstays of the Group's business development.

However, for the BMW Group growth means not only launching new, desirable products onto the market, but also developing new markets at the same time – and at exactly the right time. In doing so, the BMW Group follows the principle of "production follows market". First of all, it develops the market with importers and then it enters the market with its own sales subsidiary. If a market offers corresponding potential, the Company establishes its own production facilities there. Numerous examples demonstrate the success of this strategy: the BMW Group built its own BMW plant in South Africa in 1974, which today plays an important role in the Company's worldwide production network. In the United States, the BMW Group has been represented by its own plant in Spartanburg, South Carolina, since the mid-1990s. Since then the BMW Group's sales on the world's largest automobile market has more than trebled; the BMW Group is the leading European premium manufacturer in the United States.

In 2004, a sales and production joint venture was opened in cooperation with a partner in the emerging Chinese market. Since then sales have more than doubled there, too. In 2007, the BMW Group is now entering India with its own sales subsidiary and an assembly plant for BMW 3 and 5 Series automobiles. Thus, the BMW Group currently has 23 production locations in 13 countries and is represented by 39 of its own sales subsidiaries all over the world.

Anticipating the future – sustainably. Just as the BMW Group knows what it does best in terms of its products, the Company also knows what it stands for: profitable growth and the long-term increase in the Company’s value. Achievements merely serve as the point of departure for further improvements. This conviction, combined with the wish to achieve the very best, moves and drives not only the more than 106,000 employees of the BMW Group worldwide. It also shapes corporate culture and determines all processes in the Company.

More than 1.3 million customers placed their trust in the BMW Group last year. Thus, they have once again made the Company the most successful premium manufacturer in the automobile industry worldwide. The BMW Group aims to justify this trust in the future, too. Therefore it will continue to offer its customers individual mobility with technically superior and emotionally appealing automobiles and motorcycles as well as attractive financial services – and will do so as an independent company that shapes its future on its own.

nationalities work together at the BMW Group's Munich location. Thus, the BMW Group is not only a truly international company in its geographical scope, but also in the composition of its workforce.

98

billion euros were paid to BMW Group employees in wages and salaries in 2006. This amount includes pension scheme and social security costs.

7.448

BMW enthusiasts visited the BMW Group Mobile Tradition museum in 2006. Only about half the visitors came from German-speaking countries, the rest were international guests.

196,735

is the number under which the BMW brand and trademark were entered in the German Imperial Trademark Register on 10 December 1917.

221,388

people are employed in the BMW Group's dealer network, namely at independent dealerships or importers – almost as many people as within the BMW Group itself.

100,000

seconds was the average time between two sales of a BMW Group automobile in 2006.

23

tons is the load the foresail of the BMW ORACLE Racing Team's yacht has to bear in regattas such as the America's Cup – even though the sail itself weighs a mere 38 kilograms.

6

seconds are all it takes for the BMW Sauber Team's F1.06 to accelerate from 0 to 100 km/h. Less than three seconds later the vehicle reaches a speed of 200 km/h – and it has a stopping distance of only 55 metres when the brakes are slammed on.

2.6

metres was the distance the golf balls of the 156 players had to travel in the 18th BMW International Open.

2,885,757

The year 2006 was the most successful in the company history of the BMW Group. This is evident not only from record sales, revenues and income, but also from the many events and highlights that marked the year 2006 for the BMW Group – here are some of them.

What events marked the year 2006 for the BMW Group? Too many to all be listed here. Some of the highlights.

31 Highlights

January
February

March

April
May

June

July

August
September

The year 2006

October
November

December

09/01/2006

BMW Z4 Roadsters have their world premiere at the North American International Auto Show Detroit.

Detroit. At the beginning of January the BMW Group staged two world premieres at the North American International Auto Show (NAIAS). The new BMW Z4 Roadster and the particularly powerful BMW Z4 M Roadster by BMW M GmbH were introduced to the public for the first time. The BMW Z4 Coupé Concept Car was also exhibited to show the model's additional potential for the near future in terms of design, technology and performance.

With the BMW Concept X3 EfficientDynamics, the Company demonstrated how the intelligent management of energy flows can help to reduce fuel consumption and emissions.

At the beginning of 2006, the year of the 100th birthday of the Mini's inventor, Sir Alec Issigonis, the MINI brand presented the design study MINI Concept Detroit at NAIAS. This model interprets the core idea of the Mini Traveller with the motto "Go sports!"

>>01

>>02

>>03

>>01 **BMW Z4 Roadster: special focus on new engines and a discreetly updated design.**

>>02 **BMW Z4 M Roadster: a purist high-performance vehicle that extends the range upwards.**

>>03 **Design study MINI Concept Detroit: dynamic engine performance and sporting ambience inside the car combined with flexible, intelligent use of space.**

>>04 **The BMW Group is continuing its international market initiative in India. From 2007 the BMW Group will begin by setting up six new BMW dealerships in Delhi, Mumbai, Chandigarh and Bangalore.**


>> 04

01/02/2006

Construction work begins in India.

Chennai. A milestone for the BMW Group's activities in India: construction work began on the new plant in India. In the new assembly plant in Chennai, in the south-east of India, BMW 3 and 5 Series automobiles are to be produced exclusively for the Indian market. The BMW Group is also establishing its own sales subsidiary in the Greater Delhi area and is thus continuing its international market initiative with a wide range of activities in India. In addition to running the assembly plant and importing BMW automobiles, the subsidiary's responsibilities will include the development of the dealer network, pricing and product strategy, marketing and aftersales. Subsidiary and assembly plant will go into operation at the beginning of 2007. The BMW Group will also expand its dealer network to all the country's major urban areas.

10/02/2006

Design Award of the Federal Republic of Germany for the BMW Group.

Frankfurt/Munich. In 2006, the BMW Group was the only manufacturer to receive the "Design Award of the Federal Republic of Germany" twice over. Each year, this prestigious official design prize is awarded by the German Design Council on behalf of the Federal Ministry of Economics and Technology. The BMW Group gained the Design Award for the BMW 6 Series Coupé and Convertible and for its trade fair presentation of the MINI brand.

Companies and individuals cannot compete for the award on their own. Rather, they have to be nominated by the ministries and senators of economic affairs of Germany's federal states or by the Federal Ministry of Economics. To be considered, however, the product must have already won a German or international prize. Awards are made for a maximum of 25 products.

17/02/2006

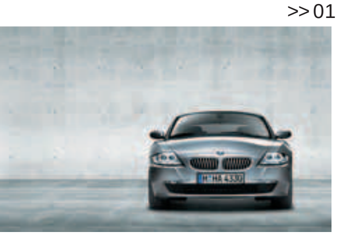
World premiere at the International Motor Show in Geneva.

Geneva. The BMW Group introduced two particularly sporty automobiles to the international public at the 76th International Motor Show in Geneva: the BMW Z4 M Coupé and the BMW Z4 Coupé 3.0si. The third new product on show was the BMW 320si, which is available in a limited edition and at the same time serves as a basis for the competition vehicle in the World Touring Car Championship 2006 (WTCC).

The first major European motor show of the year is also the arena for presenting numerous technical innovations. Therefore BMW also presented a world premiere in Geneva in the drive sector: the first straight-six petrol engine with bi-turbocharger, High Precision Injection and all-aluminium crankcase.

The MINI brand presented a particularly sporty automobile in Geneva. The new MINI Cooper S with John Cooper Works GP Kit weighs about 50 kilograms less than a MINI Cooper S with average equipment. At the same time, with engine power boosted to 160 kW/218 bhp and a top speed of 235 km/h, the model produced in a strictly limited edition of 2,000 units offers performance that far exceeds that of the MINI Cooper S.

>> 01



>> 02

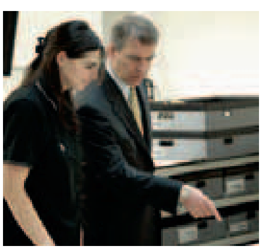
>> 03

>> 04

20/02/2006
Prince Andrew visits Rolls-Royce in Goodwood.

Goodwood. For the first time, His Royal Highness the Duke of York, Prince Andrew, visited the Rolls-Royce Motor Cars manufacturing plant and head office in Goodwood near Chichester.

The Duke of York arrived in a Rolls-Royce Phantom and was welcomed by the Chairman and Chief Executive of Rolls-Royce Motor Cars, Ian Robertson. During a tour of the plant, Prince Andrew was informed about the production process: each Phantom is hand-built.


>> 05

07/03/2006
BMW plant in Spartanburg passes the one million mark.

Spartanburg. At the beginning of March, the one millionth BMW was produced at the BMW plant in Spartanburg, South Carolina. The jubilee vehicle, a blue Z4 M Roadster, remained on the premises and was handed over to the plant's Visitor Centre.

Twelve years ago, on 8 September 1994, the first BMW rolled off the assembly lines in the United States. The BMW Group has invested more than 2.6 billion US dollars in Spartanburg to date and now has more than 4,300 employees there. Today, the Spartanburg plant produces the BMW Z4 models and the X5 for markets all over the world.


>> 06

>> 01 **BMW Z4 M Coupé: without compromise, purist and extraordinarily powerful.**

>> 02 **BMW Z4 Coupé: two-door roadster with superior chassis, maximum dynamics and agility.**

>> 03 **BMW 320si: excellent performance and exclusive appearance, combined with the typical functionality of the BMW 3 Series.**

>> 04 **MINI Cooper S John Cooper Works GP Kit: the first series-produced MINI with just two seats.**

>> 05 **His Royal Highness the Duke of York, Prince Andrew, asked employees about the production of the Rolls-Royce Phantom.**

>> 06 **BMW plant in Spartanburg: at the beginning of 2006 the production area was converted to one-line production.**

28/03/2006

New yacht for the BMW ORACLE Racing Team.

Valencia. Its name: USA 87. 24 metres long, four metres wide, total weight 24 tons. At the end of March the BMW ORACLE Racing Team's new yacht was christened officially by smashing a bottle of champagne across the bow. The new yacht is the impressive result of 1,000 hours of two-boat testing and 30,000 man-hours of boat-building – and is the decisive milestone on the way to participating in the 32nd America's Cup in Valencia in the summer of 2007. The BMW ORACLE Racing Team spent much of the 2006 season improving the new yacht. The season was a great success. In 2006, the BMW ORACLE Racing Team took part in four regattas and won two first places.

>>01

>>02

>>01 **Christening of the USA 87: Sue Dickson, wife of the BMW ORACLE Racing team CEO Chris Dickson, took on the role of godmother for the new BMW ORACLE racing yacht.**

>>02 **USA 87: At the end of February the hull, weighing around two tons, was transported from Seattle to Valencia in a spectacular way – 8,900 kilometres aboard a Russian cargo plane.**

>>03 **The BMW V10 high-performance engine that powers the BMW M5 and M6.**

13/04/2006

BMW 3 Series is World Car of the Year.

Munich/New York. The BMW 3 Series is the "World Car of the Year". In the competition for this international car award, the fifth generation of the BMW 3 Series automobile beat the 26 other contenders in its category. For the "World Car of the Year" award a panel of 46 motoring journalists from all over the world judges the most important new models of the year according to 20 criteria, including design, performance, handling, comfort and functionality. The awards ceremony was held during the New York International Auto Show.

10/05/2006

Engine of the Year – V10 power unit from the BMW M5/M6.

Munich. Never before in the history of the "Engine of the Year" award has a power unit received the accolade in two consecutive years. The V10 high-performance power unit from the BMW M5/M6 accomplished this feat. In Stuttgart in May, around 60 internationally renowned motoring journalists voted it "International Engine of the Year 2006". The power unit also received the much-sought-after "Best Performance Engine 2006" award and won the Best Above 4-litre category.

The 3.2-litre straight-six with 343 bhp from the BMW M3, which now also powers the BMW Z4 M Roadster and Z4 M Coupé, was another success for the BMW Group: for the sixth time in a row it was Best in the 3- to 4-litre category – no engine has ever achieved this since the competition began.

In addition, the 3.0-litre twin-turbocharged diesel engine, which powers the BMW 535d with 272 bhp, won the 2.5- to 3.0-litre category for the second time and is thus the only diesel winner in the competition. The new BMW 3-litre six-cylinder petrol engine, used in almost all BMW models, took second place.

>> 03

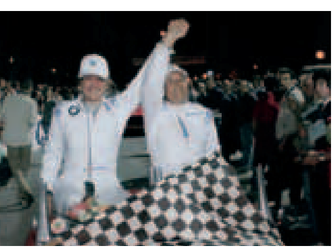
17/05/2006

Victories in the Mille Miglia 2006.

Munich/San Donato Milanese. In the year of the BMW 328's 70th birthday, the Cané/Galliani team of the BMW Group Mobile Tradition won the Mille Miglia 2006 in the historic BMW 328 MM Roadster that had already taken third place in 1940.

The ladies' trophy or "Coppa delle Dame" was awarded for the twelfth time to Franca Boni and her daughter Monica Barziza, who had already won in a BMW 328 in the previous year.

Altogether, 375 vehicles went to the start of what is undoubtedly the most famous classic car rally. Eleven teams represented the BMW Group Mobile Tradition.



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>> 01 **The winning team in the ladies' trophy, "Coppa delle Dame": Franca Boni and Monica Barziza won for the twelfth time.**

>> 02 **Giuliano Cané and his co-pilot and wife Lucia Galliani won the race for the ninth time; seven of these victories were in a BMW.**

>> 03 **The interior of the MINI Hotel is equipped so comfortably that it can be used as overnight accommodation.**

>> 04 **Welcome to MINI Hotel International: the MINI Hotels were always right at the heart of the World Cup action.**

09/06/2006

Hotel MINI International opens in time for the Football World Cup.

Munich. MINI Hotels specially designed for football fans were ready in time for the World Cup. To ensure that all the football fans felt really at home the MINI Hotel International was joined by MINI national hotels in the appropriate national colours. The MINI Hotel International is equipped so comfortably that anyone who so wishes can spend the night in it.

>> 03

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16/06/2006

100,000 BMW 3 Series automobiles made in Leipzig.

Leipzig. On 16 June 2006, the 100,000th BMW 3 Series automobile rolled off the assembly lines at the BMW plant in Leipzig since the beginning of series production on 1 March 2005. The BMW 330i in Titan Silver Metallic was destined for a customer in Saxony-Anhalt. The BMW plant in Leipzig reached this milestone earlier than scheduled and thus impressively demonstrated its efficiency. So far, more than 4,100 new jobs have been created on the plant premises, more than 2,300 at BMW, the others at suppliers and service partners. In 2007, daily output is to increase to 650 vehicles.

01/07/2006

Sales subsidiaries opened in the Czech Republic and in Slovakia.

Munich. The BMW Group extended its global presence by opening sales subsidiaries in the Czech Republic and Slovakia from 1 July 2006. Thus, as part of its ongoing market initiative, the Company is continuing resolutely to implement its strategy of assuming market responsibility in all the EU states of Central and Eastern Europe. In these countries, the BMW Group is responsible not only for importing vehicles, but also for operations such as the management of the dealerships, including aftersales and marketing.

With the start of its activities in the Czech Republic and in Slovakia, the BMW Group's sales network is now directly represented in 37, and from the beginning of 2007 in 39 countries worldwide. The Company sells 97% of its automobiles in these countries. A network of national importers serves another 100 or so countries.


>>01

25/07/2006
Relaunch of an icon.

Munich. An architectural icon looks as good as new. In September, after 29 months, the employees moved back into the BMW Group's headquarters in Munich, a complex comprising the "Four Cylinders", the BMW Museum, a low-rise building and a multi-storey car park. The "inside" of both the 22-storey Tower and the low-rise building had been completely replaced from April 2004 onwards. During this period, the 1,500 employees had their offices in nearby buildings.

When the striking bowl-shaped BMW Museum re-opens in the spring of 2008 it will be far larger and have a new concept.

The BMW Tower is classified as a historic monument. Therefore, its external façade, made of silvery shining aluminium elements, was left untouched and only cleaned. Inside, however, everything was stripped down to the bare concrete ceilings and floors: air-conditioning and heating systems, lifts, fittings and furnishings, and the entire electrical supply system. A Herculean task: 330,000 cubic metres of enclosed space and thus a gross usable area of 53,000 square metres were refurbished. 14,000 tons of material required environmentally compatible disposal. All 2,302 windows in the BMW Group's headquarters in the BMW Tower were replaced.

09/08/2006
Go ahead for the Scientific Award 2007.

Munich. The BMW Group invited young academics to apply for the Scientific Award 2007 for up-and-coming scientists. In this competition with the motto "Passion for Innovation" prizes are awarded for excellent Bachelor's, Master's and Doctoral Theses from all fields of expertise. In 2007, the competition will be held for the ninth time. The award is worth a total of 70,000 euros. The deadline for entries was 7 January 2007.

An international and multi-disciplinary jury with representatives of science and industry judges the entries. During the selection process, the jury considers the following criteria: innovation potential, relation to reality, benefit for the environment and society, theory, economic efficiency and form of presentation.

The competition for the BMW Group's Scientific Award was introduced in 1991 and is held every two years. So far, the BMW Group has honoured 45 young prize-winners together with their respective professors.

>> 01 **The BMW “Four Cylinders” in Munich were completely refurbished within 29 months.**

>> 02 **MINI plant in Oxford: surface check in the paint shop.**

01/09/2006

Change in the Board of Management of the BMW Group.

Munich. At its meeting on 20 July 2006, the Supervisory Board of BMW AG made decisions which will determine the course of the BMW Group’s management in the long term. Dr. Norbert Reithofer was appointed to succeed Dr. Helmut Panke as Chairman of the Board of Management from 1 September 2006.

The Supervisory Board appointed Frank-Peter Arndt, formerly Head of the BMW plant in Dingolfing, as Reithofer’s successor responsible for Production. The Supervisory Board also appointed Dr. Klaus Draeger to the Board of Management from 1 November 2006. He will take over responsibility for Research, Development and Purchasing from Professor Burkhard Göschel. Draeger was formerly responsible for the development of the BMW 5, 6 and 7 Series.

12/09/2006

MINI Production Triangle launched.

Munich/Oxford. The start of series production of the new MINI also signalled the launch of a new production network for the BMW Group in Great Britain. The BMW Group has invested a total of nearly 200 million pounds sterling to build the new MINI in the so-called MINI production triangle with plants in Hams Hall, Oxford and Swindon. Thus, maximum production capacity will rise by 20 percent to up to 240,000 units a year in the medium term. By the time the plant reaches full capacity, the number of employees in the production triangle will have risen from the current 6,350 to a total of around 6,800.

The British Chancellor of the Exchequer, Gordon Brown, visited the BMW Group plant in Oxford for the start of production of the new MINI, along with representatives of British industry and the Chairman of the Board of Management of BMW AG, Dr. Norbert Reithofer.

“The new MINI production triangle is a particularly efficient and flexible production network that allows us to react individually to our customers’ wishes in the MINI’s production”, said Reithofer. “This flexibility and customer orientation is unique in the small car segment.”

>> 02

12/09/2006

A new era of mobility begins – the BMW Hydrogen 7.

Munich. The BMW Group was the first automobile manufacturer worldwide to present a hydrogen-driven vehicle that has completed the series development process. The BMW Hydrogen 7 with a hydrogen-powered combustion engine is the result of a resolute development strategy which has made the progressive concept of sustainable mobility available for immediate everyday use. The BMW 7 Series Sedan is powered by a twelve-cylinder engine with 191 kW/260 bhp and accelerates from 0 to 100 km/h in 9.5 seconds. As long as the hydrogen infrastructure has not been fully developed, the dual-mode power unit of the BMW Hydrogen 7 can be switched conveniently from hydrogen to conventional fuel at the touch of a button. The BMW Hydrogen 7 will be offered to selected customers in several markets from 2007.

Integration of the use of hydrogen into an existing vehicle concept that has been tested in practice also creates the right conditions for an alternative to conventional drive systems to be accepted on the market and tried out by customers. Therefore, the premiere of the BMW Hydrogen 7 is not only a milestone for the BMW Group on the way to an age of mobility that is independent of fossil fuels, but also a signal for the entire automobile and energy sector.

>>01

>>02

26/09/2006

BMW Group remains the most popular employer.

Hamburg. When asked where they would like best to start their careers, economists and engineers have, for the last five years, placed the BMW Group at the top of their list.

The Trendence-Institut regularly conducts surveys to find Germany's most popular employers. Trendence polled almost 20,000 young graduates and students who were nearing their finals in its survey "Absolventenbarometer 2006". Respondents from faculties of law, economics and engineering were asked to name their favourites.

>>01/02 **The BMW Hydrogen 7 has a range of more than 200 kilometres in hydrogen operation; it can travel another 500 kilometres in conventional petrol mode.**

>>03 **The new MINI: while an evolutionary approach was taken to developing the exterior design in the brand's characteristic look, the interior has been updated with intelligent and trendy features.**

>>04 **BMW 3 Series Coupé: BMW continues a long tradition with this two-door automobile and at the same time adds new highlights in an interesting segment.**

>>05 **BMW M6 Convertible: the open-top model of the high-performance BMW M6 sports car and at the same time the BMW 6 Series Convertible at its sportiest.**

>>06 **BMW X3: the agile Sports Activity Vehicle has been enhanced with powerful engines, a fresh design and high-quality interior design.**

28/09/2006

MINI world premiere at Mondial de l'Automobile 2006 in Paris.

Munich/Paris. Five models from the BMW Group's range of vehicles staged their world premiere at the Mondial de l'Automobile 2006 in Paris.

First and foremost: the new MINI, which has been completely updated five years after its predecessor's market launch. The new MINI Cooper S and the new MINI Cooper were introduced with completely new four-cylinder engines at the end of 2006.

The BMW brand also presented new models. The new BMW 3 Series Coupé joined the Sedan and Touring as an exclusive addition to the BMW 3 Series. In Paris, trade visitors and automobile enthusiasts from all over the world also had the opportunity to see the new BMW X3 for the first time. The BMW X3 with its meticulously revised design, particularly high-quality interior and new powerful engines has become even more attractive. The BMW M6 Convertible was also among the special attractions at the Mondial de l'Automobile. The open-top four-seater combines the dynamic performance of a super sports car with the exclusiveness of a luxury convertible.

>> 03

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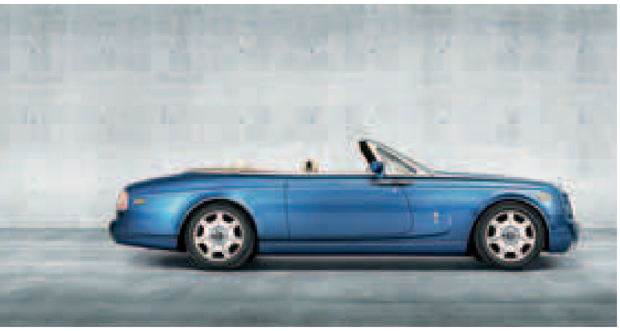
29/09/2006

Rolls-Royce announces new model range.

Goodwood. At the end of September, Ian Robertson, Chairman and Chief Executive of Rolls-Royce Motor Cars, announced that a new model range was being developed. The vehicle is to be positioned below the Phantom in terms of both size and price.

Development of the Rolls-Royce Phantom Drophead Coupé, which has already been announced and will be available in 2007, continues to be on schedule.



>> 01

10/10/2006

BMW Motorrad at INTERMOT 2006 in Cologne.

Cologne. BMW Motorrad was represented at INTERMOT 2006 in Cologne by the most extensive and varied model range in its history. A completely new range of single-cylinder motorcycles with a fascinating choice of three very different models, the G 650 Xcountry, the G 650 Xchallenge and the G 650 Xmoto, had their world premiere at the fair. The K series was also extended: the BMW K1200 R now has a sister model, the K1200 R Sport with sporty half-fairing.

BMW Motorrad has added the new single-cylinder models to its product range to attract new target groups. While they share the same technical base, these three motorcycles – the hard enduro G 650 Xchallenge, the street moto G 650 Xmoto and the scrambler G 650 Xcountry – are very different in character.

With their high-grade product substance, purist look and unusually sporty handling, these single-cylinder models occupy attractive niches.

The K1200 R Sport was the fourth model of the most powerful range of motorcycles to be presented by BMW Motorrad at INTERMOT. The new K1200 R Sport's special feature is the half-fairing fitted to the frame with the headlamp of the R1200 S. The new BMW K1200 R Sport is intended for ambitious, sporty bikers who attach importance to progressive, visible technology and appreciate the machine's increased versatility.

BMW has also added a dynamic supermoto machine to its exclusive HP2 family: the Megamoto. This motorcycle, based on the HP2 enduro, will take the lead among two-cylinder supermotos for street use because of its excellent performance and superior materials. As a consistent continuation of the HP2 line, the Megamoto demonstrates impressively the dynamic nature and scope of the Boxer concept.

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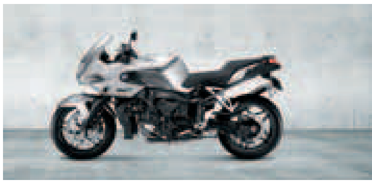

>> 05

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>>01 **The new Rolls-Royce Convertible, the Phantom Drophead Coupé.**

>>02 **The G 650 Xcountry: for riding pleasure on- and off-road.**

>>03 **The G 650 Xchallenge: a hard enduro for riding on rough terrain.**

>>04 **The G 650 Xmoto for active touring.**

>>05 **The K 1200 R Sport: the sporty sister of the K 1200 R.**

>>06 **The HP2 Megamoto: an exclusive Boxer concept with excellent performance.**

>>07 **Golden Steering Wheel for MINI: the new MINI won one of the most coveted automobile prizes ten days before its official introduction to the market.**

02/11/2006

2,000,000 retail customer contracts in place with BMW Group Financial Services.

Munich. In its Interim Report to 30 September 2006, the BMW Group announced a new record for its Financial Services segment. For the first time in the Company's history, the BMW Group Financial Services segment had more than two million retail customer contracts in place. By 30 September, the number of leasing and credit financing contracts in place with retail customers had risen to 2,039,255. This figure is renewed evidence of the successful growth course of the BMW Group's Financial Services in recent years.

08/11/2006

Excellence Award for the BMW Group.

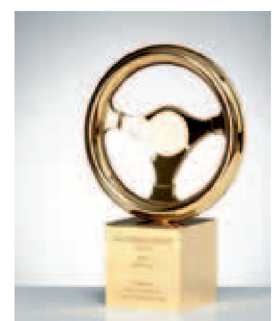
Munich/Dingolfing. On 7 November, Frank-Peter Arndt, member of the Board of Management of BMW AG responsible for Production, received the Excellence Award of the European Foundation for Quality Management (EFQM) in Budapest, Hungary. This prize honours outstanding management achievements in the promotion of competitiveness, satisfaction among employees and customers, social responsibility and, not least, the sparing use of resources.

The Excellence Award is presented to companies and organisations in Europe which have the edge on their international competitors not only because of their technical and business achievements, but also because of their sustainable corporate strategy – for at least three consecutive years. The BMW Group's strategic customer orientation and its cooperative and sustainable corporate strategy received special praise.

09/11/2006

Golden Steering Wheel for MINI.

Munich. Exactly ten days before its official introduction to the market, the new MINI was honoured with one of the world's most coveted automobile awards, the Golden Steering Wheel 2006. Each year, Europe's largest-circulation Sunday paper, Bild am Sonntag, awards this prize to the best new editions in the various categories. Dr. Michael Ganal, member of the Board of Management of BMW AG responsible for Sales and Marketing, was presented the Golden Steering Wheel during a festive ceremony in Berlin. In a statement before numerous representatives from the world of politics, the business community and the media, as well as show business personalities, Ganal declared, "We are pleased that the new MINI has convinced such a prestigious and critical jury. This again clearly confirms that the independent course we are following with MINI is the right one: a strong product and a strong brand in a unique composition."



>>07

18/11/2006

Auto China, the international motor show in Beijing.

Munich/Beijing. In mid-November the BMW Group presented the BMW 530Li, 525Li and 523Li to the public at Auto China in Beijing. The long-wheelbase versions, developed exclusively for the Chinese market, differ from the other already successful BMW 5 Series automobiles in China in that their wheelbase has been extended by 140 millimetres so that rear passengers have more space.

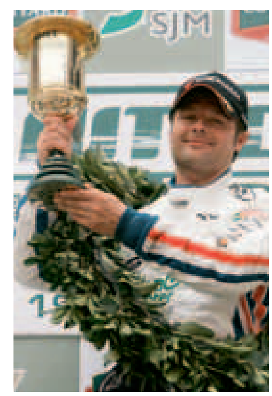
The BMW Group's presence in China continues to be marked by dynamic growth. By the end of 2006, 44,766 BMW Group automobiles had been sold on the Chinese markets (China, Hong Kong, Taiwan), 35.4 % more than in the previous year.

>> 01

19/11/2006

BMW and Andy Priaulx score a double victory in the FIA WTCC.

Munich/Macao. After an exciting finale to the season, Andy Priaulx with the BMW Team UK won the World Touring Car Championship in a BMW 320si and thus retained the title for the second year in a row. With a second place in the driver's championship, the BMW Team Germany with Jörg Müller scored a double success for BMW. The manufacturer's championship was also defended successfully; BMW won the World Touring Car title with 254 points.



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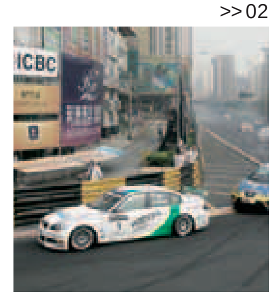


>> 03

01/12/2006

BMW X5 has its world premiere at the Los Angeles Auto Show.

Munich/Los Angeles. As the Los Angeles Auto Show celebrated its 100th jubilee in December, the BMW Group staged two world premieres, both of which were spectacular jubilee highlights. The new BMW X5 was presented to the public for the first time in Los Angeles. The new edition of the successful Sports Activity Vehicle (SAV) is produced in the BMW plant in Spartanburg, South Carolina, and had been awaited on the US market, which is so important for vehicles of this segment, with tremendous excitement. The BMW Group also presented the BMW Hydrogen 7, the first luxury sedan for everyday use to be powered by liquid hydrogen. A limited number of these series-produced vehicles will be available to a select group of customers from 2007.

During the run-up to the auto show, the BMW Group announced that it would offer its equally performance-oriented and efficient diesel power units in the United States during the course of 2008. Thus, these engines, known in Europe for their unique synthesis of dynamic power development and low fuel consumption, will also enter the BMW Group's strongest single market for retail: the United States.

>> 01 **Long-wheelbase version of the BMW 5 Series – developed exclusively for the Chinese market.**

>> 02 **Trophy for Andy Priaulx, World Champion twice over.**

>> 03 **FIA World Touring Car Championship (WTCC), "Guia Circuit", Macau, China.**

>> 04 **The new BMW X5 continues the success of its predecessor with dynamic performance, powerful elegance and great exclusivity.**

>> 04

07/12/2006

BMW Group as partner of the world's most important art fair.

Miami. Art Basel Miami Beach (ABMB), the largest and most famous international show of modern and contemporary art, was held in Florida from 7 to 10 December 2006. For the fifth time, the BMW Group was the show's official partner and also provided the VIP Shuttle Service, which this year consisted exclusively of BMW 7 Series Sedans.

An exclusive selection of 200 of the world's leading art galleries exhibited more than 1,500 art works at the show. The 50,000 or so international visitors to ABMB included famous individuals from the art world: collectors, art dealers, curators, journalists, directors of renowned museums and successful artists.

>>01

The BMW Group presented the newly designed BMW Museum, which will be re-opened to the public in 2008. Adrian van Hooydonk, Head of Design BMW Automobiles, demonstrated the dynamic exhibition architecture of the BMW Museum using pictures, films and a model. This museum, with its combination of innovative media presentations and design, promises once again to set international standards.

In addition to the presentation of the BMW Museum, the BMW Group was represented by its three brands at the art show. Visitors experienced the new BMW X5 in the Art Guest Lounge. As partner of the international lifestyle magazine VISIONAIRE, MINI launched the 50th jubilee edition of the magazine during a party and presented three vehicles, in the style of the "artist toys" shown in the magazine, in front of the Raleigh Hotel. Rolls-Royce Motor Cars appeared as host at the Art Nexus Party and presented its product range in the historic atmosphere of the Biltmore Hotel.

>>01 **Art Basel Miami Beach: the BMW Group provided the VIP Shuttle Service as the art show's official partner.**

>>02 **The new BMW Sauber F1.07 for the Formula 1 season 2007.**

>>03 **Employees of the BMW plant in Berlin with the 100,000th motorcycle, an R 1200 R.**

>> 02

14/12/2006

Super-brain for BMW Sauber F1.

Hinwil. The BMW Sauber F1 Team has a new super-brain. According to the current top-500 list of supercomputers, Albert[2], which was introduced to international media representatives in Hinwil, is the fastest computer in industrial use in Europe. Albert[2] has more than 256 nodes with two Intel Xeon 5160 processors each. It has a maximum computing power of 12,288 gigaflops. To achive the same computing power as Albert[2] musters in a second, all 1.3 million inhabitants of the city of Munich would have to multiply two eight-digit numbers every three-and-a-half seconds for an entire year.

BMW Motorsport Director Mario Theissen: “Aerodynamics have a crucial influence on the performance of modern Formula 1 vehicles, with experimental work in the wind tunnel and computational fluid dynamics (CFD) complementing each other. The launch of Albert[2] means a decisive reinforcement of our CFD capacity. For the new season, we have set ourselves the goal of further reducing the gap to the top. Our new supercomputer is an important tool which will support us in this.”

15/12/2006

BMW plant in Berlin breaks the 100,000 barrier.

Munich/Berlin. For the first time in the history of the BMW Group, more than 100,000 motorcycles were produced in the Berlin plant in a single year. The 100,000th motorcycle, an R1200 R, rolled off the assembly lines on 15 December 2006. The motorcycle segment’s sales also broke the 100,000 barrier by the end of the year. Deliveries of 100,064 motorcycles represented a new high. In 2006, total BMW motorcycle output since 1923 reached the two million mark. By the end of the year, 2,061,977 motorcycles had been produced; 1,616,016 of them had rolled off the assembly lines of the motorcycle plant in Berlin-Spandau since 1969.

>> 03

Growing profitably, acting responsibly – challenge and aspiration at once. The BMW Group's view: a company only has a viable future – and can thus increase its value sustainably and on a long-term basis – if it takes responsibility.

Assuming responsibility. Or: What does responsibility mean for the BMW Group as leading premium manufacturer in the automobile industry?

The answer: Creating values.

Why does the BMW Group assume responsibility in society? And in doing so, what does the Company expect to gain? Is it just cultivating its image? Or is there more to it?

Today, companies such as the BMW Group operate in an extremely complex environment – and their success depends on many different factors. The company can determine some of these itself, primarily by taking decisions on corporate strategy, individual products, the number of employees and more besides. However, it has no direct influence on other factors that are just as important for the company's success. These are, in particular, social developments and challenges, which in the long term affect the conditions in which we operate.

At the same time, many companies today have more economic strength than many of the world's states. Around half of the 100 largest economic entities are not states but companies with global operations. Around 65,000 multinational companies with 800,000 subsidiaries and millions of suppliers now operate worldwide. Never before have companies had so much economic power and size. Consequently, never before have they had so much responsibility: responsibility for jobs, for returns, for environment and society. And yet companies are not states. Their structures are designed for maximising profits and safeguarding future growth. So what can be expected of them?

The answer differs from company to company. It ranges from egoism to altruism, from self-interest to benefactorship. In other words: it lies somewhere between “making money” and “taking merit”.

For the BMW Group, the answer is clear – and it did not just think it when the public started discussing the subject of corporate responsibility. On the contrary, the BMW Group has long pursued the objective of continuously and permanently increasing company value. This means that the Company aspires to play an active role – both in shaping internal economic success factors and as corporate citizen in society. After all, the BMW Group has a vital interest in securing, in the long term, the conditions that are necessary for the Company’s sustained success. More than that: the BMW Group considers it quite natural to actively shape the future by taking responsibility. This does not only apply to its German home market, for just as the Company competes worldwide, it also takes responsibility worldwide.

Responsibility out of conviction – to increase company value

For the BMW Group, therefore, taking corporate responsibility is far more than “just” philantropy or patronage. It is all about making the Company viable for the future and thus increasing its value on a sustained, long-term basis. To be more specific: we want the Company’s value to increase from year to year. But what does “value” mean in this context?

A variety of methods and indicators can be used to determine the value of a company. For example, current market capitalisation can serve as an indication of a company’s value, as can sales, revenues and income. The relevant figures all indicate a company’s performance on a certain date. But do they adequately describe a company’s value?

Today, the BMW Group is the leading premium manufacturer in the automobile industry. By our standards, this position is not defined solely by key figures, such as sales, revenues or income. On the contrary, non-financial performance indicators are moving increasingly into the foreground. Healthy and motivated employees, the right solutions for drive concepts of the future, a recognised role, appreciated by all parties, as company in society, a commitment to assuming the challenges of tomorrow – all these play at least as important a role for determining the value of a company as the short-term view of key financial data from quarter to quarter.

Safeguarding future viability

In order to maintain or even develop the BMW Group’s leading position in keeping with these standards, the Company must today address intensively the challenges of tomorrow. In short, it must assume responsibility for the solution of the immense global tasks for society – from climate change to the finiteness of fossil fuels, from the fight against HIV/AIDS to achieving a high level of education among potential young employees.

Companies that do not set the right course today will find themselves on the sidelines tomorrow. In other words: what we do now determines our competence in the future. Cost reduction programmes, measures to increase efficiency and short-term, quarter-oriented improvements in results are far less decisive than the ability to create suitable conditions. Recognising problem areas and potentials at an early stage, actively seeking solutions, sensing social and ecological risks ahead of the competition – that is what makes a company viable for the future. Corporate responsibility is thus transformed from reaction to forward-looking action – and at the same time advances to become one of the aspects that decisively determine a company's value in the future.

These aspects play an increasingly important role also on the financial markets, for financial analysts and investment banks have spotted the correlations and increasingly include sustainability criteria in their analyses.

>> 01 Industry leader. Each year the SAM Group in Zurich assesses the ecological, social and economic performance of 2,500 companies and selects the best 10 % for the Dow Jones Sustainability Indexes. Challenges specific to the industry are considered in the process. In the automobile industry these are, for example, climate change or ecological and social standards at suppliers.

In September 2006, the BMW Group was again rated as industry leader for sustainability. The SAM Group came to this conclusion when making its assessment for the Dow Jones Sustainability Indexes (DJSI) 2006. Thus, the BMW Group successfully defended the first place it gained in 2005 and is the only company in the automobile industry to have been represented without a break in the Dow Jones Sustainability Index World and the European Dow Jones Sustainability STOXX Index since their establishment in 1999.

Only people who ask the right questions come up with the right answers

What are the greatest challenges of the future for the BMW Group? How are the fields of action defined for our Company?

As for all automobile manufacturers, environmental protection – and thus climate change and, in particular, the reduction of CO_2 emissions – is clearly in the foreground for the BMW Group. Not surprisingly, therefore, the BMW Group is focusing on the following questions: How do we deal with climate change? What does the drive concept of the future look like? What does sustainable mobility mean?

We need to develop drive concepts with which we can achieve a significant reduction in emissions and which at the same time satisfy the customers' wishes for contemporary, individual mobility. In view of the finiteness of fossil fuels, we are clearly on the road towards the hydrogen economy.

In ten or twenty years an automobile manufacturer will only be able to operate successfully if the prevailing environmental conditions worldwide permit individual mobility in a form similar to today's. Failure to consider this aspect would be a reckless way of dealing with the company's own future viability. The BMW Group is committed to environmental protection because a healthy environment is essential to our existence. In addition to efforts to build more environmentally compatible vehicles, the application and improvement of company environmental protection plays a pivotal role at the BMW Group locations. It is important to reduce negative impacts on the environment in the production process and to minimise the consumption of resources. And even the conditions in which the automobiles and motorcycles of the BMW Group are produced must meet social and ecological standards worldwide.

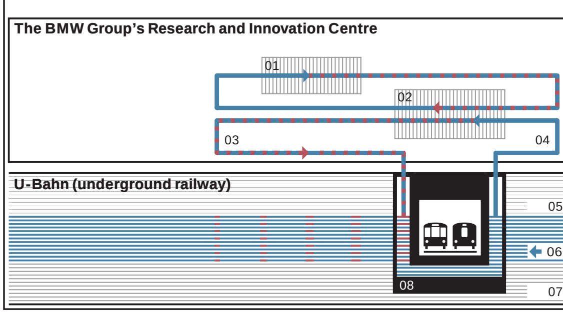
>>02 The road towards sustainable mobility. The BMW Group has elaborated a three-stage energy strategy to meet the challenges of climate change and the finiteness of fossil fuels. In a first stage, the fuel consumption of the current vehicle concepts is to be further reduced in the short and medium term. The BMW Group achieves this with highly efficient generations of engines, active aerodynamics, the use of innovative lightweight engineering and intelligent energy management in the vehicle. Current examples of this include new engines with High Precision Injection, but also innovations for enhanced energy management in the vehicle, such as Brake Energy Regeneration or the Auto Start/Stop Function. In the medium term, the BMW Group will introduce more innovations to reduce fuel consumption, ranging from the further electrification of the power train to comprehensive hybrid solutions with a high level of technical maturity. In the long term, however, the BMW Group is convinced that the most sustainable technology is the hydrogen-powered combustion engine.

>>03 Innovative energy-saving projects

at the BMW Group locations. Groundwater is piped about four-and-a-half kilometres to the BMW Group's Research and Innovation Centre (FIZ) in the north of Munich. The water comes from drains for the underground railway. These drains consist of an underground system of pipes which ensures that the water flows at right angles to the underground railway track. This groundwater cooling system, used to cool parts of the Research and Innovation Centre, makes conventional refrigerating machines largely superfluous and thus saves electricity consumption of around 8,000,000 kWh a year, which is equivalent to the annual electricity consumption of more than 3,000 private households in Munich. Annual emissions of CO_2 are reduced by around 5,000 tons. The BMW Group carried out this project in cooperation with the Munich City Utilities (SWM). The use of groundwater to cool buildings in this way and on this scale is unique.

Another continent, another approach

In May 2006, the BMW plant in Spartanburg, South Carolina, United States, began using methane gas to power its paint shop. The gas is generated by the biological degradation of waste at a landfill 15 kilometres away. The BMW plant in Spartanburg is thus using a previously wasted energy source and at the same time reducing impacts on the environment. The results: the BMW plant in Spartanburg acquires around 63 % of its energy from methane gas. Consequently, CO_2 emissions will decrease by 58,724 tons a year – this is equivalent to the heating energy requirements of 15,337 American households. At the same time, the plant's annual energy costs will fall by a six-digit euro amount.



01 **Process cooling system**
02 **Heat exchanger**
03 **Return water**
04 **Supply water**
05 **Water-bearing stratum**
06 **Groundwater flow direction**
07 **Impermeable stratum**
08 **Groundwater drain structure**

The BMW Group believes it has a special responsibility towards its employees. The Company is greatly indebted to them and their families. After all, they are the ones who make the Company strong and competitive. For the BMW Group, safeguarding employment is, therefore, an important aspect of responsible management of company affairs – even if this aspect is often considered self-evident in view of the immense global challenges.

At the same time, the BMW Group with its workforce of more than 106,000, most of whom are employed in Germany, is confronted in special measure with the consequences of demographic change. Obviously, a company that manages to anticipate these changes now, and to make the right decisions for tomorrow, will be more competitive than others in the future. A company that prepares its employees in good time for the impacts of demographic change will also be less strongly affected by these impacts. And just as the company must anticipate this change, its employees must also cope with the impacts of an ageing society in their private environment.

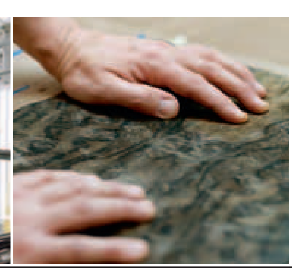
>> 04 Today for tomorrow – using demographic change as an opportunity.

For years, the industrial nations have recorded fewer births than deaths. At the same time, statistical life expectancy continues to rise. The result: the age structure of society is changing.

In 2020, therefore, the average age of the BMW Group's workforce will also be far higher than it is today. Older employees contribute decisively to the Company's success. They have experience, make sound judgements, show a high degree of responsibility and have a great deal of organisational knowledge. However, there is also a significant correlation between the employees' age on the one hand and time off sick or age-related limitations on the other. Clearly, therefore, in an ageing society companies that both enhance the performance of their workforce and resolutely make use of their employees' knowledge and experience are more likely to gain a head start. With the project "Today for tomorrow", the BMW Group has accepted this challenge by taking a comprehensive approach and focusing on five fields of action: adaptation of the working environment to suit future needs, for example by providing ergonomically designed workplaces, health management at all locations, qualifications and competence management, individual retirement schemes and communications on these subjects.

The BMW Group offers its employees comprehensive support for their own provisions for the future – whether relating to health and finance, skills or the design of the employees' own working environment – through its Intranet portal "Meine Zukunftsvorsorge". For example, health: through its comprehensive health care programme, the BMW Group provides its employees with a variety of opportunities to protect their health. Selected cancer screening campaigns, free health education days and fitness programmes at all plant locations help to detect illness and promote employees' health and health awareness. In addition, at the Health Forum employees can have their individual risk factors assessed and then benefit from appropriate subsequent measures, such as stop-smoking courses or diet seminars. Such schemes promote not only the employees' individual health but also their own responsibility for health maintenance.

The BMW Group also encourages its employees' sense of responsibility for old-age provisions by offering a variety of privately financed pension schemes to meet their individual needs.

As a company that has been represented by its own plant in South Africa for many years, the BMW Group is strongly committed to the fight against HIV/AIDS. This is an important field of action for its social commitment – in the BMW plant in Rosslyn, South Africa, and far beyond.

The BMW Group places special emphasis on the fields that have just been described because it is part of these challenges, is affected by them and must respond to them. Of course, we do not have an answer to every question. But we make a point of keeping our eyes open and will continue to look for solutions – today and tomorrow.

Responsibility and self-interest – a contradiction in terms?

The responsibility that a company assumes is particularly effective for everyone concerned when it is connected with the value-added chain of the respective company. This means when value is created as a result of responsible action – for the company and for society. An example: the BMW Group has developed an extensive programme against HIV/AIDS at its location in South Africa. However, it is not only a company's duty to care for its employees that drives BMW South Africa to fight against HIV/AIDS, but also an economic necessity. The South African plant produces some 55,000 automobiles a year, so long absences of employees infected with HIV or suffering from AIDS should be avoided; after all, the Company has invested in their training.

Conversely, this also means that it does not make sense to expect every company to respond to every social challenge. While subjects such as road safety or education play an important role for an automobile manufacturer such as the BMW Group, completely different subjects will be of special interest, for example, to a chemical company or an IT manufacturer. Furthermore, the really formidable challenges – whether global climate change or the fight against HIV/AIDS – are beyond the reach of a single company. They require the cooperation of all social forces if we are not all to fail.

When it comes to the challenge of climate change, this means that we will make every effort and work extremely hard to develop vehicles with more efficient fuel consumption. From our point of view, it is also clear that the automobile industry can only resolve the social challenges of climate change in cooperation with everyone involved in the transport sector. The passenger traffic sector, accounting for about 16 percent of total CO_2 emissions, cannot solve the problem of climate change alone; on the contrary, very different industries will have to work together. An automobile manufacturer can mainly influence the fleet of new vehicles. If, therefore, we are to achieve significant reductions in CO_2 emissions in all passenger traffic, the reduction potential of the existing vehicle fleet must also be used with the introduction of appropriate traffic infrastructure measures, admixture of bio-fuels and more efficient driving behaviour. If all participants in the traffic sector contributed what they could, the potential for reducing CO_2 emissions in the traffic sector would be far higher. Clearly, as an innovative premium manufacturer we are taking full responsibility and are forging ahead, with even more determination, with our activities to develop innovative, fuel-saving technologies for the future.

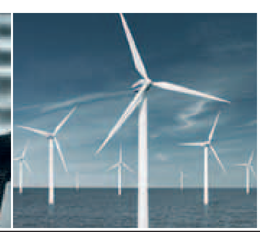
We have reached a decisive milestone for sustainable mobility with the BMW Hydrogen 7 and demonstrated the Company’s technical proficiency by completing the series development process for a hydrogen vehicle. However, the development of a widespread hydrogen infrastructure is still in its infancy and the legal requirements for hydrogen have not yet been defined. In developing sustainable mobility based on hydrogen, we depend on the interplay of various partners in the mobility sector. Moreover, considerable progress must be made in the regenerative production of hydrogen. We can give decisive impulses in this field, but the materialisation of a functioning hydrogen industry demands great efforts on the part of many sectors and social players.

An example from quite a different area: as far as it is able, the BMW Group provides its employees with qualifications and, with its positive corporate culture, creates the stimuli that make people aspire to work for the BMW Group. However, the Company has no direct influence on the education policy of the countries in which it operates. Expressed more simply: the BMW Group has, of course, a vested interest in qualified young employees, but the possibilities for influencing their level of education are limited.

>>05 The experts agree: in the long term, hydrogen is the only fuel with the potential to replace fossil fuels in road traffic. As it is present in water and almost all organic compounds, hydrogen is part of the biological cycle and thus environmentally compatible. In addition, as the most abundant element in the universe it is available in practically unlimited supply and can be produced from all regenerative sources of energy. In order to achieve the aim of the future of replacing fossil fuels with hydrogen, appropriate measures have to be taken immediately. In Berlin in November 2006, the BMW Group reached an important milestone on the way to the hydrogen society. In November, the Company presented the world's first hydrogen-powered and thus practically emission-free luxury sedan for everyday use. The BMW Hydrogen 7 has completed the series development process and is the result of a resolutely pursued strategy, which already enables the BMW Group to use hydrogen as trendsetting fuel for everyday operation. The BMW Hydrogen 7 is equipped with a dual-mode twelve-cylinder combustion engine that can be driven with both hydrogen and conventional petrol. In hydrogen operation, the BMW Hydrogen 7 has a range of more than 200 kilometres, the sedan can travel another 500 kilometres in conventional petrol mode.

In hydrogen operation, the BMW Hydrogen 7 emits practically only steam. The new model thus represents an important step towards drastically reducing the emissions, and particularly the CO_2 output, of individual traffic.

The BMW Group offers this pioneering invention as a practical and attractive solution for switching to hydrogen as fuel. It also sets a milestone on the road to a future of emission-free individual mobility that is independent of fossil fuels.



Assuming responsibility, improving perspectives for the future

The examples show that our Company has only limited influence on many of the external factors that determine our future viability in some way. However, we are not closing our minds to doing what is within the realm of our possibilities. For the BMW Group assuming responsibility is – irrespective of ethical viewpoints – an indispensable avenue to actively safeguarding the future. In addition, we see ourselves as part of the societies in which we live and work. This applies on the one hand to the BMW Group as a company and, on the other, to all our employees as people in their respective environment.

The BMW Group is involved in many different fields. Our commitment is based in part – and this is no secret – on an interest in our own perspectives for the future. In this context, however, our interests clearly overlap with those of society. If the BMW Group supports education schemes out of self-interest, or develops more environment-friendly automobiles in its own business interest, this is of benefit not only to our perspectives for the future, but also to the societies in which we operate.

The BMW Group does not need to be forced to assume social responsibility. We assume responsibility, but we can only go as far as our current success enables us. We know that the general public sometimes expects more, but our possibilities are limited.

In this context it is also important always to remember that no one can claim to have exactly the right answers for all current and future challenges. This applies to us as well. We are prepared to contribute what we can, but we cannot promise to solve all the challenges and problems. That would be expecting too much of a single company.

To put it concisely: assuming and bearing social responsibility is, in our view, a community task for everyone – for policy-makers, companies and every individual member of society. No one can be excluded. No one should shift the responsibility to others.

We are prepared to continue to bear responsibility within the scope of our possibilities. And in doing so, we will increase the value of the BMW Group steadily, sustainably and continuously.

Achieving success in the future for the Company and for society

Today, the BMW Group is a company that is involved in very different fields and assumes responsibility. It does this within the scope permitted by the Company's business success. For clearly, only successful companies that generate profit have the strength and independence to assume responsibility on a permanent basis.

We are honest: our social commitment does not simply reflect a wish to be benefactors, even though the Company is run on moral and ethical principles. We also assume responsibility out of self-interest. After all, we want to continue to be successful in ten, twenty or thirty years. In our view, assuming responsibility is a necessary and meaningful investment.

The bottom line is that the public may rest assured that the BMW Group is a company with an honest interest in the positive development of society. And for that very reason, it will remain a successful company in the future.

With its three brands BMW, MINI and Rolls-Royce, the BMW Group is represented in all the currently relevant premium segments on the international automobile and motorcycle markets. Thus, the Company offers a truly unique product range, which is linked by a common claim: Premium – and nothing else.

The BMW Group 2006 portrait on DVD
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March 2007

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Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
116i	1596	85	M6	S	10.5	5.8	7.5	180
116i (from 03/07)	1596	85	M6	S	10.5	5.8	7.5	179
118i	1995	95	M6	S	10.3	5.6	7.3	176
118i	1995	95	A6	S	10.7	6.1	7.8	188
118i (from 03/07)	1995	105	M6	S	7.9	4.7	5.9	140
118i (from 03/07)	1995	105	A6	S	8.2	5.0	6.2	148
120i	1995	110	M6	S	10.5	5.9	7.5	181
120i	1995	110	A6	S	11.0	6.2	7.9	190
120i (from 03/07)	1995	125	M6	S	8.7	5.1	6.4	152
120i (from 03/07)	1995	125	A6	S	8.4	5.1	6.3	150
130i	2996	195	M6	S	13.7	6.6	9.2	221
130i	2996	195	A6	S	13.9	6.8	9.4	226
130i (from 03/07)	2996	195	M6	S	12.2	6.0	8.3	197
130i (from 03/07)	2996	195	A6	S	12.3	6.0	8.3	198
118d	1995	90	M6	D	7.7	4.5	5.6	150
118d (from 03/07)	1995	105	M6	D	5.7	4.1	4.7	123
118d (from 03/07)	1995	105	A6	D	6.9	4.5	5.4	144
120d	1995	120	M6	D	7.7	4.6	5.7	152
120d	1995	120	A6	D	8.7	5.5	6.6	176
120d (from 03/07)	1995	130	M6	D	6.2	4.1	4.9	129
120d (from 03/07)	1995	130	A6	D	7.3	4.5	5.5	145
118i 3-door (from 05/07)	1995	105	M6	S	7.9	4.7	5.9	140
118i 3-door (from 05/07)	1995	105	A6	S	8.2	5.0	6.2	148
120i 3-door (from 05/07)	1995	125	M6	S	8.7	5.1	6.4	152
120i 3-door (from 05/07)	1995	125	A6	S	8.4	5.1	6.3	150
130i 3-door (from 05/07)	2996	195	M6	S	12.2	6.0	8.3	197
130i 3-door (from 05/07)	2996	195	A6	S	12.3	6.0	8.3	198
118d 3-door (from 05/07)	1995	105	M6	D	5.7	4.1	4.7	123
118d 3-door (from 05/07)	1995	105	A6	D	6.9	4.5	5.4	144
120d 3-door (from 05/07)	1995	130	M6	D	6.2	4.1	4.9	129
120d 3-door (from 05/07)	1995	130	A6	D	7.3	4.5	5.5	145
318i Sedan	1995	95	M6	S	10.0	5.7	7.3	175
318i Sedan	1995	95	A6	S	11.2	6.0	7.9	190
320i Sedan	1995	110	M6	S	10.7	5.6	7.4	178
320i Sedan	1995	110	A6	S	11.0	6.2	7.9	190
320si Sedan	1997	127	M6	S	12.8	6.6	8.9	214
325i Sedan	2497	160	M6	S	12.1	6.2	8.4	203
325i Sedan	2497	160	A6	S	12.9	6.7	9.0	218
325xi Sedan	2497	160	M6	S	13.0	7.0	9.2	221
325xi Sedan	2497	160	A6	S	14.4	7.3	9.9	238
330i Sedan	2996	190	M6	S	12.7	6.4	8.7	210
330i Sedan	2996	190	A6	S	12.9	6.8	9.0	216
330xi Sedan	2996	190	M6	S	13.9	7.1	9.6	230
330xi Sedan	2996	190	A6	S	14.6	7.5	10.1	243
335i Sedan	2979	225	M6	S	14.4	6.8	9.6	231
335i Sedan	2979	225	A6	S	13.9	7.1	9.6	231
335xi Sedan (from 03/07)	2979	225	M6	S	15.3	7.2	10.2	245
335xi Sedan (from 03/07)	2979	225	A6	S	15.0	7.7	10.4	250
318d Sedan	1995	90	M6	D	7.6	4.4	5.6	150
320d Sedan	1995	120	M6	D	7.8	4.5	5.7	153
320d Sedan	1995	120	A6	D	9.1	5.3	6.7	179
325d Sedan	2993	145	M6	D	8.6	5.1	6.4	171
330d Sedan	2993	170	M6	D	8.9	5.1	6.5	174
330d Sedan	2993	170	A6	D	10.0	5.9	7.4	197
330xd Sedan	2993	170	M6	D	9.6	5.8	7.2	192
330xd Sedan	2993	170	A6	D	10.8	6.4	8.0	213
335d Sedan	2993	210	A6	D	10.3	5.9	7.5	200
318i Touring	1995	95	M6	S	10.5	5.9	7.6	182
318i Touring	1995	95	A6	S	11.6	6.1	8.1	195
320i Touring	1995	110	M6	S	10.8	5.7	7.6	182
320i Touring	1995	110	A6	S	11.3	6.3	8.1	196
325i Touring	2497	160	M6	S	12.4	6.4	8.6	208
325i Touring	2497	160	A6	S	13.2	6.9	9.2	222
325xi Touring	2497	160	M6	S	13.3	7.1	9.4	226
325xi Touring	2497	160	A6	S	14.4	7.6	10.1	243
330i Touring	2996	190	M6	S	12.8	6.6	8.9	214
330i Touring	2996	190	A6	S	13.3	7.0	9.3	224
330xi Touring	2996	190	M6	S	14.0	7.3	9.8	235
330xi Touring	2996	190	A6	S	14.6	7.6	10.2	245
335i Touring	2979	225	M6	S	14.6	7.0	9.8	235
335i Touring	2979	225	A6	S	14.1	7.3	9.8	235
335xi Touring (from 03/07)	2979	225	M6	S	15.5	7.4	10.4	250
335xi Touring (from 03/07)	2979	225	A6	S	15.2	7.9	10.6	225
318d Touring	1995	90	M6	D	7.9	4.6	5.8	155
320d Touring	1995	120	M6	D	8.1	4.6	5.9	158
320d Touring	1995	120	A6	D	9.4	5.5	6.9	184
325d Touring	2993	145	M6	D	8.8	5.3	6.6	176
330d Touring	2993	170	M6	D	9.1	5.3	6.7	179
330d Touring	2993	170	A6	D	10.3	6.1	7.6	203
330xd Touring	2993	170	M6	D	9.8	6.0	7.4	197
330xd Touring	2993	170	A6	D	11.1	6.5	8.2	218
335d Touring	2993	210	A6	D	10.5	6.1	7.7	205
320i Coupé (from 03/07)	1995	125	M6	S	8.7	4.9	6.3	151

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
320i Coupé (from 03/07)	1995	125	A6	S	8.8	5.0	6.4	154
325i Coupé	2497	160	M6	S	12.1	6.2	8.4	203
325i Coupé	2497	160	A6	S	12.9	6.7	9.0	218
325xi Coupé	2497	160	M6	S	13.0	7.0	9.2	221
325xi Coupé	2497	160	A6	S	14.4	7.3	9.9	238
330i Coupé	2996	200	M6	S	12.8	6.5	8.8	212
330i Coupé	2996	200	A6	S	12.9	6.8	9.0	216
330xi Coupé	2996	200	M6	S	13.9	7.1	9.6	230
330xi Coupé	2996	200	A6	S	14.6	7.5	10.1	243
335i Coupé	2979	225	M6	S	14.3	6.7	9.5	228
335i Coupé	2979	225	A6	S	13.8	7.0	9.5	228
320d Coupé (from 03/07)	1995	130	M6	D	6.1	4.2	4.9	131
320d Coupé (from 03/07)	1995	130	A6	D	7.2	4.5	5.5	145
325d Coupé (from 03/07)	2993	145	M6	D	8.6	5.1	6.4	171
325d Coupé (from 03/07)	2993	145	A6	D	9.3	5.5	6.9	184
330d Coupé	2993	170	M6	D	8.9	5.1	6.5	174
330d Coupé	2993	170	A6	D	10.0	5.9	7.4	197
330xd Coupé	2993	170	M6	D	9.6	5.8	7.2	192
330xd Coupé	2993	170	A6	D	10.8	6.4	8.0	213
335d Coupé	2993	210	A6	D	10.3	5.9	7.5	200
318Ci Convertible	1995	110	M5	S	10.8	6.1	7.8	190
318Ci Convertible	1995	110	A5	S	11.6	6.6	8.4	203
320Ci Convertible	2171	125	M5	S	12.8	7.4	9.4	225
320Ci Convertible	2171	125	A5	S	13.5	7.7	9.8	236
320i Convertible (from 03/07)	1995	125	M6	S	9.0	5.2	6.6	157
320i Convertible (from 03/07)	1995	125	A6	S	9.1	5.3	6.7	161
325Ci Convertible	2494	141	M5	S	13.2	7.5	9.6	230
325Ci Convertible	2494	141	A5	S	13.9	7.6	9.9	239
325i Convertible (from 03/07)	2996	160	M6	S	11.0	6.1	7.9	190
325i Convertible (from 03/07)	2996	160	A6	S	11.4	6.2	8.1	195
330Ci Convertible	2979	170	M6	S	13.4	7.3	9.6	229
330Ci Convertible	2979	170	A5	S	14.9	7.5	10.2	244
330i Convertible (from 03/07)	2996	200	M6	S	11.1	6.3	8.1	194
330i Convertible (from 03/07)	2996	200	A6	S	11.0	6.7	8.3	198
335i Convertible (from 03/07)	2979	225	M6	S	14.9	7.0	9.9	238
335i Convertible (from 03/07)	2979	225	A6	S	14.4	7.3	9.9	238
320Cd Convertible	1995	110	M6	D	8.5	5.0	6.3	167
330Cd Convertible	2993	150	M6	D	9.5	5.6	7.0	187
330d Convertible (from 03/07)	2993	170	M6	D	9.3	5.3	6.8	181
330d Convertible (from 03/07)	2993	170	A6	D	10.0	5.9	7.4	197
523i Sedan	2497	130	M6	S	12.1	6.4	8.5	205
523i Sedan	2497	130	A6	S	13.4	6.9	9.3	224
523i Sedan (from 03/07)	2497	140	M6	S	10.1	5.7	7.3	174
523i Sedan (from 03/07)	2497	140	A6	S	10.3	5.9	7.5	178
525i Sedan	2497	160	M6	S	12.4	6.5	8.7	210
525i Sedan	2497	160	A6	S	13.5	7.0	9.4	227
525i Sedan (from 03/07)	2996	160	M6	S	10.3	5.7	7.4	176
525i Sedan (from 03/07)	2996	160	A6	S	10.4	5.8	7.5	178
525xi Sedan	2497	160	M6	S	13.7	7.2	9.6	232
525xi Sedan	2497	160	A6	S	14.8	7.7	10.3	249
525xi Sedan (from 03/07)	2996	160	M6	S	11.3	6.2	8.1	193
525xi Sedan (from 03/07)	2996	160	A6	S	11.2	6.3	8.1	193
530i Sedan	2996	190	M6	S	12.6	6.6	8.8	212
530i Sedan	2996	190	A6	S	13.6	6.8	9.3	224
530i Sedan (from 03/07)	2996	200	M6	S	10.9	5.8	7.7	182
530i Sedan (from 03/07)	2996	200	A6	S	10.8	5.6	7.5	178
530xi Sedan	2996	190	M6	S	13.6	7.4	9.7	234
530xi Sedan	2996	190	A6	S	14.4	7.9	10.3	249
530xi Sedan (from 03/07)	2996	200	M6	S	11.5	6.2	8.2	194
530xi Sedan (from 03/07)	2996	200	A6	S	11.6	6.0	8.1	193
540i Sedan	4000	225	M6	S	16.2	8.0	11.0	264
540i Sedan	4000	225	A6	S	15.5	7.5	10.4	250
540i Sedan (from 03/07)	4000	225	M6	S	15.8	7.4	10.5	250
540i Sedan (from 03/07)	4000	225	A6	S	14.4	6.9	9.7	232
550i Sedan	4799	270	M6	S	16.4	8.0	11.1	267
550i Sedan	4799	270	A6	S	15.9	7.8	10.8	260
550i Sedan (from 03/07)	4799	270	M6	S	16.6	7.6	10.9	260
550i Sedan (from 03/07)	4799	270	A6	S	15.5	7.2	10.3	246
520d Sedan	1995	120	M6	D	8.0	4.7	5.9	158
520d Sedan	1995	120	A6	D	9.3	5.5	6.9	185
520d Sedan (from 03/07)	1995	120	M6	D	8.0	4.7	5.9	158
520d Sedan (from 03/07)	1995	120	A6	D	9.3	5.5	6.9	185
525d Sedan	2497	130	M6	D	9.3	5.5	6.9	185
525d Sedan	2497	130	A6	D	10.8	6.2	7.9	211
525d Sedan (from 03/07)	2993	145	M6	D	8.2	5.0	6.2	165
525d Sedan (from 03/07)	2993	145	A6	D	8.5	5.3	6.5	172
530d Sedan	2993	170	M6	D	9.4	5.2	6.7	179
530d Sedan	2993	170	A6	D	10.3	5.9	7.5	200
530d Sedan (from 03/07)	2993	173	M6	D	8.6	5.1	6.4	170
530d Sedan (from 03/07)	2993	173	A6	D	9.1	5.2	6.6	176
530xd Sedan	2993	170	M6	D	10.2	6.1	7.6	203
530xd Sedan	2993	170	A6	D	11.1	6.5	8.2	219
530xd Sedan (from 03/07)	2993	173	M6	D	8.6	5.1	6.4	170

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
530xd Sedan (from 03/07)	2993	173	A6	D	9.1	5.2	6.6	176
535d Sedan	2993	200	A6	D	10.9	6.3	8.0	211
535d Sedan (from 03/07)	2993	210	A6	D	9.2	5.4	6.8	182
M5	4999	373	M7	SP	22.7	10.2	14.8	357
M5 (from 03/07)	4999	373	M7	SP	22.7	10.2	14.8	357
523i Touring	2497	130	M6	S	12.1	6.7	8.7	210
523i Touring	2497	130	A6	S	13.7	7.1	9.5	230
523i Touring (from 03/07)	2497	140	M6	S	10.6	6.0	7.7	183
523i Touring (from 03/07)	2497	140	A6	S	10.6	6.0	7.7	184
525i Touring	2497	160	M6	S	12.5	6.8	8.9	215
525i Touring	2497	160	A6	S	13.5	7.2	9.5	229
525i Touring (from 03/07)	2996	160	M6	S	10.8	5.9	7.7	183
525i Touring (from 03/07)	2996	160	A6	S	10.7	6.0	7.7	184
525xi Touring	2497	160	M6	S	13.7	7.7	9.9	239
525xi Touring	2497	160	A6	S	14.7	7.9	10.4	251
525xi Touring (from 03/07)	2996	160	M6	S	11.8	6.4	8.4	201
525xi Touring (from 03/07)	2996	160	A6	S	11.7	6.5	8.4	201
530i Touring	2996	190	M6	S	13.1	6.9	9.2	222
530i Touring	2996	190	A6	S	13.3	7.3	9.5	230
530i Touring (from 03/07)	2996	200	M6	S	11.1	6.0	7.9	187
530i Touring (from 03/07)	2996	200	A6	S	11.0	5.8	7.7	184
530xi Touring	2996	190	M6	S	14.1	7.8	10.1	244
530xi Touring	2996	190	A6	S	14.6	8.1	10.5	253
530xi Touring (from 03/07)	2996	200	M6	S	12.0	6.4	8.5	203
530xi Touring (from 03/07)	2996	200	A6	S	12.1	6.3	8.4	201
550i Touring	4799	270	M6	S	17.0	8.3	11.5	276
550i Touring	4799	270	A6	S	16.6	8.2	11.3	272
550i Touring (from 03/07)	4799	270	M6	S	17.0	7.8	11.2	267
550i Touring (from 03/07)	4799	270	A6	S	16.1	7.5	10.7	254
520d Touring	1995	120	M6	D	8.3	4.8	6.1	162
520d Touring	1995	120	A6	D	9.6	5.6	7.1	189
520d Touring (from 03/07)	1995	120	M6	D	8.3	4.8	6.1	162
520d Touring (from 03/07)	1995	120	A6	D	9.6	5.6	7.1	189
525d Touring	2497	130	M6	D	9.7	5.7	7.2	191
525d Touring	2497	130	A6	D	11.0	6.4	8.1	216
525d Touring (from 03/07)	2993	145	M6	D	8.4	5.2	6.4	171
525d Touring (from 03/07)	2993	145	A6	D	8.6	5.4	6.6	176
530d Touring	2993	170	M6	D	9.8	5.4	7.0	187
530d Touring	2993	170	A6	D	10.6	6.0	7.7	205
530d Touring (from 03/07)	2993	173	M6	D	8.8	5.3	6.6	176
530d Touring (from 03/07)	2993	173	A6	D	9.3	5.3	6.8	180
530xd Touring	2993	170	M6	D	10.6	6.3	7.9	211
530xd Touring	2993	170	A6	D	11.5	6.8	8.5	227
530xd Touring (from 03/07)	2993	173	M6	D	9.6	5.8	7.2	192
530xd Touring (from 03/07)	2993	173	A6	D	9.9	5.6	7.2	192
535d Touring	2993	200	A6	D	11.1	6.5	8.2	216
535d Touring (from 03/07)	2993	210	A6	D	9.4	5.6	7.0	186
M5 Touring (from 03/07)	4999	373	M7	SP	22.4	10.6	15	361
630i Coupé	2996	190	M6	S	13.1	6.7	9.0	216
630i Coupé	2996	190	A6	S	13.9	7.0	9.5	226
650i Coupé	4799	270	M6	S	17.6	8.6	11.9	286
650i Coupé	4799	270	A6	S	16.3	8.1	11.1	267
630i Convertible	2996	190	M6	S	13.6	7.3	9.6	229
630i Convertible	2996	190	A6	S	14.2	7.5	9.9	238
650i Convertible	4799	270	M6	S	19.1	9.3	12.9	310
650i Convertible	4799	270	A6	S	17.2	8.5	11.7	281
M6	4999	373	M7	SP	22.7	10.2	14.8	357
M6 Convertible	4999	373	M7	SP	22.8	10.7	15.2	366
730i	2996	190	A6	SP	14.6	7.5	10.1	241
730Li	2996	190	A6	SP	14.6	7.5	10.1	242
740i	4000	225	A6	SP	16.3	8.2	11.2	267
740Li	4000	225	A6	SP	16.3	8.2	11.2	268
750i	4799	270	A6	SP	16.9	8.3	11.4	271
750Li	4799	270	A6	SP	16.9	8.3	11.4	272
760i	5972	327	A6	SP	20.7	9.5	13.6	327
760Li	5972	327	A6	SP	20.7	9.5	13.6	327
730d	2993	170	A6	D	11.3	6.4	8.2	216
730Ld	2993	170	A6	D	11.3	6.4	8.2	216
745d	4423	242	A6	D	13.5	7.2	9.5	251
X3 2.0i	1995	110	M6	S	13.1	7.1	9.3	223
X3 2.5si	2497	160	M6	S	13.7	7.7	9.9	238
X3 2.5si	2497	160	A6	S	14.1	7.8	10.1	243
X3 3.0si	2996	200	M6	S	14.2	7.7	10.1	243
X3 3.0si	2996	200	A6	S	14.3	8.0	10.3	248
X3 2.0d	1995	110	M6	D	9.6	5.9	7.2	191
X3 3.0d	2993	160	M6	D	10.3	6.5	7.9	210
X3 3.0d	2993	160	A6	D	11.2	7.1	8.6	229
X3 3.0sd	2993	210	A6	D	11.3	7.2	8.7	232
X5 3.0i	2979	170	M6	S	17.8	9.7	12.7	307
X5 3.0i	2979	170	A6	S	18.1	9.9	12.9	312
X5 4.4i	4398	235	A6	SP	18.2	10.2	13.1	317
X5 4.8is	4799	265	A6	SP	18.7	10.5	13.5	324
X5 3.0d	2993	160	A6	D	12.0	8.0	9.4	250

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
X5 3.0si (from 03/07)	2996	200	A6	S	14.9	8.6	10.9	260
X5 4.8i (from 03/07)	4799	261	A6	S	17.5	9.6	12.5	299
X5 3.0d (from 03/07)	2993	173	A6	S	11.3	7.2	8.7	231
Z4 2.0i	1995	110	M6	S	10.8	5.6	7.5	181
Z4 2.5i	2497	130	M6	S	11.8	6.1	8.2	197
Z4 2.5i	2497	130	A6	S	12.0	6.3	8.4	202
Z4 2.5si	2497	160	M6	S	12.0	6.3	8.4	202
Z4 2.5si	2497	160	A6	S	12.8	6.8	9.0	216
Z4 3.0si	2996	195	M6	S	12.6	6.3	8.6	207
Z4 3.0si	2996	195	A6	S	12.8	6.8	9.0	217
Z4 3.0si Coupé	2996	195	M6	S	13.0	6.5	8.9	213
Z4 3.0si Coupé	2996	195	A6	S	12.8	6.8	9.0	216
Z4 M Roadster	3246	252	M6	SP	18.2	8.6	12.1	292
Z4 M Coupé	3246	252	M6	SP	18.2	8.6	12.1	292
MINI								
One	1598	66	M5	S	9.6	5.2	6.8	164
One	1598	66	A5	S	10.9	5.9	7.7	187
One (from 04/07)	1397	70	M6	S	7.6	4.6	5.7	138
One (from 04/07)	1397	70	A6	S	9.3	5.0	6.6	157
One D	1364	65	M5	D	5.8	4.3	4.8	129
Cooper	1598	88	M6	S	7.8	4.6	5.8	139
Cooper	1598	88	A6	S	9.3	5.2	6.7	161
Cooper D (from 04/07)	1560	80	M6	D	5.6	3.7	4.4	118
Cooper S	1598	128	M6	S	8.9	5.7	6.9	164
Cooper S	1598	128	A6	S	10.9	5.7	7.6	182
Cooper S JCW GP[3]	1598	160	M6	S	11.8	6.8	8.6	207
One Convertible	1598	66	M5	S	9.8	5.4	7.0	168
Cooper Convertible	1598	85	M5	S	10.0	5.7	7.3	174
Cooper Convertible	1598	85	A5	S	10.7	5.8	7.6	182
Cooper S Convertible	1598	125	M6	S	11.3	6.6	8.3	199
Cooper S Convertible	1598	125	A6	S	12.7	6.4	8.7	208
Rolls-Royce								
Rolls-Royce Phantom	6749	338	A6	S	23.2	11.3	15.7	377
Rolls-Royce Phantom Long wheel base	6749	338	A6	S	23.3	11.4	15.8	380

1] Gearbox type:
M5 = manual shift 5-speed
M6 = manual shift 6-speed
A5 = automatic transmission 5-speed
A6 = automatic transmission 6-speed

2] Fuel type:
S = Super
SP = Super plus
D = Diesel

3] John Cooper Works GP Kit

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