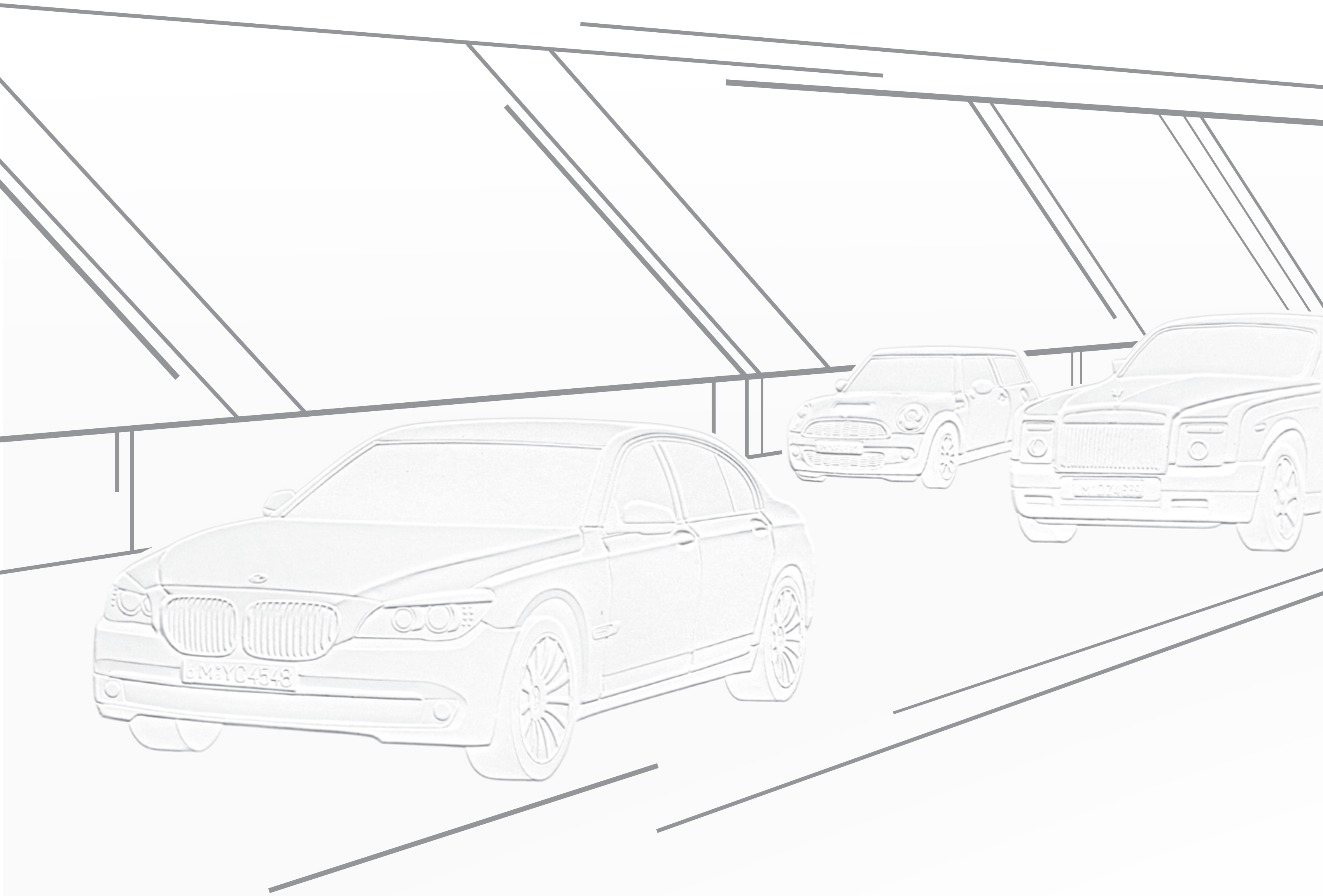
Annual Report 2008



Rolls-Royce
Motor Cars Limited

BMW Group

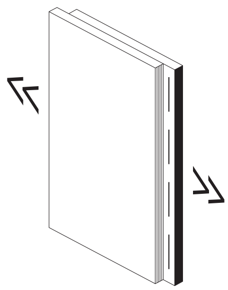
A portrait of the Company

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

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

The Number ONE strategy, adopted in 2007, has set the BMW Group on course for a successful future. The business has been given a new strategic direction with the emphasis on profitability and long-term value growth. The BMW Group's activities will remain firmly focused on the premium segments of the international automobile markets.

The mission statement up to the year 2020 is clearly defined: The BMW Group is the world's leading provider of premium products and premium services for individual mobility.



Dual binding

The two books slide apart to reveal the index register.
This provides for fast and easy access to individual chapters.

06 — BMW Group in figures

08 — Report of the Supervisory Board

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds in 2008
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
- 47 Group Internal Management System
- 49 Earnings Performance
- 51 Financial Position
- 52 Net Assets Position
- 55 Subsequent Events Report
- 55 Value Added Statement
- 57 Key Performance Figures
- 58 Comments on Financial Statements of BMW AG

62 Risk Management
68 Outlook

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 Notes to the Group Financial Statements
- 79 Accounting Principles and Policies
- 88 Notes to the Income Statement
- 94 Notes to the Balance Sheet
- 115 Other Disclosures
- 129 Segment Information

132 — Responsibility Statement by the Company's Legal Representatives

133 — Auditors' Report

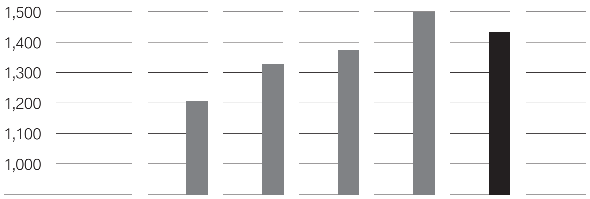
134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 Compensation Report (Sub-section of Management Report)
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

148 — Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group Ten-year Comparison
152 BMW Group Locations
154 Glossary
156 Index
159 Financial Calendar
160 Contacts

BMW Group in figures

Deliveries of automobiles

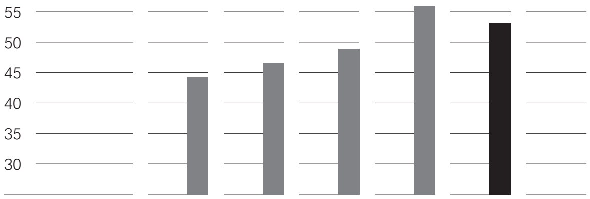
in thousand units



04	05	06	07	**08**
1,208.7	1,328.0	1,374.0	1,500.7	**1,435.9**

Revenues

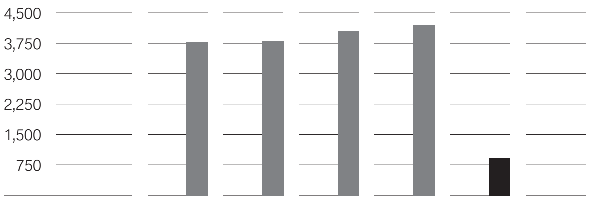
in euro billion



04	05	06	07	**08**
44.3	46.7	49.0	56.0	**53.2**

Profit before financial result

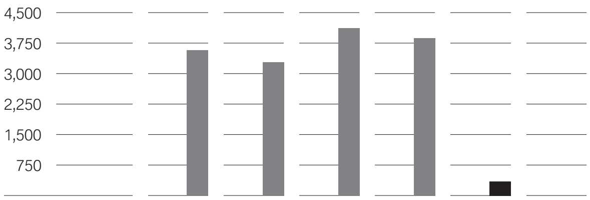
in euro million



04	05	06	07	**08**
3,774	3,793	4,050	4,212	**921**

Profit before tax

in euro million



04*	05	06	07	**08**
3,583	3,287	4,124	3,873	**351**

* adjusted for new accounting treatment of pension obligations

BMW Group in figures

	2004	2005	2006	2007	**2008**	Change in %
Deliveries to customers						
BMW	1,023,583	1,126,768	1,185,088	1,276,793	**1,202,239**	–5.8
MINI	184,357	200,428	188,077	222,875	**232,425**	4.3
Rolls-Royce	792	796	805	1,010	**1,212**	20.0
Automobile deliveries total	**1,208,732**	**1,327,992**	**1,373,970**	**1,500,678**	**1,435,876**	**–4.3**
Motorcycles[1]	92,266	97,474	100,064	102,467	**101,685**	–0.8
Vehicle production						
BMW	1,059,978	1,122,308	1,179,317	1,302,774	**1,203,482**	–7.6
MINI	189,492	200,119	186,674	237,700	**235,019**	–1.1
Rolls-Royce	875	692	847	1,029	**1,417**	37.7
Automobile production total	**1,250,345**	**1,323,119**	**1,366,838**	**1,541,503**	**1,439,918**	**–6.6**
Motorcycles[2]	93,836	92,012	103,759	104,396	**104,220**	–0.2
Workforce at end of year[3]						
BMW Group	105,972	105,798	106,575	107,539	**100,041**	–7.0
Financial figures						
in euro million						
Revenues	44,335	46,656	48,999	56,018	**53,197**	–5.0
Capital expenditure	4,347	3,993	4,313	4,267	**4,204**	–1.5
Depreciation and amortisation	2,672	3,025	3,272	3,683	**3,670**	–0.4
Operating cash flow[4]	6,157	6,184	5,373	6,246	**4,471**	–28.4
Profit before financial result	3,774	3,793	4,050	4,212	**921**	–78.1
Profit before tax	3,583[5]	3,287	4,124	3,873	**351**	–90.9
Net profit	2,242[5]	2,239	2,874	3,134	**330**	–89.5

[1] excluding Husqvarna Motorcycles (13,511 motorcycles)
[2] from 2006 including BMW G 650 X assembly by Piaggio S.p.A., excluding Husqvarna Motorcycles (14,232 motorcycles)
[3] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
[4] reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automobiles segment
[5] adjusted for new accounting treatment of pension obligations

Joachim Milberg — Chairman of the Supervisory Board

Ladies and Gentlemen,

The Supervisory Board oversaw the running of the BMW Group throughout the financial year 2008 on the basis of detailed written and oral reports provided by the Board of Management and, in joint discussions, advised the Board of Management on matters of governance. In a total of five meetings, the Supervisory Board deliberated at length on the current performance and financial position of the BMW Group, risk management issues (including the level of risk provisions recorded in the Group Financial Statements by the Board of Management), short and long-term corporate planning and the composition of the Board of Management. The Supervisory Board made use of regular reports prepared by the Board of Management, followed up by talks and discussions, to keep abreast of business developments as well as the Group's performance, including variances from budget. The Supervisory Board additionally reviewed and discussed a number of pertinent topics in more depth on the basis of reports and planning documents provided by the Board of Management.

Apart from scheduled meetings, the Board of Management also kept the Supervisory Board informed of the course of business, with particular regard to key performance indicators, personnel figures and other significant matters. The Chairman of the Supervisory Board was also kept directly informed by the Chairman of the Board of Management of all major business transactions and projects. The two chairmen exchange information regularly throughout the year.

Main focus of the Supervisory Board's monitoring and advisory activities Over the past year, the Supervisory Board paid particular attention to the implementation of the BMW Group's business strategy and corporate plan as well as its progress in achieving greater competitiveness by rolling out Efficient Dynamics across the whole product range. Due to the business repercussions of the financial market crisis, the Supervisory Board both monitored and provided advice to the Board of Management during the financial year concerning risk management and risk provision.

In the light of declining vehicle residual values on certain markets, the Supervisory Board was kept fully informed by the Board of Management both regarding the current situation and the future prospects of the Financial Services segment. The two Boards held in-depth discussions on possible courses of action in this area.

Furthermore, at the request of the Supervisory Board and in the course of joint discussions, the Board of Management presented the strategies and measures adopted to optimise the value-added chain.

The Supervisory Board carefully considered the annual budget for the financial year 2009 together with the Board of Management, including the matter of forecasting sensitivities in the face of current business conditions. The Supervisory Board also kept itself well informed regarding the financial management of the BMW Group, including the measures and concepts put forward by the Board of Management to enhance profitability. The Supervisory Board expressed its support for the measures being taken by the Board of Management. In this context, the Supervisory Board stressed the necessity of continuing the dialogue with employee representatives in a fair and constructive manner. After extensive deliberations on the long-term corporate plan drawn up on the basis of the strategy Number ONE and presented by the Board of Management, the Supervisory Board granted its formal approval to the plan.

The Supervisory Board firmly believes that the package of measures known as "Efficient Dynamics" – designed to reduce emissions and consumption without compromising the vehicle's agility or vitality – provides answers to the needs and expectations of customers and thereby represents an important competitive advantage for the BMW Group. The Supervisory Board thus fully supports the Board of Management in its endeavours to strengthen the BMW Group's competitive edge in this area.

One Supervisory Board meeting was held in Steyr, Austria, where engines are developed and manufactured. Using the Steyr plant as an example, the benefits of a production system based on a value-added approach were demonstrated to the Supervisory Board. The Supervisory Board also took the opportunity to witness a demonstration of the electrically powered MINI E.

Corporate governance and Declaration of Compliance The Supervisory Board and the Board of Management jointly examined whether the corporate governance principles laid down in the previous year had been applied during the financial year 2008 and also deliberated in detail on further corporate governance developments within the BMW Group to be initiated during the current year. The two Boards issued a joint Declaration of Compliance with the German Corporate Governance Code (GCGC) pursuant to § 161 AktG and had it posted to the BMW Group's website. The recommendations of the Government Commission on the German Corporate Governance Code contained in the revised code issued on 8 August 2008 will be complied with in the future with one exception: the Supervisory Board has delegated the task of determining both remuneration and the remuneration system – including the principal contractual components and the regular review of the system – to the Personnel Committee. The full Supervisory Board is, however, informed regularly and in great detail of the work of the Personnel Committee. From the point of view of the Supervisory Board, this division of duties has proved beneficial for its work. All other GCGC recommendations are being complied with. The BMW Group Corporate Governance Code was updated on the basis of resolutions taken by the Board of Management and the Supervisory Board. The code, setting out the principles of good corporate governance applied by the BMW Group, is available via the Group's website.

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 (pages 141–146).

In conjunction with the code recommendations issued on 8 August 2008 and in preparation for the Financial Reporting Modernisation Act in Germany, the Supervisory Board transferred further duties relating to financial reporting to the Audit Committee and extended the terms of reference accordingly.

The efficiency of the Supervisory Board's work – which the GCGC recommends examining on a regular basis – was also a separate topic of discussion for the full Supervisory Board. The subject was addressed in the absence of the Board of Management and prepared for by the completion of a questionnaire previously devised and distributed by the members of the Supervisory Board. The Supervisory Board believes that this kind of efficiency examination represents an important part of a continuous process of improving its work, including cooperation with the Board of Management. As part of this improvement process, one of the measures decided by the Supervisory Board is the scheduling of more time for the exchange of information and opinions relating to major technological issues.

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

During the financial year 2008, several changes were made to the composition of the Supervisory Board (see below). No member of the Supervisory Board failed to attend more than half of the Supervisory Board meetings held during their period of office.

Description of Presiding Board activities and committee work In a total of six meetings, the Presiding Board mainly focussed on preparations for the meetings of the full Supervisory Board (Plenum). The Presiding Board selected additional topics for report and made further suggestions for the coverage of the Board of Management's reports to the Plenum. During the financial year 2008, the Presiding Board closely followed the implementation of the Board of Management's business strategy approved in 2007, including the one-year and multi-period business plans. Particular attention was given to the impact of the financial crisis on these plans. The Board of Management also reported to the Presiding Board on its intention to take out directors' and officers' liability insurance on behalf of management. The Presiding Board also considered concepts for the compensation of Supervisory Board work in order to formulate a proposal for an amendment to § 15 of the Articles of Incorporation at the 2008 Annual General Meeting.

The Audit Committee convened three times during the period under report. One further Audit Committee meeting took place in the form of a telephone conference. One meeting was devoted to preparing for the Supervisory Board meeting in spring 2008 at which the financial statements were examined. As part of the process of electing and engaging the external auditor for the financial year 2008, the Audit Committee also obtained a Declaration of Independence from the external auditors and a fee proposal from the firm of auditors subsequently elected as Company and Group auditor. After the Annual General Meeting and in line with a resolution taken by the shareholders, the Audit Committee accordingly appointed KPMG as auditor for the financial year 2008. The terms of engagement issued by the Audit Committee set out areas of audit emphasis which also took account of suggestions made by the full Supervisory Board.

In two further meetings and one telephone conference, the Audit Committee considered the Board of Management's detailed reports on the latest risk situation, the risk management system, the risk provision measures proposed by the Board of Management (especially with respect to the Financial Services segment) and the internal control system in place throughout the Group. The Audit Committee also received reports from the Head of Group Internal Audit on the main areas of emphasis for Group Internal Audit and from the Chairman of the Compliance Committee regarding progress in implementing the new Compliance Organisation. In order to support its activities in monitoring the financial reporting process, the Audit Committee engaged the external auditor to review the Group's Six-Month Interim Report.

The Personnel Committee held seven meetings during the financial year 2008 and conducted one further meeting by telephone. One of the main points dealt with at these meetings was the pre-selection by the Supervisory Board of two candidates for future membership of the Board of Management as well as preparatory work on decisions for extending the mandates of current members. In accord with the Board of Management, the Personnel Committee also deliberated on changes to the organisation of the Board of Management. The Personnel Committee reviewed the parameters, level of compensation and pension benefits of current Board of Management members. It also considered the appropriateness of members' compensation arrangements in the light of their duties, individual performance and the current financial condition of the BMW Group. Comparative data resulting from a remuneration study for the automotive sector and other DAX companies were used in the process. In specific cases, the Personnel Committee also reached decisions with respect to pension benefits for current and former members of the Board of Management.

The Nomination Committee, set up in 2007 to find suitable candidates for election to the Supervisory Board and for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting, convened in January 2008 to propose candidates for the forthcoming elections at the Annual General

Meeting 2008. A further meeting was held in February 2009 to propose candidates for the Annual General Meeting 2009.

The statutory Mediation Committee (§ 27 (3) of the Law on Worker Participation) was not required to convene during the financial year 2008.

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

Changes in composition and reorganisation of the Board of Management At its meeting on 13 March 2008, the Supervisory Board, in agreement with the Personnel Committee, appointed Ian Robertson as member of the Board of Management with immediate effect. Mr. Robertson was appointed to the Board with responsibility for Sales and Marketing after Stefan Krause left the Board of Management and the company at his own request.

Ernst Baumann, who had been responsible for Human Resources and had held the post of Industrial Relations Director since 1999, retired from office on 30 November 2008. The Supervisory Board thanked Mr. Baumann for his 35 years of successful work for the BMW Group. Following the proposal of the Personnel Committee, the Supervisory Board appointed Harald Krüger as member of the Board of Management for Human Resources and as Industrial Relations Director with effect from 1 December 2008.

Dr. Michael Ganal, member of the Board of Management, passed away on 4 December 2008 at the age of 54 after a serious illness. Up to that point, Dr. Ganal had held Board responsibility for Finances. Dr. Friedrich Eichiner, who had initially deputised on a temporary basis in agreement with Dr. Ganal, was officially given responsibility for Finances on 2 December 2008 as part of a Board reorganisation proposed by the Board of Management and supported by the Personnel Committee. Dr. Ganal – whose return to work had been hoped for until the end by the Board of Management, Supervisory Board and employees alike – had consistently worked with great energy, discipline and diligence in the interests of the BMW Group, even during his illness. The company is exceedingly indebted to him and will always remember him with high esteem.

The Group and Brand Development portfolio of tasks for which Dr. Eichiner was previously responsible has been reallocated to the various Board members as part of a reorganisation of duties within the Board of Management.

Changes in the composition of the Supervisory Board, Presiding Board and committees The names of the members of the Supervisory Board committees appear in the Corporate Governance Report. Several changes occurred in the composition of the Supervisory Board, Presiding Board and the Supervisory Board's committees during the financial year 2008: Maria Schmidt, member of the Works Council for the Dingolfing site, was officially appointed by the District Court of Munich on 25 March 2008 as member of the Supervisory Board in the role of employee representative. Prof. Dr. Reinhard Hüttl, Dr. Karl-Ludwig Kley and Prof. Dr. Renate Köcher were newly elected to the Supervisory Board by the shareholders at the Annual General Meeting on 8 May 2008. The mandates of Arthur L. Kelly, Heinz-Joachim Neubürger and Dr. Hans-Dietrich Winkhaus came to an end at the close of the Annual General Meeting on 8 May 2008. Mr. Konrad Gottinger resigned as member of the Supervisory Board with effect from 15 February 2008. The Supervisory Board would again like to thank all members leaving office for their dedicated and commendable services performed on behalf of the BMW Group. On 13 March 2008 Stefan Schmid was elected to the Presiding Board and as a member of the Audit Committee and the Personnel Committee. On 8 May 2008, after many years of service as member of the Supervisory Board, Prof. Dr. Jürgen Strube was elected to the Presiding Board, the Personnel Committee, the Nomination Committee and the Audit Committee. He took over the chair of the Audit Committee with effect from 2 December 2008.

Examination of financial statements and the profit distribution proposal The Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2008 and the combined Company and Group Management Report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion on 18 February 2008. The Audit Committee initially examined these documents intensively at its meeting on 27 February 2009, discussing matters in person with representatives of the external auditor. The Supervisory Board subsequently examined the relevant drafts of the Board of Management at its meeting on 12 March 2009, after hearing the committee chairman's report on the meeting of the Audit Committee. The external auditors were also present at this meeting to report on the main findings of their audit and to provide additional information as necessary. Documents relating to the Company and Group Financial Statements and to the combined Management Report as well as the long-form audit reports of the external auditors were made available to all members of the Supervisory Board in a timely manner. 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 2008 prepared by the Board of Management. The Company Financial Statements are therefore adopted. The Board of Management's profit distribution proposal was reviewed by the Audit Committee and the Supervisory Board. They consider the proposal appropriate and therefore concur with it. In accordance with the conclusion reached on the Supervisory Board's examination, no objections were raised.

During the second half of 2008, the BMW Group had to assert itself in the midst of difficult business conditions brought on by a global crisis on the financial markets. The Supervisory Board wishes to thank the members of the Board of Management, employees and employee representatives for their joint efforts in strengthening the competitiveness of the BMW Group.

In the opinion of the Supervisory Board the BMW Group is on the right track with its new strategic focus and its programme of rolling out Efficient Dynamics across the whole of the product range – a programme which is having measurable success in reducing both emissions and fuel consumption. The Supervisory Board is convinced that this programme forms a solid foundation for mastering the challenges presented during a difficult economic period.

Munich, 12 March 2009
The Supervisory Board

Yours,

Joachim Milberg

Joachim Milberg — Chairman of the Supervisory Board

Group Management Report
A Review of the Financial Year

14 — Group Management Report
14 — A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

BMW Group's performance adversely affected by economic crisis

The economic climate deteriorated drastically in 2008. Towards the end of the reporting year, the situation on the international financial markets reached an unprecedented pitch. At the same time, the effects of the crisis also spilled over onto the world's markets for goods and services. The rapid pace of the economic downturn and ongoing uncertainty as to how the economic crisis might proceed took a heavy toll on the BMW Group's performance in 2008.

Especially during the second half of the year, consumer uncertainty resulted in a cutback in spending, affecting nearly all of the world's major car markets. In many countries, car sales volumes plummeted compared to the previous year. The ongoing weak state of the used car markets also had a negative impact on the reported figures of the BMW Group. The situation was further exacerbated by the significant increase of refinancing costs on the international capital markets. The weakness of the US dollar – particularly during the first half of the year – and the fall in value of the British pound also had a negative impact. Despite the sharp drop in raw material prices in the second half of the year, price levels on the commodity markets remained above-average for the year as a whole. In addition to the negative impact of external factors, it was also necessary for the BMW Group in 2008 to recognise the cost of implementing previously announced measures to reduce the size of the workforce. Model life cycle factors also contributed to a reduction in the number of cars sold by the BMW Group compared to the previous year. In total, the BMW Group sold 1,435,876 BMW, MINI and Rolls-Royce cars during the year under report, 4.3 % fewer than in the previous year.

In its motorcycles business, the BMW Group almost reached the previous year's level with 101,685 motorcycles sold in 2008 (– 0.8 %), thus strengthening its competitive position in a generally contracting market.

Financial services business was also severely affected by the knock-on effects of the global economic and financial crisis. In particular, the tense situation on the international used car markets and the higher level of bad debts incurred necessitated the recognition, over the course of the year, of substantial expenses for risk provision. In addition, refinancing costs on the international capital markets increased to reflect higher net interest spreads.

Revenue and earnings hard hit by financial crisis

The BMW Group was unable to avoid the effects of global economic developments in 2008. A slump in revenues in the final months of the year meant that Group revenues for 2008 fell by 5.0 % to euro 53,197 million. Excluding the exchange rate impact, automobile business revenues would have fallen by 5.4 % and Group revenues would have slipped by 0.8 %.

The enormous impact of the economic downturn can be seen most clearly in the change in reported earnings for the year. In 2008, the BMW Group recognised an additional risk provision expense for bad debts and residual value risks amounting to euro 1,968 million. In addition to this, expenditure in conjunction with previously announced measures to cut back the size of the workforce reduced Group earnings by euro 455 million. Under the weight of these negative factors, the profit before finance result (EBIT) decreased by 78.1 % to euro 921 million. These substantial expenses are also reflected in the profit before tax which dropped by 90.9 % to euro 351 million.

In line with its sales volume performance, automobile business revenues in 2008 did not come up to the previous year's high level. Revenues generated by the Automobiles segment fell by 9.4 % to euro 48,782 million. The high level of risk provision expenses for residual value risks in the automobiles line of business and expenditure incurred in conjunction with previously announced measures to cut back the size of the workforce meant that the profit before finance result (EBIT) of the Automobiles segment, at euro 690 million, was 80.0 % down on the previous year. The segment profit before tax for 2008 was euro 318 million (– 90.2 %).

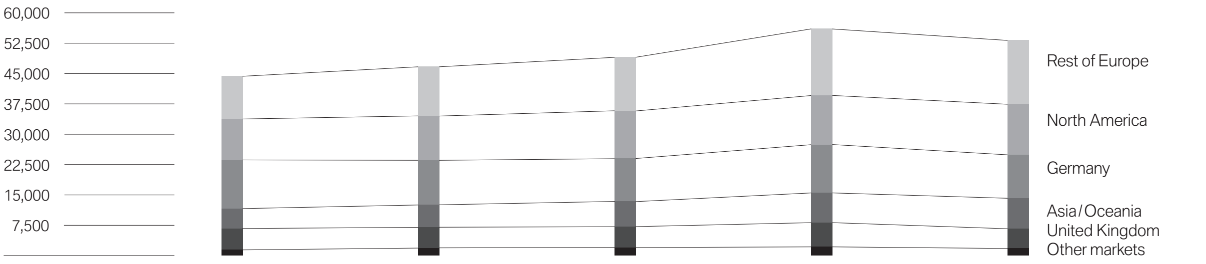
The Motorcycles segment generated revenues totalling euro 1,230 million in 2008, similar to the previous year's level (+ 0.2 %). In the face of difficult business conditions, the segment profit before finance result (EBIT) fell by 25.0 % to euro 60 million and the segment profit before tax came in at euro 51 million (– 28.2 %).

The total business volume of the Financial Services segment rose again in 2008. Revenues increased to euro 15,725 million, 12.8 % up on the previous year. Particularly during the second half of the year, increasingly adverse business conditions had a massive impact on earnings in this line of business. The Financial Services segment reported a loss before tax of euro 292 million (2007: profit before tax of euro 743 million) primarily as a result of the risk provision expense recognised for residual value and bad debt risks.

The effective tax rate for the Group, at 6.0 %, was approximately 13 percentage points lower than in the previous year. The income tax expense, at euro 21 million, was down by 97.2 %. The Group net profit for the year declined by 89.5 % to euro 330 million.

BMW Group Revenues by region

in euro million



	04	05	06	07	08
Rest of Europe	10,574	12,141	13,226	16,450	**15,780**
North America	10,205	10,957	11,779	12,161	**12,461**
Germany	11,961	11,001	10,601	11,918	**10,739**
Asia/Oceania	4,915	5,538	6,200	7,353	**7,523**
United Kingdom	5,249	5,125	5,214	5,945	**4,913**
Other markets	1,431	1,894	1,979	2,191	**1,781**
Total	**44,335**	**46,656**	**48,999**	**56,018**	**53,197**

Dividend lower than one year earlier

The Board of Management and the Supervisory Board will propose to shareholders at the Annual General Meeting that the unappropriated profit available for distribution in BMW AG, amounting to euro 197 million, be used to pay a decreased dividend of euro 0.30 for each share of common stock (2007: euro 1.06/–71.7 %) and a decreased dividend of euro 0.32 for each share of preferred stock (2007: euro 1.08/–70.4 %). The proposed reduction in the dividend for the financial year 2008 reflects the earnings performance. The distribution rate for 2008 would be 60.8 % (2007: 22.2 %).

Capital expenditure down on previous year

Capital expenditure, at euro 4,204 million (2007: euro 4,267 million/–1.5 %), was lower than in the previous year. The main focus of capital expenditure was on product investments in conjunction with the production start-ups of new models such as the BMW 7 Series, the Z4, the X1 and the MINI Convertible as well as infrastructure investments.

The BMW Group invested euro 2,980 million in property, plant and equipment and other intangible assets (+1.6 %) in 2008. In addition, development expenditure of euro 1,224 million was recognised as assets in accordance with IFRS (2007: euro 1,333 million/–8.2 %). The proportion of development costs recognised as assets, at 42.7 %, was at a similar level to the previous year (2007: 42.4 %).

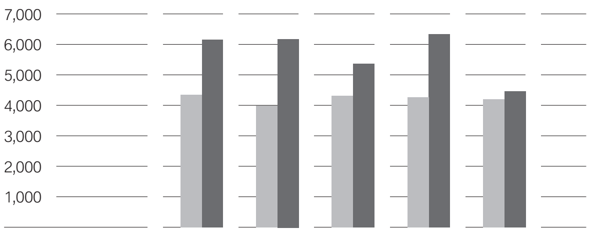
The capital expenditure ratio (i.e. the ratio of capital expenditure to Group revenues) increased slightly in 2008 to 7.9 % (2007: 7.6 %) as a result of the lower level of revenues.

BMW Group sells majority shareholding in Cirquent

With effect from 30 September 2008, the BMW Group sold 72.9 % of its shares in the IT consultancy company Cirquent (formerly Softlab) to the Japanese company NTT Data. The BMW Group continues to hold 25.1 % of the shares. The remaining 2.0 % of shares are held by Cirquent itself.

BMW Group Capital expenditure and operating cash flow

in euro million



	04	05	06	07	08
Capital expenditure	4,347	3,993	4,313	4,267	**4,204**
Operating cash flow[1]	6,157[2]	6,184	5,373	6,246	**4,471**

[1] reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automobiles segment

[2] adjusted for new accounting treatment of pension obligations

14 — Group Management Report
14 A Review of the Financial Year
16 — General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Financial crisis reaches the real economy
The world economy suffered a major setback in 2008. In the period up to summer the primary causes were the high prices of raw materials and the consequences of the recession on the US property market. In the second half of the year, however, the downturn worsened due to the massive impact of the financial crisis. The problem was not confined to the USA, but caused a crisis of confidence on financial markets worldwide as well as a massive reduction in lending volumes. The situation led to major disruptions in the real economy.

The downturn in the US economy, which had already begun mid-2007, continued to gather momentum over the course of 2008. The decline in prices for residential properties and cutbacks in housing construction investments worsened during the year and there was still no end in sight by the end of 2008. The crisis of confidence on the financial markets triggered by loan defaults on house mortgages went on to have a far-reaching impact on the real economy. American consumers in particular, who had generally been quite willing to consume in recent years, became extremely reluctant to spend. Companies increased their level of investment only slightly in 2008. Only foreign trade volumes profited from the weakness of the US dollar through to the middle of the year, allowing the US current account deficit to be reduced further. Although the US economy grew by 1.3 % over the full year, it nevertheless registered a downturn towards the end of the year.

The euro zone was also unable to avoid the effects of the financial crisis. Since summer 2008, its performance has been significantly weaker than in preceding years. Only a very small increase was registered in the area of private consumer spending. The main aggravating factors were sharp price rises during the first half of the year and the petering out of positive developments on the job markets during the second half of the year. Companies were extremely reluctant to invest and export figures fell from summer onwards in the wake of the global downturn, causing the euro zone current account balance to drop into the negative zone. Overall, the euro zone recorded a growth of only 0.7 % in 2008.

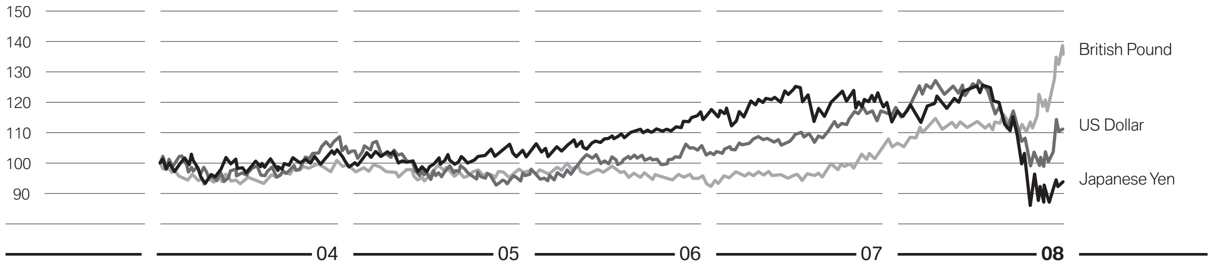
In Germany too, the positive growth rate began to slide from summer onwards. Exports, which had largely been responsible for economic growth in recent years, ceased to be the driving force for the economy when even they began to drop towards the end of the year. Consumer spending also remained weak. The positive impetus generated by the employment market right up to the end of the year was not enough to relieve consumers of their sense of uncertainty. It was only because of the robust performance at the beginning of the year that the German economy could record a growth rate of 1.3 % for the full year.

Although the new EU member states were still growing robustly in 2008, the growth rates registered were significantly lower than in the previous year. This applied both to domestic demand and to exports. The current account deficits in these countries deteriorated noticeably.

It was originally thought that the Japanese economy would only be marginally affected by the financial crisis. As a result of the global downturn and the appreciation of the yen, however, Japan too felt the knock-on effects of the financial crisis, with recent export figures even showing negative trends. Domestic demand also weakened perceptibly. As a result economic output decreased by 0.7 %.

The emerging economies of Latin America and Eastern Asia continued to register the fastest growth rates along with the Eastern European markets. Here too, however, the negative factors outweighed the positive, resulting in lower growth rates. While the credit markets in those regions were far less affected than those of the industrial nations, these countries were nevertheless hit by the financial crisis, particularly due to the outflow of capital and lower export demand. The growth rate in China slowed down, albeit still at a high level, and the export surplus

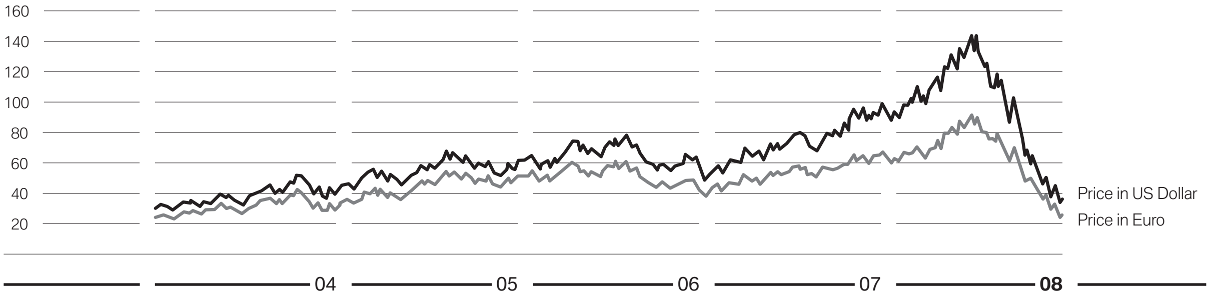
Exchange rates compared to the Euro
(Index: 31 December 2003 = 100)



Source: Reuters

Oil price trend

Price per barrel of Brent Crude



Source: Reuters

shrank considerably. The rate of growth in India also remained lower than the rates registered in preceding years. Declining export volumes in particular caused the current account deficit to widen.

US dollar appreciates against the euro

The value of the US dollar against the euro increased significantly during the second half of 2008. Having fallen to an all-time low of almost US dollar 1.60 to the euro in April, it went on to reach its highest level in two years at US dollar 1.23 to the euro in November. By the end of the period under report, it had stabilised at a level of approximately US dollar 1.40 to the euro. The US dollar's closing rate was therefore 4.3 % up on one year earlier.

Similarly, there was a sharp rise in the value of the Japanese yen compared to the euro. After reaching its lowest level for the year of almost yen 170 to the euro, by the end of the year its value was fluctuating between yen 120 and yen 130 to the euro. The Japanese currency rose in value by around 22 % during the year, strengthening from yen 163 to the euro at the beginning of the year to yen 127 to the euro at the end of the year.

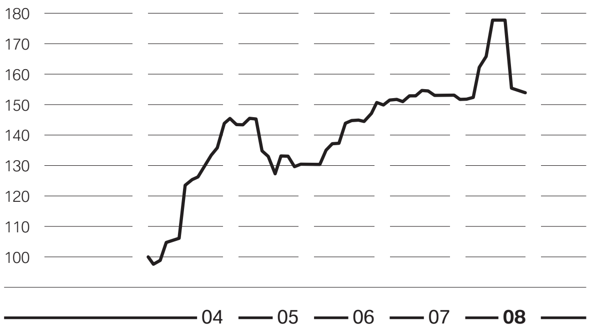
By contrast the British pound saw a massive drop in value in 2008, with an exchange rate of GBP 0.95 to the euro. This means that it lost approximately 28 % in value over the course of 2008.

Prices of raw materials highly volatile

The global economic downturn caused demand for raw materials to fall sharply worldwide during the second half of the year. The price of crude oil reached its peak at approximately US dollar 150 per barrel in summer 2008. It then proceeded to fall to under US dollar 40 by the end of the year. Although reducing supplies to the market, OPEC

Steel price trend

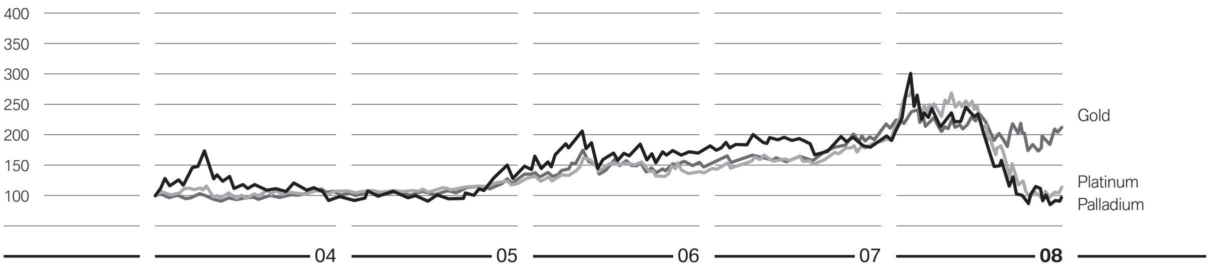
(Index: January 2004 = 100)



Source: German Federal Statistical Agency

Precious metals price trend

(Index: 31 December 2003 = 100)



Source: Reuters

14 — Group Management Report
14 A Review of the Financial Year
16 — General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

was unable to stop the price of oil falling. Despite these developments, the average price of a barrel of Brent Crude over the entire year was around US dollar 97, some 37 % above the previous year's average.

The price of steel also witnessed another sharp rise in 2008, reaching its highest point in summer before starting to fall. The prices of most precious metals dropped from the middle of the year onwards, some of them drastically.

Car markets in 2008
The global economic downturn also had a severe impact on the international car markets in 2008. After a long period of growth, the number of passenger cars sold worldwide fell for the first time in years. The three main traditional markets (the USA, Western Europe and Japan) suffered dramatic slumps in some areas, while the growth rates of the emerging markets, while still at a high level, slowed down.

In the USA, sales figures fell by more than 18 %. The combined effect of high fuel prices and the credit crisis caused sales of light trucks to drop by approximately 25 %. Only 13.2 million vehicles were sold in total. The market share for American manufacturers also continued to shrink. With a market share of only 47.6 %, for the first time, less than half of passenger cars registered in the USA were manufactured by domestic carmakers.

In Western Europe too the passenger car market experienced sharp volume contraction. The number of new registrations fell by approximately 8 % to 13.6 million vehicles. The countries most badly hit were those in which the property markets had suffered most. The number of new registrations fell in the United Kingdom by 11 %, in Italy by 13 % and in Spain by more than a quarter. By contrast, the reduction of nearly 1 % recorded in France was quite moderate.

In Germany, almost 3.1 million passenger cars were sold in 2008, 2 % fewer than in the previous year. Consumers remained reluctant to spend in the face of the financial crisis, the ongoing debate on the taxation of CO_2 emissions and high fuel prices.

After the strong growth rates achieved in the previous year, Eastern European markets recorded a slight fall in 2008, with the markets performing differently from one country to the next. The momentum of the Russian market slowed down and grew by 16 % in 2008.

The impact of the global downturn in car markets was more evident in Asia than in the emerging markets of other parts of the world. The Chinese market was no longer able to maintain the high growth rates seen in previous years and expanded by only 6 %. In India, the market increased by only 2 %. While the South Korean market dipped by more than 2 %, car sales in Japan fell by almost 4 %.

In contrast to the generally weaker performance elsewhere, car markets in Latin America were again able to maintain their momentum in 2008. Passenger car sales in Brazil rose by more than 14 % and sales in Argentina went up by approximately 9 %. In contrast, the Mexican market contracted by almost 7 %.

Motorcycle markets in 2008
The economic and financial crisis also affected international motorcycle markets in 2008, with hardly any markets achieving the previous year's sales levels. Worldwide motorcycles sales in the 500 cc plus segment relevant for the BMW Group were 6.5 % lower than one year earlier.

In Europe, the decline in sales was even greater at 7.2 %. The German 500 cc plus motorcycle market contracted by 9.4 %. The markets in Italy and the United Kingdom declined by 9.4 % and 5.7 % respectively. The 12.1 % drop in sales in Spain was particularly sharp. The only motorcycle market in the region to see any growth was France which edged up by 0.2 %.

Many markets outside Europe also failed to match their prior year performance. In the USA, the largest motorcycle market worldwide, motorcycle sales were 7.3 % down on the previous year. In Japan, the short-fall was 5.8 %.

Financial services market in 2008
The worsening economic and financial crisis in 2008 also presented enormous challenges for the financial services sector. Financial services providers were forced to recognise huge expenses in the face of a worldwide downturn in economic growth, much higher financing costs and increased levels of residual value and credit risk.

After credit spreads had narrowed somewhat during the first half of the year, massive losses incurred by numerous financial institutions and the collapse of one of America's largest investment banks in September triggered widespread disruption on the financial markets. Risk spreads subsequently rose sharply, reaching a peak in December. The loss of confidence conveyed by these developments also made it more difficult to supply financial markets with sufficient liquidity. In the area of leasing, several automobile financial service providers and fleet operators reacted by increasing prices sharply, confining their operations to specific markets or even withdrawing altogether from the leasing business.

Fluctuations in reference interest rates were extreme in 2008. The American reference rate fell during the year from 4.25 % to a historic low (a range of 0 % to 0.25 %). After initially raising its reference interest rate by 0.25 percentage points to 4.25 % in July, the European Central Bank lowered it in stages during the second half of the year to 2.50 %. The Bank of England lowered its reference rate from 5.50 % at the beginning of 2008 to 1.50 % at the beginning of January 2009. Developments were also similar in other industrial countries and in numerous emerging market states. The prospect of further reference rate reductions also resulted in a sharp drop in interest rates for contracts with medium-term maturities.

The effect of the global economic downturn has also been reflected in a sharp drop in prices on the international used vehicle markets. The increasing number of insolvencies, coupled with the reluctance of consumers and dealers to spend during a period of ongoing uncertainty, resulted in a huge drop in demand for used cars during the second half of 2008.

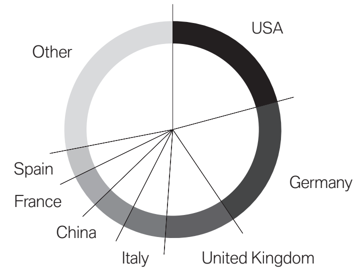
14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Sales volume down on previous year's high level
The car sales volume recorded by the BMW Group in 2008 was influenced – particularly during the second half of the year – by the ongoing financial crisis and the resulting reluctance of consumers to spend. In total, the BMW Group sold 1,435,876 BMW, MINI and Rolls-Royce cars during the year under report, 4.3 % fewer than in the previous year.

Sales of BMW brand cars in 2008 were also adversely affected by model life cycle factors relating to the BMW 7 Series and the Z4. The number of BMW brand cars sold in 2008 fell by 5.8 % to 1,202,239 units. The MINI brand recorded a sales volume of 232,425 units, up 4.3 % on the previous year, benefiting amongst other things from the success of the MINI Clubman. The BMW Group sold 1,212 Rolls-Royce cars (+ 20.0 %), enjoying an additional boost when the Rolls-Royce Phantom Coupé became available from autumn 2008 onwards.

BMW Group – key automobile markets 2008

as a percentage of sales volume



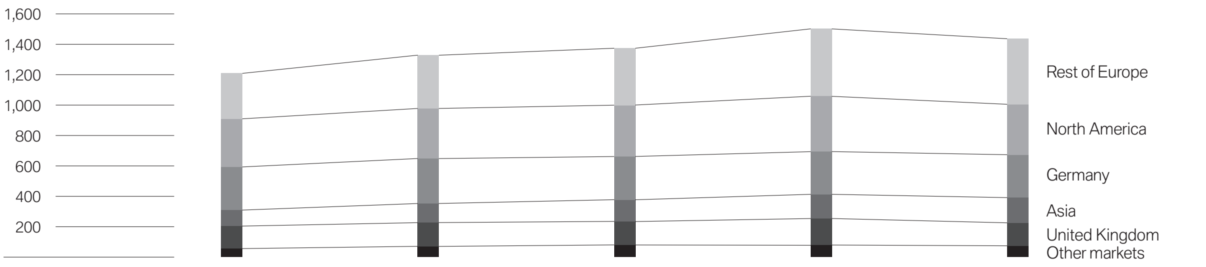
USA	21.1	China	5.3
Germany	19.6	France	4.9
United Kingdom	10.6	Spain	4.2
Italy	6.3	Other	28.0

Lower sales volumes recorded on many markets
The downturn in the global economy resulted in a significant reduction in sales volumes in many countries, particularly in the second half of 2008. In North America, the BMW Group recorded an 8.8 % drop in retail sales for 2008 with 331,798 units sold. This includes 303,639 units sold in the USA, lagging 9.7 % behind the previous year's performance.

In Europe, the impact of the financial crisis was mostly felt from mid-year onwards. Negative trends in Western Europe could not be fully offset by positive growth rates in Eastern Europe, which in some cases, were still quite strong. In total, the BMW Group sold 864,583 BMW, MINI and Rolls-Royce brand cars in 2008, 3.8 % fewer than one year earlier. In Germany, the sales volume of 280,915 units meant that the previous year's level was matched despite the exceptionally difficult business climate in 2008 (2007: 280,938 units). By contrast, the number of cars sold in the United Kingdom dropped sharply to 151,527 units (– 12.8 %). Sales were also down in Italy and Spain. With 90,470 units sold in Italy, the sales volume was 15.4 % down on the previous year. In Spain, the number of cars sold fell by 18.1 % to 59,658 units. In France, however, the BMW Group registered strong growth in 2008, with the sales volume up by 8.3 % to 70,516 units. This was also due to the fact that the

BMW Group Deliveries of automobiles by region and market

in 1,000 units



	04	05	06	07	**08**
Rest of Europe	299.7	350.8	375.0	443.6	**432.2**
North America	315.9	329.0	337.4	364.0	**331.8**
Germany	283.6	295.9	285.3	280.9	**280.9**
Asia	106.4	125.7	142.2	159.5	**165.7**
United Kingdom	145.3	156.2	154.1	173.8	**151.5**
Other markets	57.8	70.4	80.0	78.9	**73.8**
Total	**1,208.7**	**1,328.0**	**1,374.0**	**1,500.7**	**1,435.9**

taxation of vehicles in France is already emissions-based, thus allowing the BMW Group to profit to a high degree from its Efficient Dynamics technology.

In Asia, some individual markets developed positively, with the BMW Group achieving a total sales volume of 165,745 units in this region, 3.9% up on the previous year. Even though growth on the Chinese markets (China, Hong Kong and Taiwan) weakened during the second half of the year, the sales volume on a full-year basis rose by 23.3% to 75,481 units. In Japan, by contrast, the number of BMW Group vehicles sold (48,848 units) was well down (–19.2%) on the previous year.

BMW sales volume influenced by model life cycle factors

In 2008, the sales volume performance of the BMW brand was affected by global economic developments and model life cycle factors. Sales of the BMW 1 Series in 2008 rose sharply (+35.8%) to 225,095 units, mainly due to the availability of additional model variants since mid-2007. The performance of the BMW 3 Series in 2008 was adversely affected by the life cycle impact of the Sedan and Touring variants. The revised versions of these two variants did not become available to customers until autumn 2008. In total, 474,208 units of the BMW 3 Series were handed over to customers in 2008, a decrease of 14.6% on a year-on-year basis.

Deliveries of BMW automobiles by model variant
in units

	2008	2007	Change in %	Proportion of BMW deliveries 2008 in %
BMW 1 Series				
Three-door	**49,559**	30,984	60.0	
Five-door	**122,666**	133,525	–8.1	
Coupé	**26,304**	1,287	–	
Convertible	**26,566**	7	–	
	225,095	**165,803**	**35.8**	**18.7**
BMW 3 Series				
Sedan	**246,231**	310,278	–20.6	
Touring	**93,191**	102,399	–9.0	
Coupé	**79,248**	89,572	–11.5	
Convertible	**55,538**	52,970	4.8	
	474,208	**555,219**	**–14.6**	**39.5**
BMW 5 Series				
Sedan	**156,825**	181,534	–13.6	
Touring	**45,462**	49,311	–7.8	
	202,287	**230,845**	**–12.4**	**16.8**
BMW 6 Series				
Coupé	**8,337**	9,967	–16.4	
Convertible	**7,962**	9,659	–17.6	
	16,299	**19,626**	**–17.0**	**1.4**
BMW 7 Series				
	38,835	**44,421**	**–12.6**	**3.2**
BMW X3				
	84,440	**111,879**	**–24.5**	**7.0**
BMW X5				
	116,489	**120,617**	**–3.4**	**9.7**
BMW X6				
	26,580	**–**	**–**	**2.2**
BMW Z4 Series				
Coupé	**4,035**	8,361	–51.7	
Roadster	**13,971**	20,022	–30.2	
	18,006	**28,383**	**–36.6**	**1.5**
BMW total	**1,202,239**	**1,276,793**	**–5.8**	**100.0**

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

The BMW 5 Series registered a 12.4 % decrease in sales volume, with 202,287 units sold in 2008. The BMW 6 Series, of which 16,299 units were sold, also fell short of its prior year performance (– 17.0 %).

Both the BMW 7 Series and the BMW Z4 were in the final stages of their life cycles in 2008. This resulted, as expected, in lower demand. The BMW 7 Series was handed over to 38,835 customers in 2008 (– 12.6 %). The new BMW 7 Series has been available since November 2008. The BMW Z4 recorded a sales volume of 18,006 units in 2008 (– 36.6 %). The new model was presented in December 2008 and will be launched on the markets in spring 2009.

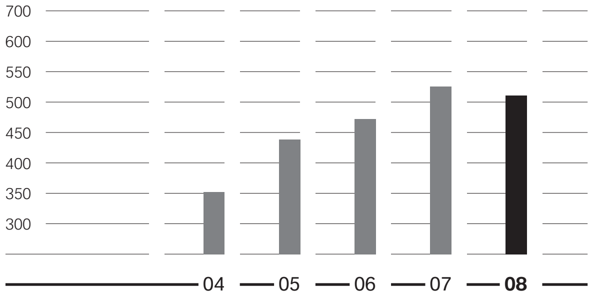
The number of BMW X3 sold dropped by 24.5 % to 84,440 units, partly as a result of the BMW Group's targeted management of the number of cars sold on the US market. Sales figures for the BMW X5 did not quite match the previous year's performance, with the sales volume down by 3.4 % to 116,489 units. The BMW X6, which has been available on the markets since spring 2008 was handed over to 26,580 customers during the period under report.

Proportion of diesel-powered BMW cars remains at high level

The proportion of diesel-powered BMW brand cars rose by two percentage points to 43 % in 2008. The diesel proportion for Europe as a whole was 70 %. In Portugal, the diesel proportion was as high as 96 %. Diesel-powered BMW cars are also extremely popular in France (92 %), Belgium and Luxembourg (91 %) and Italy (89 %).

Deliveries of BMW diesel automobiles

in 1,000 units and as a percentage of total volume



	04	05	06	07	08
units	352.5	438.3	472.7	525.9	**511.2**
as a percentage of total volume	34	39	40	41	**43**

Since the end of 2008, diesel BMW brand cars have also been available in the USA. The BMW Group therefore forecasts that the proportion of diesel engines in the BMW fleet will continue to increase.

Increase in MINI sales volume

The BMW Group sold a total of 232,425 MINI brand vehicles worldwide in 2008, corresponding to a growth rate of 4.3 %. Despite difficult business conditions, the MINI brand was therefore able to set a new sales volume record.

The MINI brand continued to generate a high-value product mix in 2008. Overall, 13.5 % of customers opted for the

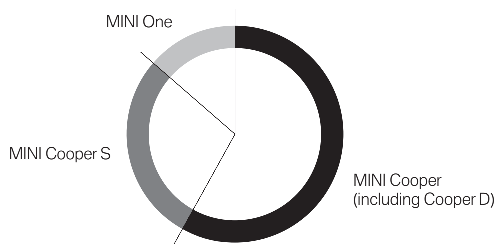
Deliveries of MINI automobiles by model variant

in units

	2008	2007	Change in %	Proportion of MINI deliveries 2008 in %
MINI				
One	**27,154**	25,445	6.7	
Cooper	**91,695**	104,432	–12.2	
Cooper S	**43,286**	52,976	–18.3	
	162,135	**182,853**	**–11.3**	**69.8**
MINI Convertible				
One	**4,100**	6,257	–34.5	
Cooper	**11,706**	16,686	–29.8	
Cooper S	**7,402**	12,165	–39.2	
	23,208	**35,108**	**–33.9**	**10.0**
MINI Clubman				
Cooper	**31,741**	3,556	–	
Cooper S	**15,341**	1,358	–	
	47,082	**4,914**	**–**	**20.2**
MINI total	**232,425**	**222,875**	**4.3**	**100.0**

MINI brand cars in 2008 – analysis by model variant

as a percentage of total MINI brand sales volume



MINI Cooper (including Cooper D)	58.1	MINI Cooper S	28.4
		MINI One	13.5

MINI One, more than half for a MINI Cooper (58.1 %) and 28.4 % for a MINI Cooper S. Sales of the MINI Convertible fell in 2008 due to model life cycle factors. This, however, was more than offset by the success of the MINI Clubman. The new MINI Convertible celebrated its world debut at the Detroit Motor Show in January 2009 and will be available to customers from spring onwards.

Rolls-Royce records strong growth

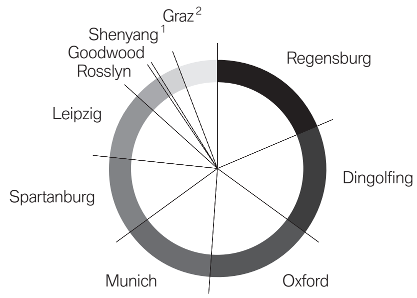
Rolls-Royce Motor Cars recorded strong sales volume growth (+ 20.0 %), handing over 1,212 Phantom, Phantom Drophead Coupé and Phantom Coupé vehicles to customers in 2008. The Rolls-Royce brand therefore achieved its fifth successive annual sales volume increase and remains the most successful manufacturer in the super-luxury segment. Since its market launch in autumn 2008, a total of 137 units of the Rolls-Royce Phantom Coupé have been handed over to customers.

Car production volume reduced on year-on-year basis

The BMW Group reduced production volumes in 2008 in line with lower demand on the car markets. In total,

Automobile production of the BMW Group by plant in 2008

in 1,000 units



Regensburg	274.0	Leipzig	150.0
Dingolfing	241.3	Rosslyn	48.0
Oxford	235.0	Goodwood	1.4
Munich	202.9	Shenyang[1]	33.7
Spartanburg	170.7	Graz (Magna Steyr)[2]	82.9

[1] Joint venture
[2] Contract production

1,439,918 BMW, MINI and Rolls-Royce brand cars were manufactured by the BMW Group's worldwide production network, a reduction of 6.6 % on a year-on-year basis. The BMW brand accounted for 1,203,482 units (– 7.6 %).

A total of 235,019 MINI brand cars left the Oxford plant in England during the year under report, a reduction of 1.1 %. This was partially due to the fact that production of the previous MINI Convertible came to an end in August 2008 and production of the new MINI Convertible did not commence until December.

A total of 1,417 Rolls-Royce vehicles were manufactured in Goodwood, England in 2008, corresponding to a production volume increase of 37.7 % over the previous year. Since summer 2008, the new Rolls-Royce Phantom Coupé is also being manufactured at the Goodwood plant.

Deliveries of Rolls-Royce automobiles by model variant

in units

	2008	2007	Change in %
Rolls-Royce			
Phantom (including Phantom Extended Wheelbase)	**644**	757	–14.9
Drophead Coupé	**431**	253	70.4
Coupé	**137**	–	–
Rolls-Royce total	**1,212**	**1,010**	**20.0**

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Highly adaptable production network

As a result of the reduction in global car sales volumes, the BMW Group's production network manufactured fewer vehicles than originally planned in 2008. Even though a very large proportion of cars under production are subject to specific customer orders, production volume has been adapted even more stringently to market demand. Furthermore, instruments such as flexible working hours and shift models made it possible to implement reduced production schedules to suit each individual plant. The consistent value-added approach adopted resulted in further process optimisation during the year. As a result, the targeted 7 % to 8 % annual improvement in cost productivity was achieved once again.

The BMW Group launched a total of seven new models in its various plants in 2008, two of which were revised models.

Production of the revised BMW 3 Series Sedan and revised BMW 3 Series Touring commenced at the BMW Munich plant in 2008. Working closely with the MINI plant in Oxford, approximately 500 units of the MINI E were manufactured in Munich. Since the beginning of 2009, these cars have been tested in day-to-day use by selected customers in the USA. The production of the MINI E enabled valuable know-how in the use of lithium-ion technology to be gained at the Munich plant.

In September 2008, the chassis and powertrain component production unit at the Dingolfing plant received the "Best Plant in Europe" award for the outstanding quality of its management system. In January 2008, the five-millionth BMW 5 Series vehicle (now in its fifth generation) rolled off the production line at the BMW plant in Dingolfing: it was a 530d Sedan. Production of the new BMW 7 Series began successfully in autumn. The high number of technical innovations in this car placed particularly high demands on the various production units involved.

Each of the production units at the Landshut plant played its part in the successful production start-ups of the various new and revised models in 2008. The Interior department saw the commissioning of a new production line with innovative injection moulding machines for the manufacture of cockpits for the new BMW 7 Series. One of the year's highlights for the Exterior department was the introduction of a special cleaning plant, for the first time allowing large parts of the outer body skin area to be cleaned. Thus simplifying processes and minimising throughput times. Above all, the new system also greatly reduces energy costs and avoids wastewater entirely.

The introduction of inorganic sand core technology for series production underlines the high technological manufacturing standards applied in the light alloy foundry. This production method – using mineral binders which cause practically no smell or emissions – has vast benefits both for employees and for the environment. It also increases yield while simultaneously reducing maintenance costs and optimising tool utilisation times. By 2010, the entire foundry at the Landshut plant will have been converted to the use of inorganic sand core technology.

At the BMW Regensburg plant, the four-millionth vehicle to be manufactured since the plant was commissioned in 1986 rolled off the production line at the end of May 2008. Key milestones in 2008 included the production start-up of the new BMW M3 Convertible and that of the revised BMW 3 Series Sedan. Work on the extension of the pressing plant, which began in 2007, continued according to schedule in 2008. The BMW Group is investing a total of euro 90 million on the extension which will be taken into operations in autumn 2009. From 2009 onwards, the new BMW Z4 will be manufactured at the Regensburg plant. The installation of the necessary equipment, involving capital expenditure in the region of euro 100 million, was begun in 2008.

Four different BMW models are currently being produced at the BMW plant in Leipzig: the BMW 3 Series Sedan, the BMW 1 Series three-door version, the Coupé and the Convertible. At the end of May 2008 a "topping out" ceremony was held at the BMW Leipzig plant for the new pressing plant which is adjoined to a component production unit for doors, front hatches and rear hatches. The BMW Group is investing approximately euro 100 million in this extension project which is to be commissioned by the end of 2009.

With the BMW X6 also now included in its production programme, more than 170,000 vehicles were produced for the first time at the Spartanburg plant in the USA in 2008. Work began in spring on the large-scale extension of the plant and is scheduled to take several years. The BMW Group is investing the equivalent of some euro 510 million in this project which also includes the construction of a new paint shop and an additional assembly building. Production of the BMW Z4 at the Spartanburg plant was discontinued mid-2008 and its successor will be manufactured at the BMW plant in Regensburg. In its place, the next generation of the BMW X3 will be produced in Spartanburg and the plant will become the main production centre for the BMW X family.

The first of the revised BMW 3 Series Sedans rolled off the production line at the BMW plant in Rosslyn, South Africa in 2008. The proportion of vehicles produced for the export market at the plant during the reporting year rose further to stand at 83 %.

At the end of October 2008 a milestone was reached in the production of engines at the BMW plant in Steyr, Austria:

The first "two-working-day engine" was supplied by the BMW Steyr plant to the BMW car plant in Dingolfing. The continuous improvement of production and logistics processes has now made it possible to reduce the throughput time from the installation of the first engine component to the commencement of assembly at BMW car plants in Germany to only two days. With this remarkable throughput time, the BMW Group is setting new standards for production efficiency in the automotive industry. In December, the expansion of the BMW development centre for diesel engines in Steyr was commissioned with a total investment volume of euro 14 million. The focus is on increasing capacities in the area of vehicle measurement technology and function testing. Series production of the new six-cylinder diesel engine began at the BMW plant in Steyr in 2008. This diesel engine is a component in the BMW Group's Efficient Dynamics package.

Engines for both the BMW and the MINI brands are produced at the Hams Hall plant in the United Kingdom. In total, 371,269 engines were manufactured at the plant in 2008. 189,284 of these were produced for BMW brand cars and 181,985 for MINI brand cars. More than 1.5 million engines have been built at Hams Hall since the plant was commissioned in January 2001.

Activities at the Rolls-Royce Goodwood plant in 2008 were primarily geared towards preparations for the new model announced for 2010. The BMW Group is investing a total of euro 50 million in the expansion of the plant. The work includes the installation of a second assembly line as well as the extension of the paint, wood and leather workshops.

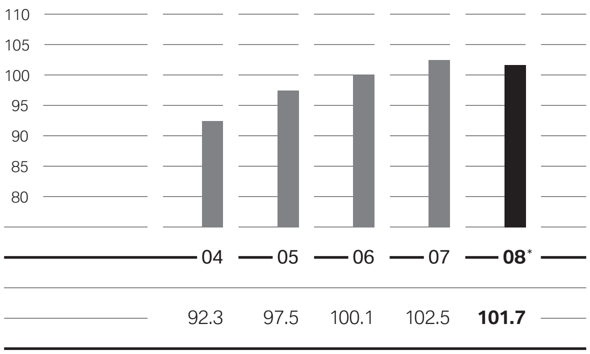
Motorcycle sales volume at previous year's level
The BMW Group sold a total of 101,685 BMW motorcycles in 2008 and therefore almost achieved the same sales volume level as in the previous year (– 0.8 %), despite the overall contraction of the market. The positive performance by comparison with the competition was helped in particular by the availability of the R 1200 GS (including the Adventure version), F 650 GS and F 800 GS enduro models from spring 2008 onwards.

Divergent sales volume performance on the markets
In total, 71,889 BMW motorcycles were sold in Europe in 2008, only marginally (– 0.9 %) fewer than one year earlier. Within the region, however, the individual markets continued to perform divergently. The BMW Group set itself apart from these negative market developments in many countries and increased market shares. This success was largely due to the ongoing new model initiative. In Germany, which is the largest single market for BMW motorcycles, the sales volume dropped sharply to 18,571 units, a decrease of 13.7 % against the previous year. There was also a moderate fall in the number of motorcycles sold in Spain, with the sales volume slipping by 2.2 % to 10,152 units. Sales of BMW motorcycles in other European countries were well up on the previous year, in some cases quite considerably. The 8,211 motorcycles handed over to customers in France corresponded to a 7.9 % sales volume increase. More motorcycles were also sold in the United Kingdom (5,618 units / + 7.0 %) and Italy (15,049 units / + 4.3 %) than in 2007.

In the USA, the BMW Group recorded a sales volume of 11,617 units, 3.9 % down on the previous year's performance. This was mainly due to the fact that the F 650 GS and the F 800 GS did not become available on the US market until the second half of the year (and hence later than in Europe).

The Motorcycles segment's sales in Japan followed the general market trend. The BMW Group sold 3,015 motorcycles on this market in 2008, an 8.9 % drop on a year-on-year

BMW motorcycles delivered
in 1,000 units



* excluding Husqvarna Motorcycles (13,511 motorcycles)

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

comparison. The F 800 GS did not become available to customers until January 2009.

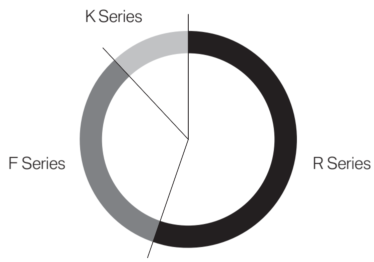
Numerous new models launched / presented
The Motorcycles segment expanded its product range further in 2008, introducing several new models to the markets. The revised versions of the R 1200 GS and R 1200 GS Adventure enduro models, the new F 800 GS and F 650 GS enduros and the high-performance HP2 sports bike all became available to customers in time for the start of the season in March. The G 450 X, an enduro designed specifically for sports activities, was launched in autumn 2008.

Other new models were presented at the world's largest motorcycle show, INTERMOT, in October: the K 1300 S sports bike, the K 1300 R urban bike, K 1300 GT tourer and the racing version of the S 1000 RR. More new models were presented to the public for the first time during the Italian EICMA Motorcycle Fair in November, including the new F 800 R urban bike and the purist concept study, the BMW Custom Concept. The K 1300 Series models have been available since the beginning of February 2009, the F 800 R from May onwards. The road version of the S 1000 RR will go on sale at the end of the year.

Motorcycle production volume at previous year's level
Motorcycle production volume in 2008 was almost at the previous year's level. In total, 104,220 BMW motorcycles were manufactured during the period under report (– 0.2 %). Production at the Berlin plant increased by 6.2 % to 101,964 units, while the number of motorcycles manufactured by the cooperation partner, Piaggio S. p. A. in Noale, Italy, decreased by 73.1 % to 2,256 units.

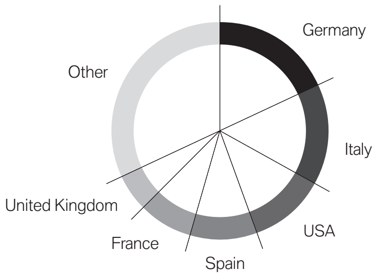
Numerous models came off the production lines for the first time at the Berlin plant in 2008 in conjunction with the segment's new model initiative, including three K-Series models (K 1300 S / R / GT), the HP2 Sport and the G 450 X.

BMW motorcycles in 2008 – analysis by series
as a percentage of sales volume



R Series	55.5	K Series	11.7
F Series	32.8		

BMW Group – key motorcycle markets 2008
as a percentage of sales volume



Germany	18.3	France	8.1
Italy	14.8	United Kingdom	5.5
USA	11.4	Other	31.9
Spain	10.0		

Financial Services segment severely affected by economic crisis
The worldwide economic and financial crisis affected earnings of the Financial Services segment in 2008 more severely than expected. Above all else, the tense situation on the international used car markets and the higher level of bad debts risk necessitated the recognition of substantial expenses for risk provision. For a current assessment of risk in the financial services business, reference is made to the risk report on pages 64–65.

The business volume in balance sheet terms at 31 December 2008 amounted to euro 57,587 million and therefore increased by 12.3% on a year-on-year basis. 3,031,935 lease and credit contracts were in place with dealers and retail customers at 31 December 2008, 15.3% more than at the end of the previous reporting period. The increase was due, amongst other reasons, to the repurchase of a previously off-balance-sheet portfolio of vehicles which had included a part of the leasing business for Germany. The proportion of new BMW Group cars leased or financed by the Financial Services segment in 2008 went up by 3.8 percentage points to 48.5%.

Targeted regional expansion continued
The Financial Services segment continued its strategy of targeted regional expansion in 2008. In October 2008, an agreement was signed with BMW Brilliance Automotive Ltd., Shenyang, concerning the establishment of a joint venture for financial services products in China. In conjunction with a cooperation agreement with Nordea Finance, a subsidiary of Scandinavia's largest bank, Nordea Bank, financing products have also been available to retail customers in Estonia, Latvia and Lithuania since July 2008. During the first half of the year, the Financial Services segment received its banking licence for Russia. Retail customer financing operations were commenced on this market in July 2008.

Study bears out retail customer and dealer satisfaction
The internationally renowned market research institute, J.D. Power and Associates, published the results of its Consumer Financing Satisfaction Study^{SM} 2008 in December 2008. The BMW Group's Financial Services segment took first place in both award categories for customer satisfaction in the USA.

In the Dealer Financing Satisfaction Study^{SM} 2008 published in September 2008, the segment headed all categories for dealer satisfaction in the USA. These awards acknowledge the quality of services provided by the BMW Group to retail customers and dealers in the area of financial services.

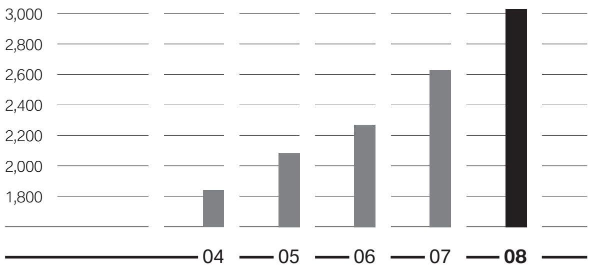
Retail customer business continues to expand
Credit and lease business with retail customers, the segment's largest line of business, again grew strongly in 2008. The value of new contracts signed with retail customers in 2008 amounted to euro 29,341 million, representing a 3.1% increase over the previous year. 1,197,871 new contracts were signed in 2008, 10.3% more than one year earlier. Well over half of these contracts related to new vehicles manufactured by the BMW Group.

Lease contracts accounted for 34.2% of new business with retail customers. This was 4.0 percentage points down on the previous year and is the result of a targeted shift in focus towards credit financing. In terms of new contracts, lease business was 1.4% lower and credit finance business was 17.5% higher than in the previous year.

In the area of used car financing, the number of new contracts rose by 22.2%. Almost three quarters of these related to the credit financing of used BMW and MINI brand cars.

At the end of the reporting period, the Financial Services segment had a portfolio of 2,785,509 contracts with retail customers, 16.0% more than one year earlier. The number of contracts in place with retail customers in Germany rose by 19.4%, partly due to the repurchase of a previously off-balance-sheet portfolio of vehicles which had included a part of the leasing business for Germany. The contract portfolio in the remaining European markets grew by 13.9% and in the Asia/Oceania/Africa region by 14.1%. The Americas region, with 916,509 contracts, continues

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

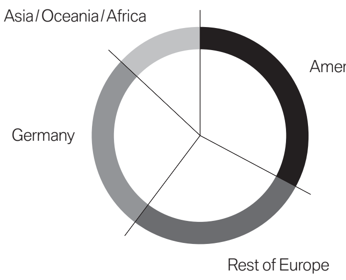


1,843	2,087	2,271	2,630	**3,032**

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Contract portfolio retail customer financing of BMW Group Financial Services 2008

as a percentage by region



America	32.9	Germany	26.6
Rest of Europe	27.5	Asia / Oceania / Africa	13.0

to constitute the largest proportion of the contract portfolio. Here, the growth rate compared to one year earlier was 15.9 %.

Dealer financing volumes up

The Financial Services segment supports the BMW Group dealer organisation with a comprehensive range of products. Dealer financing business increased in 2008. At 31 December 2008, the managed business volume stood at euro 8,887 million, up 6.3 % against the previous year. In total, 246,426 dealer financing contracts were in place at the end of the reporting period.

Multi-brand financing business up on previous year

The multi-brand financing line of business was further expanded in 2008. Under the brand name “Alphera”, credit financing, leasing and other products are marketed to retail customers via dealerships in 25 markets. In the previous year, the “up2drive” brand name was successfully introduced for direct business. This sales channel was further expanded in four markets during the year under report.

In total, 172,317 new business multi-brand financing contracts were signed in 2008, 38.3 % more than in the previous year. The largest proportion of new contracts related to the Americas and Asia / Oceania / Africa regions.

Fleet business continues to grow

The BMW Group’s international brand-neutral fleet business operates in the fields of financing, full-service leasing and fleet management, offering its services under the brand name “Alphabet”. The contract portfolio for fleet business continued to grow in 2008 despite difficult market conditions. At the end of the reporting period, fifteen Alphabet fleet management entities were managing a portfolio of 322,755 contracts worldwide, 15.3 % more than one year earlier. Alphabet was thus able to strengthen its market position further.

Sharp volume rise in deposit business

Despite the difficult climate caused by the financial and economic crisis, the Financial Services segment’s deposit volume totalled euro 8,209 million at the end of the reporting period. This was 43.2 % higher than the level one year earlier.

The number of securities custodian accounts maintained at the end of the reporting period totalled 31,681, roughly in line with the previous year (– 0.4 %).

Credit card business could not be maintained at the previous year’s level. The managed portfolio comprised 355,606 BMW and MINI credit cards at 31 December 2008, a decrease of 9.7 %. The BMW Card is included in the product portfolio in ten countries and the MINI Card in four.

Growth in insurance business

In addition to credit financing and lease business, the Financial Services segment also operates as an agent for vehicle and mobility-related insurance products in more than 30 markets. In this context, the Financial Services segment maintains cooperative arrangements with local insurance companies. The internationalisation of the retail customer insurance line of business was continued in 2008. The range of combined insurance and financing products was expanded and adapted to meet a growing demand amongst customers for one-stop solutions.

The outcome of these measures was that the number of new business insurance contracts increased by 25.0 % to 493,672 contracts. During the course of 2008, the portfolio of insurance contracts exceeded the one million mark for the first time. 1,146,967 contracts were in place at 31 December 2008, 21.1 % more than at the end of the previous year.

Financial and economic crisis influences risk situation

Credit and lease business was exposed to a higher level of credit risk in 2008. Compared to the previous year, the bad debts ratio rose by 13 basis points to 0.59 %.

The interest rate risk is managed within the Financial Services segment using a risk-return approach. Diversified value-at-risk*, as measured to quantify the interest rate risk, increased during the year from euro 37.3 million to euro 51.0 million.

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

Size of workforce reduced

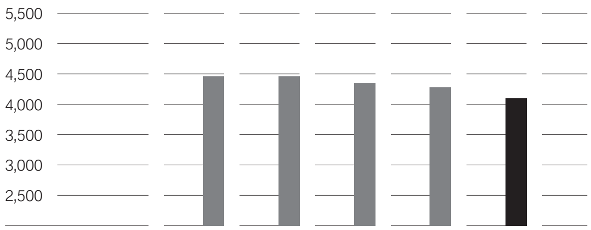
The BMW Group's workforce was reduced by 7,498 employees (–7.0%) during the financial year 2008 to stand at 100,041 employees at 31 December 2008. This is largely due to the implementation of previously reported measures to reduce the size of the workforce and the sale of business units in 2008. The workforce reduction programme resulted in a sharp rise in the employee fluctuation ratio at BMW AG.

Despite the overall reduction in personnel, the BMW Group nevertheless recruited staff on a targeted basis in 2008. In addition to the recruitment of almost 1,200 new apprentices, 226 permanent posts were also filled during the course of the year at BMW AG. Approximately 74% of the BMW Group's workforce is employed in Germany.

Number of apprenticeships remains high

1,177 young people started their apprenticeships with the BMW Group at the beginning of the training year 2008. The number of apprentices recruited has been consistently

BMW Group Apprentices at 31 December



04	05	06	07	**08**
4,464	4,464	4,359	4,281	**4,102**

BMW Group Employees

	31.12.2008	31.12.2007	Change in %
Automobiles	**92,924**	98,548	–5.7
Motorcycles	**2,917**	2,989	–2.4
Financial Services	**4,077**	4,097	–0.5
Other	**123**	1,905	–93.5
thereof consultancy/software	**–**	1,793	–
BMW Group	**100,041**	**107,539**	**–7.0**

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

on a high level for many years. At the same time, due to their good performance, many apprentices were able to shorten their training periods, resulting in decreased numbers in statistical terms at the year-end. The BMW Group employed 4,102 apprentices at 31 December 2008, 4.2 % fewer than one year earlier.

BMW AG's apprenticeship ratio in Germany (i.e. the ratio of apprentices to the total workforce) increased slightly in 2008 by 0.2 percentage points to 5.0 %. 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 with the BMW Group.

Focused basic and further training

As a premium provider, the BMW Group attaches great importance to both the basic and the further training of its workforce. Further training is always tailored to suit requirements and carried out with specific objectives in mind. The BMW Group continued to invest at a high level during the financial year 2008. In response to difficult business conditions, the BMW Group's further training activities were focused on selected target groups and specific priority topics in 2008. As a consequence, total expenditure of euro 154 million was 14.9 % lower than in 2007.

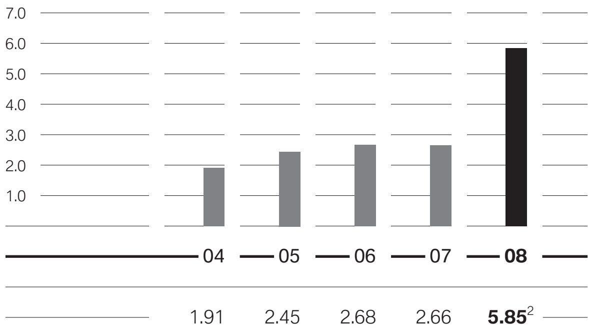
Demand for positions abroad remains strong

The international transfer of know-how and networking at all levels are crucial factors for businesses such as the BMW Group. In view of this fact, specialists are, for example, specifically sent to various manufacturing sites when production start-ups commence for new models, thus ensuring a consistent level of high quality during each start-up throughout the entire production network. An increasing number of employees are also taking on international duties within the development and purchasing network.

During the year under report, more than 650 BMW AG employees worked outside their home country, Germany. The main targets were North America, the United Kingdom and China. Furthermore, approximately 175 employees from non-German BMW Group locations were on assignments in Germany or at international sites away from their home countries. Employees on longer-term placements spend an average of two-and-a-half years abroad. This is a sufficient length of time for them to pass on process and technical know-how, receive further training while abroad and, at the same time, gain international experience which will stand them in good stead during the course of their subsequent careers.

Employee fluctuation ratio BMW AG[1]

as a percentage of workforce



[1] Number of employees on unlimited employment contracts leaving the company
[2] after implementation of previously reported measures to reduce the size of the workforce

Attractiveness as employer confirmed

The BMW Group continued to be amongst the most attractive employers in 2008. This fact was underscored by numerous studies and ranking lists. In the study entitled "Germany's Most Popular Employers" (Trendence), young academics from business and engineering fields judged the BMW Group to be one of the most popular employers in Germany. Another study, the "Universum Student Survey 2008" (Universum) also came to the same conclusion; further confirmation of the fact that the BMW Group has an excellent reputation amongst business and engineering students.

"Today for Tomorrow" project – taking a proactive approach to demographic realities

The ageing of society affects the economy as a whole as well as each individual company. The BMW Group is therefore consciously taking up the challenges of demographic change with an awareness of the opportunities it offers.

The cornerstone for maintaining the ability of the BMW Group's workforce to perform with the appropriate set of skills was laid in the wide-ranging project "Today for Tomorrow". The project was divided into five main areas of action: health management and preventative care, qualifications and skills, work environment, individual working-life time models and communication. During the second half of 2008, further steps were taken in successfully implementing the results of the project within the organisation.

Amongst a wide range of measures taken, a great deal of effort was expended in 2008 to adapt production systems to the ergonomic needs of older employees. A good example of this is the "Work System 2017" pilot project – the only project of its kind currently being carried out within the automotive industry. Under this project, the forecast age structure for 2017 has been "reproduced" for everyday work purposes in one production section at the Dingolfing site, thus enabling a targeted evaluation of whether the measures and instruments employed are practical and effective. The aim now is to pass on the know-how gained in the pilot project to other areas of the business, the ultimate goal being more suitable technical and organisational working conditions for older employees – particularly in terms of workplaces, working hours and job structures.

A new working time model, known as "Full-time Select" was also introduced in 2008, giving employees the option to take additional days off with corresponding reductions in pay. This working time model was well received by the workforce, providing additional scope for employees to structure their own time.

Competitive level of personnel expense
Maintaining a competitive level of personnel expense plays a major role in the success of the BMW Group, and thus in the securing of jobs. Personnel expense management is therefore gaining in importance in an increasingly competitive environment.

The BMW Group does not, however, take the one-sided approach of simply focusing on reducing costs. The main emphasis is placed on achieving greater efficiency by increasing productivity. The high degree of motivation amongst the workforce on the one hand and the employee-friendly orientation of the BMW Group on the other are backed up by performance-based and profit-linked remuneration arrangements and flexible working time models. Remuneration, working time rules and other benefits are reviewed and adjusted regularly in close cooperation with employee representatives. In 2008, for example, the corridor for employees with a BMW time account was widened to +/– 300 hours. The flexibility thus gained gives the BMW Group more scope to adapt production to fluctuating demand without affecting employees' pay or personnel expense.

New structure for management remuneration
The remuneration system for middle and senior management was restructured in 2008 in an attempt to embed the BMW Group's new strategic direction in the management remuneration system at BMW AG. Under the new system, greater consideration is given to the contribution made by an individual when determining the overall level of remuneration. This approach takes better account of the underlying principle of performance and reward and is also an effective way of motivating managers to meet their targets. In future, annual bonuses will be linked to the post-tax return on sales, the net profit and the dividend level. Growth and profitability strategies are therefore now directly linked to the level of management remuneration at BMW AG.

Internationalisation of personnel activities
The Excellence in Human Resources (EHR) programme in place since 2002 has consistently improved the efficiency of the personnel and human resources function within the BMW Group. An important objective of EHR 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.

Based on the experiences made in Germany, organisational structures, procedures and supporting IT systems were adapted for international use and successfully introduced in the United Kingdom in November 2008. A system is now in place that offers employees at the Hams Hall, Goodwood and Oxford sites standardised procedures for contacting the Human Resources department. Routine and special topics relating to matters such as recruitment and training have also been standardised and can be handled centrally, thus improving efficiency whilst maintaining a high quality of service. The changeover will be completed in the United Kingdom with roll-out of the new system to the Bracknell and Hook sites in 2009.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Further enhancements in environmentally compatible vehicle design

The BMW Group again set new milestones in improving the environmental compatibility of its products in 2008. One example of this is the creation of a comprehensive product data system containing details of the material composition of all components used in a vehicle. In May 2008, with the help of this system, the BMW Group became the first carmaker to present a virtual "material balance sheet" (for the new BMW 7 Series) conforming to international standard ISO 22628.

Furthermore, in a large-scale industrial trial, the BMW Group was able to demonstrate that, with the aid of post-shredder technology, BMW Group-manufactured cars are at least 85 % recyclable and up to 95 % recoverable. Under the post-shredder method (after vehicles have been dismantled and shredded mechanically), shredder residue fractions are sorted and sifted into their various constituent materials such as metals, plastics and minerals, in preparation for further processing.

Thanks to the extensive preparatory work carried out, the BMW Group passed the preliminary tests of the relevant licensing agency in May 2008. The BMW Group therefore complies with the regulations of the European Directive 2005 / 64 / EG on type approval of motor vehicles with regard to their reusability, recyclability and recoverability. The use of recovered materials (recyclates) was also increased in 2008. The proportion of recyclates used in the new BMW 7 Series for instance was increased by approximately 15 % compared to the preceding model. The use of quality-approved recyclates reduces costs and preserves resources while still ensuring compliance with established quality standards.

Strict management of environmental care activities

The BMW Group applies the "Clean Production" philosophy to its production activities. In line with this forward-looking commitment to environmental care, the BMW Group endeavours to achieve systematic and consistent reductions in the volume of resources used and to lessen the impact of production activities on the environment. In order to monitor this, environmentally relevant indicators are measured automatically and reported on a monthly basis.

The following key indicators – expressed as amounts per vehicle produced – are integral components of the group-wide target system and are managed accordingly:

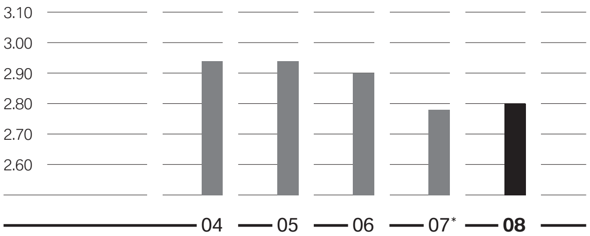
– energy consumption
– water consumption
– process wastewater
– solvent emissions
– waste for disposal

CO_2 emissions per vehicle produced are also recorded based on the amount of energy consumed and the energy mix used.

The target for the global production network is to reduce these key indicators by 30 % between 2006 and 2012. This entails achieving an average reduction of 5 % p. a. These targets can, however, vary as a result of model production start-ups, discontinuations or changed production volumes. The reduction across all key indicators is additionally examined on the basis of an Environmental Efficiency Ratio (EER). The EER computation for 2008 showed that the improvement in resource efficiency remained within the agreed target corridor.

Energy consumed per vehicle produced

in MWh / vehicle

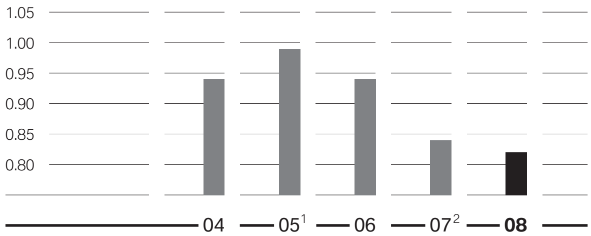


04	05	06	07*	08
2.94	2.94	2.90	2.78	**2.80**

* Basis for data expanded in 2007 from ten to 17 locations. Until 2006: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford. Since 2007: Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

CO_2 emissions per vehicle produced

in t / vehicle



04	05[1]	06	07[2]	08
0.94	0.99	0.94	0.84	**0.82**

[1] The increase is attributable to a change in the energy mix.
[2] Basis for data expanded in 2007 from ten to 17 locations. Until 2006: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford. Since 2007: Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

Fewer resources, lower emissions

Energy savings totalling more than 650,000 MWh achieved throughout the BMW Group reduced energy costs by approximately euro 35 million in 2008. The reduction of other key indicators such as water consumption, process water and waste for disposal resulted in savings of approximately euro 1.2 million in the year under report.

The groupwide activities undertaken to reduce energy consumption have been managed since the beginning of 2007 as part of an international energy project. Energy consumption per vehicle produced, at 2.80 MWh, came very close to the previous year's level of 2.78 MWh. Considering the 6.6 % reduction in vehicle production compared to the previous year, it was only possible to maintain this figure at roughly the previous year's level by reducing energy consumption volumes in absolute terms. Some of the factors that contributed to the savings were the combined heat and power plants used in the Landshut and Steyr plants as well as the conversion of the heating system to natural gas at the Swindon plant in the United Kingdom. A wide range of analyses and measures to save even more energy were carried out in a pilot project at the BMW plant in Munich in 2008. The know-how gained will now be introduced in stages at further locations throughout the production network. At a series of energy awareness seminars, BMW Group employees in the Berlin, Dingolfing, Leipzig, Munich and Steyr plants were shown how they can make an important contribution towards reducing energy consumption at their workplaces.

The various energy-saving measures emerging from the international energy project have resulted in total energy savings of approximately 1.1 million MWh groupwide since the beginning of 2007. This is roughly equivalent to the annual energy consumption of a German city of 170,000 inhabitants. In financial terms, the resulting savings amounted to approximately euro 62 million.

Most noticeably, the BMW Group was able to reduce its electricity consumption in 2008. Due to the higher CO_2 emission factor for electricity compared to that for gas, CO_2 emissions per vehicle produced decreased from 0.84 tons of CO_2 in 2007 to 0.82 tons in 2008.

Water consumption continued to be exceedingly low. In 2008, water consumption per vehicle produced was approximately 2.56 m³ (2007: 2.61 m³). In absolute terms, the BMW Group used 335,000 m³ less water than in the previous year. Process wastewater per vehicle produced in 2008 remained steady at the previous year's level of 0.64 m³. Here too, the absolute amount was reduced by approximately 68,000 m³.

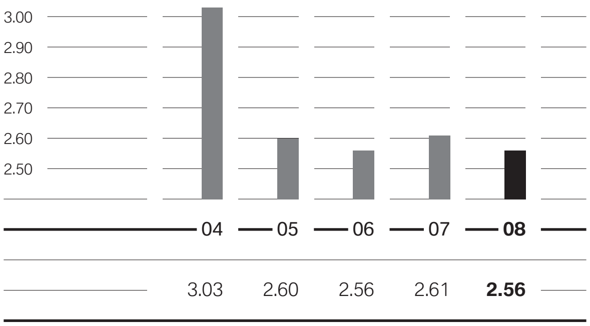
Waste for disposal (i.e. waste that could not be recycled) decreased by more than 8 % compared to the previous year. The figure currently stands at 14.84 kg per vehicle produced. In addition, improved separation and sorting methods increased the proportion of recycled waste, thereby reducing the volume of waste for disposal.

Solvent emissions per vehicle produced fell sharply (by almost 17 %) to a new low of 1.96 kg in 2008. Improvements in painting processes at all manufacturing plants were a major contributing factor for this performance.

Solvent emissions were also lowered by further reducing the protective coating used on new cars. Overall, approximately 82 % of new vehicles were transported in 2008 without the use of surface protection such as wax, adhesive

Water consumption* per vehicle produced

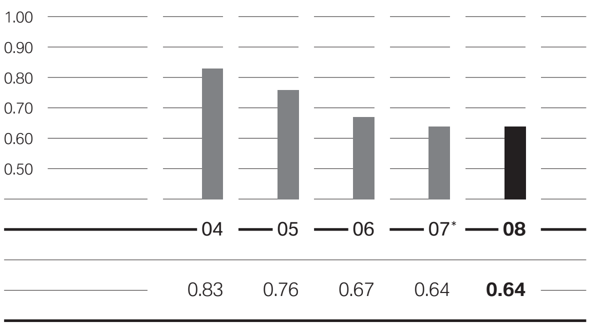
in m³/vehicle



* The indicators for water consumption refer to the production sites of the BMW Group. The water consumption includes the process water input for the production as well as the general water consumption e.g. for sanitation facilities.

Process wastewater per vehicle produced

in m³/vehicle

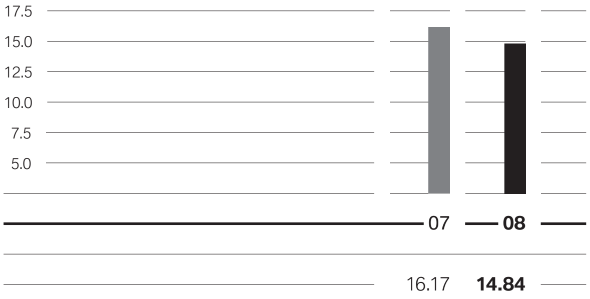


* Basis for data expanded in 2007 from ten to 17 locations. Until 2006: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford. Since 2007: Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Waste for disposal* per vehicle produced

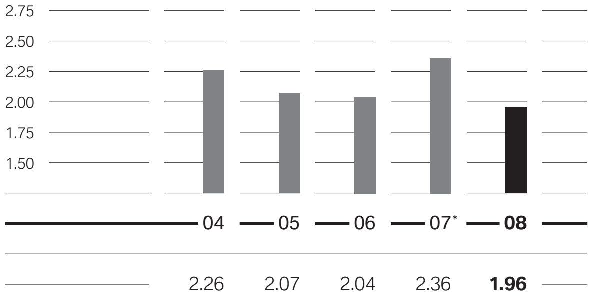
in kg / vehicle



* "Waste for disposal per vehicle produced" became a performance indicator in 2007 and has been reported since then.

Volatile organic compounds (VOC) per vehicle produced

in kg / vehicle



* Basis for data expanded in 2007 from ten to 17 locations. Until 2006: Munich, Dingolfing, Landshut, Regensburg, Leipzig, Steyr, Rosslyn, Spartanburg, Hams Hall, Oxford. Since 2007: Berlin (brake disc production), Eisenach, Swindon, Goodwood, Rayong (assembly), Chennai (assembly) and BMW Brilliance in Shenyang.

foil or protective covers. One year earlier the equivalent percentage stood at 72 %. In line with the BMW Group's policy to eliminate the use of surface protection, it was possible to shut down the last remaining car body conservation facilities.

Environmentally friendly transportation solutions

The BMW Group also managed to reduce the negative environmental impact caused by transporting goods along the whole chain from purchasing to delivery. The proportion of goods transported by air freight to international plants was halved in 2008 by further measures to optimise the supply chain. Accordingly, air freight accounted for only 0.1 % of all goods transported (2007: 0.2 %). The percentage of goods transported by sea freight rose from 76.8 % in 2007 to 79.1 % in 2008. The equivalent percentage for rail fell slightly from 6.9 % in 2007 to 6.3 % in 2008, while that for road was reduced from 16.1 % to 14.5 %.

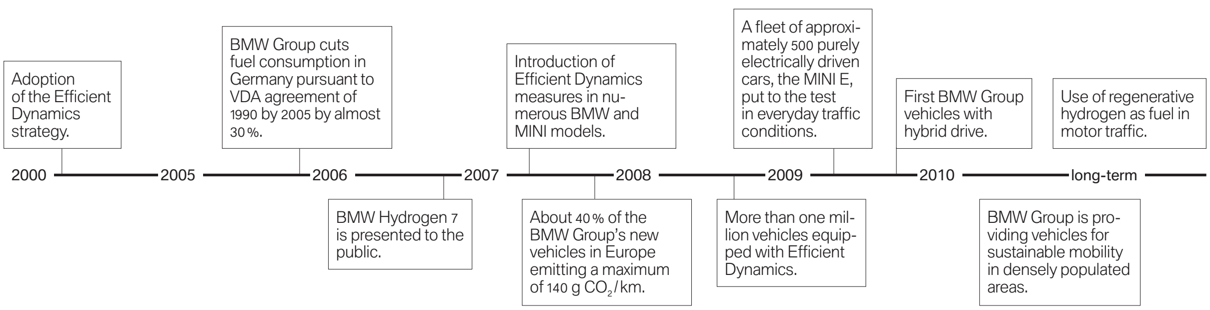
In all, 50.3 % of all new vehicles left the BMW Group's plants by rail, a reduction of 4.5 percentage points against the previous year. This was partly due to a shift in sales to markets that cannot be supplied by rail. The use of an additional harbour in the USA made it possible to reduce the distances travelled by trucks.

Sustainable mobility as the goal

The BMW Group is aware of its responsibility to protect the climate and is working with great determination on solutions that promote sustainable mobility. The strategy pursued can be subdivided into three phases:

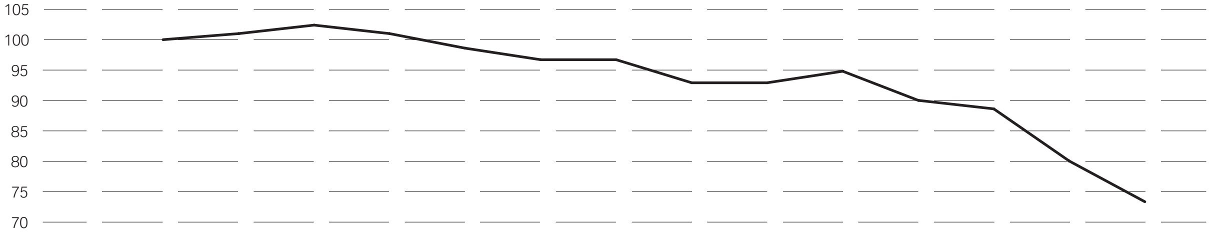
1. The BMW Group is continuously improving the fuel economy of its vehicles with a combination of highly efficient engines, optimised energy management, innovative lightweight construction and improved aerodynamics.
2. In the medium term, the Group is additionally increasing fuel economy by a wide range of measures from electrification of the drive train through to hybrid solutions.
3. In the long term, the BMW Group is committed to the forward-looking use of hydrogen gained from renewable sources.

Roadmap of the BMW Group for sustainable mobility



Development of CO_2 emissions of BMW Group cars in Europe (EU-15)

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



95	96	97	98	99	00	01	02	03	04	05	06	07	**08***
100.0	101.0	102.4	101.0	98.6	96.7	96.7	92.9	92.9	94.8	90.0	88.6	80.0	**73.3**

* CO_2 emissions of newly registered cars in Europe for 2008 stood at 154 grams CO_2 per kilometre driven (EU-15) and 156 grams CO_2 per kilometre driven (EU-27).

Fleet fuel consumption drastically reduced
The BMW Group has been working intensively for years to reduce its fleet's overall fuel consumption. Efficient Dynamics was adopted as many as eight years ago as an all-embracing development strategy. Efficient Dynamics is an innovation package designed to boost fuel economy and reduce CO_2 emissions. It includes highly efficient petrol and diesel engines, lightweight construction, improved aerodynamics and a sophisticated energy management system that includes Auto Start Stop and Brake Energy Regeneration functions. These innovations are helping the BMW Group to reduce the fuel consumption of its new cars by up to 23 % compared to the relevant predecessor models. Efficient Dynamics is a global strategy across all models and therefore brings benefits not only for individual niche models but for the entire fleet.

Since the beginning of 2009, the emissions of 27 BMW Group models are a maximum of 140 grams of CO_2 per kilometre driven. This has resulted in the BMW Group reducing CO_2 emissions of new cars sold in Europe (EU-15) by almost 27 % between 1995 and 2008. The BMW Group has therefore met its targets under the ACEA voluntary commitment. In fact, the BMW Group's voluntary commitment to reduce the fuel consumption of its EU fleet (EU-15) from 1995 to 2008 by 25 % has already been surpassed by nearly 2 %. CO_2 emissions of newly registered cars in Europe (EU-27) in 2008 stood at 156 grams CO_2 per kilometre driven.

The BMW 118d received the international World Green Car of the Year Award in the USA in 2008. Studies made in the United Kingdom and the USA highlight the extent to which Efficient Dynamics reduces fleet fuel consumption overall. An analysis published by the Clean Green Cars internet service in the United Kingdom showed that the CO_2 emissions of newly registered BMW brand cars sold in the first half of 2008 were 11.3 % lower than those sold in the corresponding period one year earlier. The BMW Group thus made more progress in reducing the CO_2 emissions of its fleet than any other manufacturer. The latest Environmental Defense Report published in the USA in the spring of 2008 came to a similar conclusion. This independent study of the fuel consumption of new vehicles sold between 1990 and 2005 in the USA points out that the BMW Group reduced fleet CO_2 emissions by 12.3 % during the period studied. During the same period, the number of cars sold by the BMW Group in the USA quadrupled. Thanks to this performance, the BMW Group is now undisputed leader in the rankings for CO_2 emissions reduction.

Numerous models fulfil EU5 and EU6 standards
The BMW Group is also market leader when it comes to introducing vehicles that comply with the future EU5 emissions standard. By spring 2009, the BMW brand will be selling 49 models that fulfil the EU5 emissions standard. Moreover, the new BMW 330d with optional BMW BluePerformance technology is the first vehicle that already (in model year 2009) complies with the EU6 emissions standard that comes into force from 2014 onwards.

BMW AdvancedDiesel with BluePerformance was introduced in the USA and Canada in 2008. The first diesel models have been available to customers in North America since December 2008. The BMW AdvancedDiesel with BluePerformance comprises a 3.0-litre straight six-cylinder engine featuring a variable twin turbo and SCR system (Selective Catalytic Reduction) with urea injection. This in-

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

novative drive unit sets new standards for fuel consumption and emission reduction. It also complies with the particularly stringent emission limits valid in California and other US federal states. BMW AdvancedDiesel is being offered as a so-called 50-state model (BIN5) throughout the USA. The introduction of BMW AdvancedDiesel represents another important aspect of the Efficient Dynamics strategy designed to reduce fuel consumption worldwide.

BMW ActiveHybrid – the next step towards greater fuel economy

The use of hybrid technology is enabling the BMW Group to realise potential efficiency improvements. The BMW Group is developing a comprehensive hybrid modular system in order to provide the optimal solution for each model – the Best of Hybrid. The BMW Concept 7 Series ActiveHybrid combines a highly efficient V8 twin turbo petrol engine and an electric drive based on the "Mild Hybrid" concept. The electric drive supports the combustion engine in clearly defined driving situations, thus optimising the propulsion unit. A newly developed lithium-ion battery serves as the energy storage unit.

By contrast, the BMW Concept X6 ActiveHybrid combines an eight-cylinder petrol engine and the electric drive with the help of an innovative two-mode active gearbox. Unlike hybrid models that are currently available, BMW ActiveHybrid technology will deliver efficiency benefits not only in city traffic, but also out on the open road. Fuel savings of up to 20 % are possible in comparison to cars powered by conventional combustion engines. The hybrid models of the BMW X6 and the BMW 7 Series will be ready for series production in 2009.

Innovative concepts for tomorrow's mobility

The BMW Group continues to work on solutions for sustainable mobility. A separate organisational unit (known as "project i") has been set up as part of the Number ONE strategy to develop new mobility concepts, especially for densely populated areas. The first results of its work – the MINI E electric vehicle – were presented at the Los Angeles Auto Show in November 2008. In a pilot project, approximately 500 all-electric MINI E cars are being tested by selected private and corporate customers in everyday use in the US federal states of California, New York and New Jersey. The MINI E is equipped with a 150 kW (204 hp) electric motor powered by a lithium-ion battery. The car is capable of covering distances of up to 250 kilometres (156 miles). The objective of the pilot project is to gain an understanding of how individual mobility can be organised on the basis of an all-electric vehicle. The findings made and the response of customers will be incorporated into the further development of electric vehicles.

Driving in the long-term with hydrogen

In the long term, the BMW Group is committed to the use of renewably produced hydrogen for sustainable automobility and continues to pursue its vision of driving without causing CO_2 emissions. With the BMW Hydrogen 7, the pioneering use of hydrogen as a source of energy for individual mobility is already becoming today's reality. The hydrogen-driven vehicle is powered by a twelve-cylinder engine which generates 191 kW (260 hp). The dual-fuel design allows either hydrogen or petrol to be used in the engine's combustion chambers. The switch from one operating mode to the other can be made at any time at the push of a button. The world's first hydrogen-powered luxury sedan for day-to-day use has been produced in a small series of 100 vehicles and made available to a selected group of people from politics, business and other areas of society for daily use. By the end of 2008, the BMW Hydrogen 7 had covered more than 3.5 million kilometres across Europe, the USA and other regions of the world. The intensive use of the hydrogen sedan in real-life conditions proves that this drive concept is suitable for the challenges of everyday driving and is a real sustainable option for the future.

Research and development expense at budgeted level
In 2008 the BMW Group scaled down its research and development expense intentionally by 8.9 % to euro 2,864 million. Detailed disclosures on research and development expenditures are provided in the notes to the Group Financial Statements (Note 11 —). At 5.4 %, the research and development ratio – research and development expenditures as a percentage of revenues – was 0.2 percentage points lower than in the previous year. This targeted reduction was mainly achieved by means of efficiency improvements to work processes. The rigorous value-added approach adopted ensures that all research and development activities create discernible benefits for the customer.

During the year under report, some 9,300 employees worked within the BMW Group's innovation network at eleven locations in five countries.

Driving pleasure without emissions: the MINI E
At the beginning of 2009 the BMW Group became the world's first manufacturer of premium automobiles to deploy a fleet of approximately 500 purely electrically driven vehicles for private daily use. The MINI E is powered by a 150 kW (204 hp) electric motor fed by a rechargeable lithium-ion battery which transfers its power almost soundlessly and entirely free of emissions. Specially engineered for automobile use, the lithium-ion battery can be plugged into any conventional power outlet and has a range of up to 250 kilometres. The MINI E exemplifies the BMW Group's resolve to reduce energy consumption and emissions through targeted development and by drawing on its unique technological expertise in the field of drive systems. Putting some 500 cars on the road under real daily traffic conditions will make it possible to gain widely applicable hands-on experience. These findings will be subsequently factored into the engineering of series-built vehicles.

The BMW 7 Series as champion of innovation
The launch of the new BMW 7 Series in autumn 2008 saw the debut of numerous technological innovations in a series vehicle. As well as a completely revised range of engines, the new models make full use of lightweight construction technology. The BMW 7 Series' newly developed chassis ensures optimal driving dynamics and comfort. A unique combination of innovative driver assistance systems has been incorporated in the new models. This includes functions such as Lane Departure Warning, Speed Limit Display, Lane Change Warning, Head-up-Display, High Beam Assist, Active Cruise Control with Stop & Go function, Night Vision (for the first time with Pedestrian Detection and Warning system), Side View and Back-up Camera. The new BMW 7 Series also offers maximum occupant safety thanks to its optimised body structure and a comprehensive range of passive safety systems which are electronically controlled and coordinated to react as intended in all situations.

Driver assistance systems increase comfort and safety
Numerous innovations in the areas of safety and comfort were also introduced for the first time in 2008 with the new BMW 7 Series. Based on an extensive analysis of accidents, an integrated concept was developed, ranging from assistance for the driver in normal driving situations through to automatic emergency calls.

Useful functions of the driver assistance systems mentioned above include Active Cruise Control with Stop & Go capability and Front Collision Warning, Lane Departure and Lane Change Warning and the Night Vision Pedestrian Detection and Warning system. These innovations are successively being integrated into the whole of the BMW Group's range of cars.

The Active Cruise Control with Stop & Go function takes away some of the tasks generally considered less pleasant by drivers such as when driving in stop and go traffic. Additional radar sensors warn the driver of possible collisions. Within a range of between 30 and 180 km / h, the system will maintain the speed set by the driver and, if required, also regulate the distance kept to the car in front. In critical situations, the driver is made aware of the situation. If the situation becomes more dangerous an acute warning is activated, still giving the driver the opportunity to take action.

The Lane Change Warning system monitors the space behind the vehicle over a range of several lanes. When other road users approach from behind in the next lane or if they are already located in the car's blind spot, the driver is informed of the situation if the car is travelling at more than 50 km / h. A warning is given when the driver intends to change lanes and another vehicle is located in the critical area.

The Lane Departure Warning system keeps a check on lane markings for a distance of up to 50 metres. The system is mainly designed for primary routes and motorways. When the driver unintentionally leaves a lane, a warning of the critical situation is given before the vehicle crosses the lane marking. If the lane change is intentional, for example if the indicator has been activated, no warning is given.

BMW Night Vision improves visibility in the dark for a distance of up to 300 metres ahead. Any thermal radiation emitted by the surroundings and objects is converted into an image by the vehicle's infrared camera and shown in the control display. The second generation of the Night Vision

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

system has been expanded to include a Pedestrian Detection system, which identifies persons via camera and warns the driver of dangerous situations by displaying symbols in the control display. The biggest benefit of BMW Night Vision comes at night on unlit country roads where restricted visibility in conjunction with high speeds creates a higher risk of accident. Persons are identified within a distance of approximately 100 metres. Depending on the speed of the car, the driver is warned. The system also gives a warning when persons approach the road from the side.

Research into future mobility

Vehicle networking is the basis for future driver assistance systems. The main focus for the BMW Group, apart from achieving greater comfort, is on enhancing the driver's control over the situation and increasing the safety of all road users. Within the international forum of the CAR 2 CAR Communication Consortium, European manufacturers are working on inter-vehicle communication independent of vehicle type. For its part, the BMW Group is showing how the BMW cars and motorcycles in the future will be capable of communicating with vehicles of other manufacturers.

Cars will be interlinked with each other via wireless LAN radio contact and able to exchange data with road infrastructure such as traffic lights and road signs. This will enable car drivers to be informed immediately and in good time of potentially dangerous road traffic situations. The system can help to avoid accidents or reduce their effects, particularly in situations such as tail-ends of traffic jams, road works, accident scenes or slippery road surfaces.

In order to exploit the full potential of Car-to-X communication systems with blanket coverage, two preconditions must be met: a joint technological base of operations to determine interface standards and a uniform radio frequency. A major milestone has been achieved in terms of standardisation following the recent activation of the 5.9 GHz European frequency band for Car-to-X communication applications (similar to those already existing in the USA and in Japan).

Numerous awards for BMW Group's development work

The BMW Group's research and innovation network again underlined its strength in 2008, receiving numerous awards for its development work. In March 2008 a panel of international automotive journalists voted the BMW 118d as the "World Green Car of the Year". The award, which was presented during the New York International Auto Show, pays tribute to vehicles and technologies that make a measurable contribution to the reduction of emissions symbolising the outstanding environmental awareness of the relevant manufacturer. The recognition gained by the BMW 118d can be largely attributed to the Efficient Dynamics package.

In May 2008 the BMW Group won the "International Engine of the Year" award for the fourth successive year. The title was awarded to the 3.0-litre twin-turbo petrol engine, which, as in the previous year, not only won the overall award, but also the 2.5 to 3.0-litre engine category. In total, the BMW Group came first in six of twelve categories, second in a further six categories and third in one category. The BMW Group was therefore, yet again, the most successful company in this engine competition, which is now in its tenth year.

In September the BMW Group won the ÖkoGlobe 2008 awarded by DEVK, the ACV Automobile Club and the Center Automotive Research of the University of Gelsenkirchen in the category "Enhancement of the Combustion Engine". The award was presented for research into the use of the thermal electric generator, which allows the energy gained from heat loss in the combustion engine to be re-used.

In November 2008 the readers of Europe's largest Sunday newspaper, "Bild am Sonntag", chose the BMW 1 Series Coupé as the best new vehicle in the coupé class in 2008. The BMW Group was presented with the Golden Steering Wheel for this achievement.

Creating efficient value-added chains
The BMW Group's Purchasing and Supplier Network was driven in 2008 by the desire to achieve sustainable improvements along the valued added chain in the areas of quality, innovation, compliance with deadlines and cost. The focus of activities was on reducing production costs whilst improving quality. Despite worsening market conditions during the second half of the year, the BMW Group was able, together with its suppliers, to achieve the challenging cost and quality targets that had been set, both for ongoing series products and development projects.

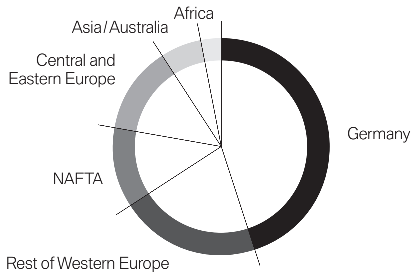
High volatility on raw materials markets
The price levels of all major raw materials and supplies needed for car production rose again sharply during the first half of 2008 as compared to 2007, creating additional pressure along the whole of the value-added chain. Costs rose substantially, particularly for steel and aluminium as well as for precious metals such as platinum, palladium and rhodium. Hedges already in place for precious metals helped to cushion the immediate impact for the BMW Group. During the second half of the year, the BMW Group took advantage of falling prices to conclude new contracts with medium and long-term price hedges for the coming years.

The BMW Group is responding to the increasing significance and complexity of raw materials procurement by centralising its raw materials management. This will allow it to react even more swiftly and efficiently to price fluctuations on raw materials markets in the future. Bundling purchase volumes creates additional synergies in the area of requirements forecasting, whilst also having a positive impact on pricing structures.

Natural hedging potential fully used
Purchasing production materials, goods for resale, services and investment goods in the currencies of the sales markets in which the BMW Group operates helps to reduce exchange rate exposures. Careful consideration is given when selecting suppliers so that the natural hedging potential is taken full advantage of in the NAFTA region, China and Japan. Selections are made jointly with the international purchasing network.

The course has already been set for a significant increase in foreign currency purchases for the BMW X3 successor and successor models of the current BMW 3 Series. By the same token, favourable cost factors can also be exploited in the relevant procurement markets.

Regional mix of BMW Group purchase volumes 2008
in %, basis: production material



Germany	45	Central and Eastern Europe	12
Rest of Western Europe	21	Asia / Australia	6
NAFTA	13	Africa	3

Exploiting internal and external efficiency synergies
The BMW Group continued to work closely with its suppliers in 2008. Interdisciplinary teams from development, purchasing, production and quality management came together with suppliers to analyse potential opportunities to reduce costs and improve quality along the entire value-added chain. In addition to productivity improvements, the main emphasis was on generating benefits which are relevant for customers and which can be applied across all models.

Initiatives were also taken to raise productivity by using common technologies for component production. Analyses of existing systems and processes resulted in significant reductions in the use of space, inventory volumes and throughput times for products. At the same time, quality was improved and costs reduced.

Sustainable development and production processes in the supplier network
The application of high ecological and social standards and compliance with strict environmental protection requirements are regarded by the BMW Group as extremely important criteria for its suppliers. As part of the process of nominating suppliers, the BMW Group takes care to ensure that the companies involved adhere to internationally recognised standards of sustainability.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 — Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Numerous new models launched

The BMW Group continued to expand its model range in 2008. Numerous new or revised BMW brand models were launched over the course of the year. The BMW 1 Series was expanded by the introduction of the Convertible and Coupé models. The BMW M range of vehicles was also increased by two new variants (Convertible and Coupé). The BMW 3 Series Sedan and the BMW 3 Series Touring each received a model revision. The BMW X6 was sold for the first time as a Sports Activity Coupé during the year. The new BMW 7 Series was also launched in 2008.

Two new MINI brand models were presented at the beginning of 2008: the MINI John Cooper Works and the MINI John Cooper Works Clubman, both of which have been available to customers since summer.

Rolls-Royce also expanded its model range. Following the introduction of the Rolls-Royce Phantom Coupé, the Phantom family now comprises four models.

BMW Museum reopened

After two-and-a-half years of remodelling, the BMW Group reopened the BMW Museum in mid-June. The museum building has been extended so that 120 exhibits displayed in an area of 5,000 m^2 give visitors an insight into the history of the company and an authentic experience of the BMW brand. The new museum pursues the original museum philosophy "continuation of the road in a new setting". Roads and paths connect the seven independent exhibition areas, each of which is dedicated to a different theme. The museum is not only an exhibition hall for unusual cars and motorcycles from almost 90 years of BMW history; it also reflects the dynamics and innovative strength of the BMW brand and of the company as a whole. The newly designed museum had already welcomed 230,000 visitors by the end of the year.

BMW Marketing's main focuses

The main focuses for BMW Marketing in 2008 were the continuation of the Efficient Dynamics campaign and the market launch of the new BMW 7 Series.

The Efficient Dynamics package enabled the BMW brand to assert itself in the premium segment as the market leader for vehicles with low fuel consumption and CO_2 emissions. More than 800,000 BMW brand vehicles equipped with Efficient Dynamics technology were sold in 2008. Communicating this technical advantage stood at the forefront of BMW's marketing activities during the year.

The second major focus of marketing activities was the market launch of the new BMW 7 Series. This model is particularly significant within the BMW brand range of vehicles, not least because of its role as a champion of innovation. As well as aiming to achieve a good position on the market in a short space of time, marketing activities were also focused on evoking exceptional emotionality. One milestone in these communication activities was the unveiling of the new BMW 7 Series on the Red Square in Moscow: the biggest hourglass in the world was the setting for the BMW 7 Series' first public appearance on the Russian market – a market crucial to the BMW Group's activities.

MINI John Cooper Works presented

The new brand MINI John Cooper Works celebrated its world debut in spring 2008 at the Geneva International Motor Show. Both the MINI John Cooper Works and the MINI John Cooper Works Clubman were presented to the public at this event. In conjunction with the renewed foundation and repositioning of John Cooper Works, the brand image was revised and a new logo designed. A range of communication measures was employed to support the introduction of products onto the market, including a campaign aimed at opinion leaders and an international press event held in summer 2008. The MINI brand announced an addition to the model range when it presented the MINI Crossover Concept at the Paris Auto Show.

Rolls-Royce launches the Phantom Coupé

The main emphasis of the marketing activities of Rolls-Royce Motor Cars in 2008 was the market launch of the fourth model within the Phantom family: the Phantom Coupé. The world debut of the Phantom Coupé was celebrated at the Geneva International Motor Show. The new model was presented to members of the press in the course of a journey right across Europe, starting in Goodwood and ending in the South of France. In addition, several events were held worldwide with the support of the dealer organisation, giving customers the opportunity to get to know the Coupé better. The response to the Phantom Coupé was very positive: two thirds of purchases were first-time customers for Rolls-Royce Motor Cars.

Sales organisation restructured

In line with the BMW Group's new strategic direction, sales and marketing activities were focused even more sharply on profitability and greater customer orientation.

During the year under report, a decision was reached to aggregate the administrative functions of the financial services companies and sales companies in selected markets in order to generate synergies. Parallel to this reorganisation the BMW Group continued to invest in important growth markets.

The measures taken also covered dealers worldwide. The BMW Group expanded the dealer organisation in emerging markets such as China and India, whereas streamlining measures were undertaken in the more mature markets. The number of partners in many European markets therefore decreased. The number of customer services points, however, remained as high as ever, so that customers continued to receive the same high quality of service to which they are accustomed.

BMW vehicles are sold via approximately 3,000 dealer showrooms worldwide. The MINI sales network comprises approximately 1,300 showrooms. Marketing activities continue to emphasise the independence of the different brands. At the end of 2008, MINI had just over 500 and Rolls-Royce 80 exclusive sales and service locations. Targeted training of dealership staff and consistent application of selling standards ensure that the quality and efficiency of the dealer showrooms remain high. Training courses were held around the world in conjunction with the market launch of the Rolls-Royce Phantom Coupé, giving the dealer organisation the opportunity to prepare for the new model and strengthen its commitment to the brand.

The BMW Group's involvement in retail customer business at its own branches is becoming increasingly targeted on strategically important cities, resulting in branch consolidation at specific international locations.

The implementation of a European strategy for spare parts logistics has brought about improvements in service and efficiency and created the basis for forward-looking, competitive logistics structures in Europe. According to a study carried out by the US consultancy Carlisle & Company, the BMW Group's regional distribution centre in Hanover was the most productive centre in Europe. In the same study, the spare parts logistics operations for BMW, MINI and BMW motorcycles achieved top marks in terms of availability of parts.

Greater customer focus at all levels
Improving the BMW Group's customer focus was at the heart of all sales and marketing activities in 2008. The same can be said for product design, as demonstrated by the new iDrive in the latest BMW 7 Series, coupled with the introduction of additional BMW ConnectedDrive functions. The BMW Group is therefore the first car manufacturer to offer unlimited access to the World Wide Web via the car's control display, underlining the pioneering role played in the area of in-car online services.

Greater customer orientation is especially important for customer support, which is one of the focal points of the BMW Group's strategic efforts. Expanding the range of services on offer and implementing other measures not only raised the quality of customer support even further but also opened up growth opportunities for the BMW Group and the dealer organisation. Other activities, such as BMW TeleServices and BMW/MINI Service Inclusive offers, which had already been able to prove their worth, were further expanded in 2008.

As well as having attractive products and services, it is a vital aspect of premium customer care to have well-trained sales and service staff in the dealer showrooms. Approximately 34,000 employees attended the BMW Group's technical and non-technical training courses in 2008.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 — BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Stock markets tumble

The worldwide financial crisis worsened in 2008, climaxing – at least for the time being – in the provision of government support to numerous financial institutions and the potential insolvency of whole countries. The ensuing turmoil also took its toll on the markets for goods and services, casting a dark shadow over the world's major economies, particularly during the second half of the year.

The world's leading stock markets lost substantially in value, with volatility at times reaching extremely high levels. The German stock index, the DAX, was unable to escape these developments. Compared to the final day of trading at the end of the previous year, the index lost some 40 % in value, closing the year 2008 at 4,810.20 points (28 December 2007: 8,067.32 points). Due to one exceptional factor, the Prime Automobile sector index performed slightly better than the DAX, closing on the last day of trading 35.3 % down at 508.42 points (28 December 2007: 785.54 points). The Dow Jones EURO STOXX 50 ended the year 44.3 % down.

The negative developments on the stock market were also reflected in the performance of BMW stock. BMW common stock closed at euro 21.61 on the last day of trading of 2008, 49.0 % below its level a year earlier. Despite this sharp drop, BMW common stock was – against the background of an exceedingly difficult year for the stock markets – one of the best performers amongst European car manufacturers in 2008. BMW preferred stock finished 2008 with a market price of euro 13.86, down 61.8 % on a year earlier.

Authorisation to buy back shares of common stock extended

At the Annual General Meeting on 8 May 2008, the Board of Management was authorised 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 15 May 2007 to acquire treasury shares was rescinded. The authorisation from 8 May 2008 is valid until 6 November 2009. There are no current plans to exercise the authorisation. The option of a share buy-back does, however, remain open to BMW AG.

Buy-back of preferred stock for employee share plan

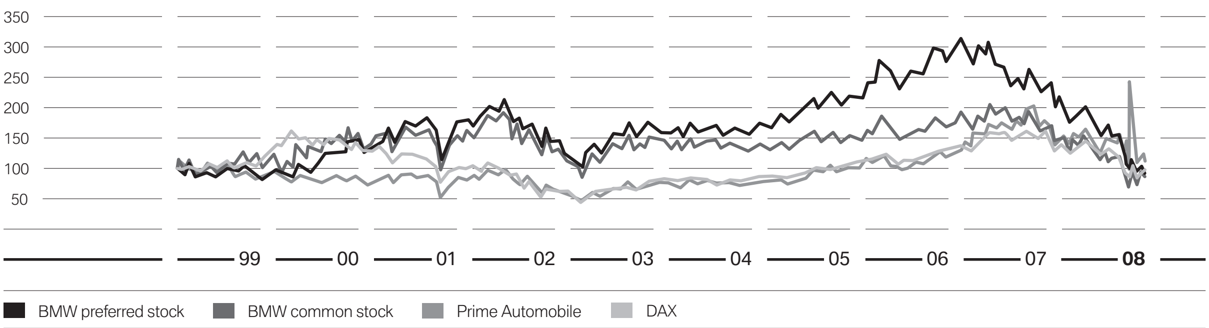
For over 30 years, BMW AG has encouraged its employees to participate in the company's success. Since 1989, this participation has been in the form of an employee share programme. As a result, BMW AG acquired a total of 900,000 shares of preferred stock in 2008 via the stock market and issued some of the acquired shares to employees.

BMW Group as a successful bond issuer on international capital markets

Refinancing conditions deteriorated sharply over the course of 2008 compared to the previous year. Especially in the second half of the year, the credit markets experienced significant disruption. However, coordinated measures implemented by central banks and governments worldwide were able to prevent a meltdown of the financial system.

As part of the process of refinancing business undertaken by the Financial Services segment, the BMW Group and relevant Group entities were again active in 2008 as issuers of bonds, notes and asset backed securities (ABS). As in previous years, the instruments issued by the BMW Group were highly sought after, both by institutional and private investors. Good ratings and continuous provision of infor-

Development of BMW stock compared to stock exchange indices
(Index: 30.12.1998 = 100)



mation to the capital markets helped to reinforce the solid reputation enjoyed by the BMW Group.

During the year, the BMW Group placed two benchmark bonds with a total issue volume of euro 2.5 billion on European capital markets. In addition, bonds for an aggregate equivalent amount of some euro 880 million were issued in Swiss franks, Japanese yen and US dollars and private placements were made in various currencies for an aggregate amount of approximately euro 4.7 billion.

The BMW Group was also able to demonstrate its ability to obtain funds via ABS transactions once again, securitising transactions totalling euro 5.2 billion in 2008. This included the placement of euro 2.5 billion each on US and European capital markets via conduit transactions.

The BMW Group proved in 2008 that, despite difficult market conditions, it had excellent access to the capital markets and that the supply of liquidity was ensured at all times. The underlying strength of the BMW Group as one of the world's leading suppliers of premium vehicles is therefore also reflected in its dealings with the international capital markets.

Capital markets acknowledge sustainability as value driver

During 2008, the BMW Group continued its communication drive on the capital markets with regard to Socially Responsible Investment (SRI). Road shows held in London and Paris and an additional event in Zurich helped to promote and intensify the exchange of ideas with investors and analysts interested in sustainability.

BMW stock

	2008	2007	2006	2005	2004
Common stock					
Number of shares in 1,000	**601,995**	601,995	601,995	622,228	622,228
Shares bought back at the reporting date	–	–	–	13,488	–
Stock exchange price in euro[1]					
Year-end closing price	**21.61**	42.35	43.51	37.05	33.20
High	**42.73**	50.73	46.47	39.97	37.44
Low	**17.04**	39.81	35.52	32.04	31.78
Preferred stock					
Number of shares in 1,000	**52,196**	52,196	52,196	52,196	52,196
Shares bought back at the reporting date	**363**	–	–	–	–
Stock exchange price in euro[1]					
Year-end closing price	**13.86**	36.30	43.52	33.00	24.80
High	**36.51**	47.52	45.91	33.98	26.20
Low	**13.00**	33.64	31.80	24.48	22.86

	2008	2007	2006	2005	2004[2]
Key data per share in euro					
Dividend					
Common stock	**0.30**[3]	1.06	0.70	0.64	0.62
Preferred stock	**0.32**[3]	1.08	0.72	0.66	0.64
Earnings per share of common stock[4]	**0.49**	4.78	4.38	3.33	3.33
Earnings per share of preferred stock[5]	**0.51**	4.80	4.40	3.35	3.35
Cash flow[6]	**6.84**	9.70	8.21	9.17	9.13
Equity	**30.99**	33.24	29.24	25.17	24.52

1 Xetra closing prices
2 adjusted for new accounting treatment of pension obligations
3 proposed by management
4 annual average weighted amount
5 stock weighted according to dividend entitlements
6 calculated on the basis of operating cash flow: up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automobiles segment

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 — BMW Stock and Bonds
45 — Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

In 2008, for the fourth time in succession, the BMW Group was the sector leader in the Dow Jones Sustainability indices and is thus the most sustainable car manufacturer in the world. The BMW Group is the only enterprise from the automobile sector to have been represented continuously in this important group of sustainability indices since their creation in 1999. In order to be included in the index, the business, ecological and social performance of some 2,500 enterprises is analysed and the best in each sector chosen to appear in the relevant Dow Jones Sustainability Index. The analyses include an assessment of general sustainability criteria as well as of measures implemented in response to sector-specific challenges.

In the SAM Group's corporate sustainability assessment published at the beginning of 2008, the BMW Group received three top awards with the titles Sector Leader, Gold Class and Sector Mover. Each year the SAM Group assesses more than 1,000 companies from 57 industrial sectors on the basis of company-specific sustainability criteria. The BMW Group is therefore the leading automotive company in terms of sustainable business (SAM Sector Leader), picking up more than 75 % of possible points (SAM Gold Class) and making the most progress in the sector (SAM Sector Mover). The BMW Group has also been included – for eight consecutive years now – in the FTSE4Good indices, which focus on SRI.

The BMW Group keeps the public informed of its performance in the field of sustainable business by publishing its Sustainable Value Report every two years. The report can be downloaded from the internet at www.bmwgroup.com/sustainability. A printed version can also be ordered at that address. In March 2008, the most recent Sustainable Value Report (for 2007/2008) was awarded first prize in the Best Carbon Disclosure category of the Corporate Responsibility Reporting Awards 2007 (CRRA). The CRRA 2007 are the first global independent internet-based reporting awards, acknowledging the best sustainability reports in nine different categories. The BMW Group won by a huge margin in the category for the best report on climate protection. The BMW Group's next Sustainable Value Report will be published in 2009.

Disclosures pursuant to § 289 (4) HGB and § 315 (4) HGB and Explanatory Report

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

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

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

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

When the Company issues shares to employees in conjunction with its employee share programme, the shares are subject to a company-imposed vesting period of four years, during which time the shares may not be sold. The shares issued in conjunction with the employee share programme are shares of non-voting preferred stock which are transferred solely and directly to employees. Like all other shareholders, employees exercise their control rights over these shares on the basis of relevant legal provisions and the Company's Articles of Incorporation.

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

	Direct share of voting rights (%)	Indirect share of voting rights (%)
Stefan Quandt, Bad Homburg v. d. Höhe, Germany		17.4
AQTON SE, Munich, Germany		17.4
Stefan Quandt Verwaltungs GmbH, Bad Homburg v. d. Höhe, Germany		17.4
Stefan Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	17.4	
Johanna Quandt, Bad Homburg v. d. Höhe, Germany	0.4	16.3
Johanna Quandt GmbH, Bad Homburg v. d. Höhe, Germany		16.3
Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	16.3	
Susanne Klatten, Munich, Germany		12.6
Susanne Klatten Beteiligungs GmbH, Bad Homburg v. d. Höhe, Germany		12.6
Susanne Klatten GmbH, Bad Homburg v. d. Höhe, Germany		12.6
Susanne Klatten GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	12.6	

* based on voluntary balance notifications provided by the listed shareholders at 31 December 2008

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 — Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 — Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

The voting power percentages disclosed on the previous page 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 share-holdings if such changes are subject to mandatory notification rules.

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

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

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

In accordance with the resolution passed at the Annual General Meeting on 8 May 2008, the Board of Management is authorised, up to 6 November 2009 and subject to the price limits stipulated in the resolution, to acquire shares of common and / or non-voting preferred stock via the stock exchange, up to a maximum of 10 % of the share capital in place at the date of the resolution. The Board of Management is also authorised, without any further resolution by the Annual General Meeting, to withdraw from circulation the treasury shares (common and / or non-voting preferred stock) acquired in accordance with the authorisation described above. Furthermore, the Board of Management is authorised to buy back shares and sell bought-back shares in situations specified in § 71 AktG, e.g. to avert serious and imminent damage to the Company or for the purposes of an employee share scheme. There is no authorised or conditional capital at the reporting date.

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

- An agreement, concluded with an international consortium of banks relating to a syndicated credit line (which was not being utilised at the balance sheet date), entitles the lending banks to give extraordinary notice to terminate the credit line (such that all outstanding amounts, including interest, would fall due immediately) if one or more parties jointly acquire direct or indirect control of BMW AG. The term "control" is defined as the acquisition of more than 50 % of the share capital of BMW AG, the right to receive more than 50 % of the dividend or the right to direct the affairs of the Company or appoint the majority of members of the Supervisory Board.
- A cooperation agreement concluded with Peugeot SA relating to the joint development and production of a new family of small (1 to 1.6 litre) petrol-driven engines entitles each of the cooperation partners to give extraordinary notification of termination in the event of a competitor acquiring control over the other contractual party and if any concerns of the other contractual party concerning the impact of the change of control on the cooperation arrangements are not allayed during the subsequent discussion process.
- BMW AG acts as the guarantor for all of the obligations arising from the joint venture agreement relating to BMW Brilliance Automotive Ltd. in China. This agreement grants an extraordinary right of termination to either joint venture partner in the event that, either directly or indirectly, more than 25 % of the shares of the other party are acquired by a third party or the other party is merged with another legal entity. The termination of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.
- Regarding the trading of derivative financial instruments, framework agreements are in place with financial institutions and banks (ISDA Master Agreements), each of which contain extraordinary rights of termination which trigger the immediate settlement of all current transactions, in the event that the creditworthiness of the respective party is materially weaker following the direct or indirect acquisition of beneficial ownership of equity securities having the power to elect a majority of the Supervisory Board of a contractual party or any other ownership interest enabling the acquirer to exercise control of a contractual party or a merger or transfer of assets.

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

Analysis of the Group Financial Statements

Group Internal Management System

In conjunction with the strategy Number ONE, the BMW Group has also continued to develop its groupwide internal management system. Processes are now focused even more sharply on profitability and long-term value growth. Coherent management of capital employed at all levels means that the efficient use of capital funds is a prime criterion at project, segment and Group levels. The targets set for the Automobiles, Motorcycles and Financial Services segments all stem from this objective. Within the Automobiles and Motorcycles segments, capital employed is managed at the level of individual product, process and infrastructure projects. By contrast, the credit and lease portfolios of the Financial Services segment are managed primarily on the basis of a cash flow and risk approach.

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 (WACC) as follows:

$$\text{WACC} = \frac{\text{Cost of equity capital x fair value of equity capital}}{\text{Fair value of equity and debt capital}} + \frac{\text{Cost of debt capital x fair value of debt capital}}{\text{Fair value of total capital}}$$

The cost of equity capital is measured using the Capital Asset Pricing Model (CAPM). The cost of debt capital is based partly 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

Strategic priorities set at a functional level are based on segment-specific strategies and on the project decisions reached in accordance with those strategies. The close link between segment-specific strategies and project objectives ensures that the project development process remains effective. Once a positive decision has been reached for a particular project, it is managed over time using a value-based approach. Projects are monitored continuously and resources reallocated according to requirements.

The project decision and related project selection are important aspects of value-based management for the BMW Group. Project decisions are taken on the basis of net present values (NPVs) and rates of return: 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 the results with competitive market values.

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

The NPV of a project programme is computed by identifying the cash flows of all related projects and discounting them back to a specific date. This value serves as an important target for the Automobiles and Motorcycles segments. The business value of each segment is measured after adjusting for the fair value of debt capital. The objective for the Automobiles and Motorcycles segments is to increase the value of the business continually.

Capital employed by BMW Group
in euro million

	2008	2007
Group equity	**21,766**	20,303
+ Financial liabilities	**2,832**	2,247
+ Pension provisions	**3,717**	4,771
Capital employed	**28,315**	**27,321**

Return on Capital Employed

	Earnings for ROCE purposes in euro million		Capital employed in euro million		Return on Capital Employed in %	
	2008	2007	2008	2007	2008	2007
BMW Group	**639**	4,193	**28,315**	27,321	**2.3**	15.3
Automobiles	**690**	3,450	**14,056**	13,953	**4.9**	24.7
Motorcycles	**60**	80	**432**	444	**13.9**	18.0

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 — Internal Management System
49 — Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

Capital employed by Automobiles segment

in euro million

	2008	2007
Capital employed	**28,867**	28,713
less: Non-interest bearing liabilities	**14,811**	14,760
Capital employed	**14,056**	**13,953**

Return on capital used to measure value on a periodic basis

General business conditions relevant for periodic planning have a bearing on how product projects and the product programme as a whole are managed. It is important that period-specific targets are also monitored and managed on a long-term basis. This helps to ensure that the BMW Group's earnings performance can develop at a steady pace. Periodic performance is managed in the context of defined accounting policies and external financial reporting requirements. The BMW Group primarily uses profit before tax and segment-specific rates of return as the key indicator figures by which it assesses operating performance for a given reporting period.

Instead of the previous return on assets, capital efficiency within the BMW Group is now measured on the basis of the return on capital employed (ROCE). This key indicator takes account of capital employed across all lines of business, thus reflecting the overall Group performance. In line with the method applied at Group level, the return on capital employed remains the primary performance indicator for the Automobiles and Motorcycles segments. In the Financial Services segment, the performance indicator "return on assets" has been replaced by the return on equity (ROE). The ROE performance indicator is important for the value-based management of the Financial Services segment in that it focuses on equity as a resource with limited availability and on the desire to use capital efficiently.

$$\text{ROCE Group} = \frac{\text{Profit before interest expense and tax}}{\text{Capital employed}}$$

$$\text{ROCE Automobiles and Motorcycles} = \frac{\text{Profit before financial result}}{\text{Capital employed}}$$

$$\text{ROE Financial Services} = \frac{\text{Profit before tax}}{\text{Equity capital}}$$

Group ROCE is measured by dividing earnings for ROCE purposes by the average amount of capital employed. Capital employed is measured for the BMW Group by reference to liabilities and comprises Group equity, pension provisions and the financial liabilities of the Automobiles and Motorcycles segments. The average level of capital employed for the year is measured as the average capital employed at the beginning of the year, at quarter-ends and at the end of the year. In line with the computation of capital employed, earnings for ROCE purposes is defined as profit before interest expense incurred in conjunction with the pension provision and financial liabilities of the Automobiles and Motorcycles segments (profit before interest expense and tax).

The ROCE of the Automobiles and Motorcycles segments is measured as the ratio of the profit before financial result (the operating profit of the two segments) and the average amount of capital employed. The latter comprises all current and non-current operational assets and liabilities after adjustment for specified liabilities which are not subject to interest e. g. trade payables. Based on the cost of capital as a minimum rate of return and comparisons with competitive market values, the target ROCE for the Automobiles segment has been set at a minimum of 26 %.

ROE is defined as the profit before tax divided by the average amount of equity capital allocated to the Financial Services segment. The target is a minimum return on equity of 18 %.

Long-term creation of value

The overall objective set for earnings is continuous growth; the minimum rate of return required for each line of busi-

Return on Equity

	Profit before tax in euro million		Equity in euro million		Return on Equity in %	
	2008	2007	**2008**	2007	**2008**	2007
Financial Services	**–292**	743	**4,013**	4,105	**–**	18.1

Key performance indicators

in %

	2008	2007	2006*	2005*
Return on Capital Employed				
BMW Group	**2.3**	15.3	16.7	15.1
Automobiles	**4.9**	24.7	21.7	23.2
Motorcycles	**13.9**	18.0	17.7	17.8
Return on Equity				
Financial Services	**–**	18.1	17.6	16.9

* Capital employed calculated on year-end basis

ness is used as the relevant parameter. These periodic targets are supplementary to project and programme targets.

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 over the long term are documented. The fact that the performance indicators also take account of periodic financial reporting requirements ensures consistency within the target and management model. This approach enables the BMW Group to analyse the effect of each project-based decision on business value (quantified in terms of the NPV of the project programme) as well as on earnings and rates of return. Multi-project planning data gleaned from these procedures allows ongoing comparison between dynamic multi-period targets and periodic performance.

Earnings Performance

The unfavourable business conditions described elsewhere in this report had an adverse impact on the BMW Group's earnings performance for the financial year 2008. Reported earnings were also negatively affected by ex-

Group Income Statement

in euro million

	2008	2007*
Revenues	**53,197**	56,018
Cost of sales	**–44,323**	–43,832
Gross profit	**8,874**	**12,186**
Sales and administrative costs	**–5,369**	–5,254
Research and development costs	**–2,825**	–2,920
Other operating income	**1,428**	730
Other operating expenses	**–1,187**	–530
Profit before financial result	**921**	**4,212**
Result from equity accounted investments	**26**	11
Interest and similar income	**685**	645
Interest and similar expenses	**–930**	–897
Other financial result	**–351**	–98
Financial result	**–570**	**–339**
Profit before tax	**351**	**3,873**
Income taxes	**–21**	–739
Net profit	**330**	**3,134**

* restated presentation of financial result

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 — Earnings Performance
51 — Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

penditure to implement previously announced measures to reduce the workforce, by more pronounced adverse currency factors and by the ongoing high prices of raw materials.

The BMW Group recorded a net profit of euro 330 million (2007: euro 3,134 million) for the financial year 2008. The post-tax return on sales was 0.6 % (2007: 5.6 %). Earnings per share of common and preferred stock were euro 0.49 and euro 0.51 respectively (2007: euro 4.78 and euro 4.80 respectively).

Group revenues fell by 5.0 % compared to the previous year. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars decreased by 10.7 %, while revenues from motorcycles business remained at the previous year's level. Revenues from financial services business grew by 14.9 % as a result of business volume growth. Revenues generated by "Other Entities" amounted to euro 146 million. This largely related to the Cirquent Group which was part of the BMW Group up to 30 September 2008. The comparable revenues figure for "Other Entities" in 2007 was euro 214 million.

Revenues declined in almost all regions. A drop of 9.9 % was recorded in Germany and one of 7.6 % for the remainder of Europe. Revenues generated in the Americas region edged up by 2.2 %. For the Africa, Asia and Oceania regions, revenues fell overall by 2.5 %, despite the fact that revenues generated in China grew by 24.0 %.

Cost of sales increased in absolute terms by 1.1 % on a year-on-year comparison. Cost of sales in 2008 include the impact of expenses recognised for additional risk provisions for residual value risks and bad debts totalling euro 1,968 million. Unfavourable exchange rates and higher raw material prices also contributed to the increase in cost of sales. As a result of these adverse factors, the gross profit fell by 27.2 %, giving a gross profit margin of 16.7 % (2007: 21.8 %). The gross profit margin recorded by the Automobiles segment was 16.4 % (2007: 19.6 %) and that of the Motorcycles segment was 25.8 % (2007: 28.1 %).

Sales and administrative costs increased by 2.2 % mainly due to the fact that most of the expenditure incurred to reduce the size of the workforce is presented within administrative costs (euro 455 million). Sales and administrative costs represented 10.1 % of revenues, 0.7 percentage points higher than in the previous year.

Research and development costs decreased by 3.3 % to euro 2,825 million and represented 5.3 % (2007: 5.2 %) of revenues. They include amortisation of capitalised development costs amounting to euro 1,185 million (2007: euro 1,109 million). Total research and development costs amounted to euro 2,864 million (2007: euro 3,144 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for 2008 was 5.4 % (2007: 5.6 %).

Depreciation and amortisation of property, plant and equipment and intangible assets included in cost of sales, sales and administrative costs and research and development costs amounted to euro 3,670 million (2007: euro 3,683 million).

The positive net amount from other operating income and expenses increased by 20.5 % to euro 241 million, mainly reflecting the higher level of income from the reversal of provisions. In contrast, gains from the sale of assets (in particular marketable securities) fell significantly.

The profit before financial result, at euro 921 million, was euro 3,291 million or 78.1 % below the previous year's figure.

The financial result deteriorated by euro 231 million. Of this amount, euro 253 million relates to the line "Other financial result". In 2007, this line had included a gain of euro 97 million resulting from the settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Other financial result also includes losses on other derivative financial instruments, in particular on stand-alone interest-rate derivatives. The decrease in the fair values of these financial instruments reflected changes in the interest rate structure. The result from equity accounted investments improved by euro 15 million, and includes, in addition to the result from the investment in BMW Brilliance Automotive Ltd., Shenyang, the Group's share of the result of the Cirquent Group. Net interest result improved by euro 7 million. Within net interest result, the net expense from the reversal of discounting on pension obligations and the income from the expected return on pension plan assets increased by euro 11 million.

Taking into account the changes in the financial result described above, profit before tax fell by 90.9 % compared to the previous year. The pre-tax return on sales was 0.7 % (2007: 6.9 %).

Revenues by segment
in euro million

	2008	2007
Automobiles	**48,782**	53,818
Motorcycles	**1,230**	1,228
Financial Services	**15,725**	13,940
Other Entities	**191**	290
Eliminations	**–12,731**	–13,258
Group	**53,197**	**56,018**

Profit before tax by segment
in euro million

	2008	2007
Automobiles	**318**	3,232
Motorcycles	**51**	71
Financial Services	**–292**	743
Other Entities	**295**	168
Eliminations	**–21**	–341
Group	**351**	**3,873**

The Group net profit was euro 2,804 million or 89.5 % below the figure reported in the previous year. The significantly lower effective tax rate was due primarily to higher tax reimbursements.

The Automobiles segment recorded a 4.3 % decrease in sales volume and a 9.4 % decrease in revenues. Due to the adverse factors described above, the segment profit fell by 90.2 % to euro 318 million.

Revenues of the Motorcycles segment edged up by 0.2 %. Difficult business conditions caused the segment profit to drop by 28.2 % to euro 51 million.

Revenues generated by the Financial Services segment rose by 12.8 % to euro 15,725 million as a result of business volume growth. Higher risk provision expense and refinancing costs resulted in a segment loss of euro 292 million in 2008.

The segment profit for the Other Entities segment was euro 295 million (2007: euro 168 million). The increase here was mainly due to the higher level of income from reversals of provisions and a gain on the partial sale of the Cirquent Group.

Financial position

The Group and Segment cash flow statements show the sources and applications of cash flows for the financial years 2008 and 2007, classified into cash flows from operating, investing and financing activities.

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

Operating activities of the BMW Group generated a positive cash flow of euro 10,872 million in 2008, a decrease of euro 1,311 million or 10.8 % compared to the previous year. Changes in net current assets during 2008 generated a cash inflow of euro 411 million (2007: euro 269 million). The cash outflow for investing activities amounted to euro 18,652 million and was therefore euro 1,404 million higher than in 2007. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 63 million on a year-on-year comparison.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 Earnings Performance
51 — Financial Position
52 — Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

The cash outflow for net investments in financial services activities increased by euro 1,288 million compared to the previous year.

Financing activities in 2008 generated a positive cash flow of euro 12,904 million (2007: euro 6,168 million). Cash inflows from the issue of bonds totalled euro 9,959 million (2007: euro 6,038 million) while euro 5,080 million (2007: euro 4,152 million) was used to repay bonds. The dividend payment for the financial year 2008 amounted to euro 694 million. The net cash inflow from other financial liabilities and commercial paper increased by euro 3,912 million.

58.3 % (2007: 70.6 %) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The cash flow statement for the Automobiles segment shows that the cash outflow for operating activities fell slightly short (euro 81 million) of the cash inflow from investing activities (2007: surplus of euro 2,147 million). As expected, the cash flow statement for the Financial Services segment shows that the cash inflow from operating activities did not cover the cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing. The short-fall was 39.4 % (2007: 38.7 %).

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group amounting to a negative amount of euro 63 million (2007: negative amount of euro 46 million), the various cash flows resulted in an increase in cash and cash equivalents of euro 5,061 million (2007: euro 1,057 million).

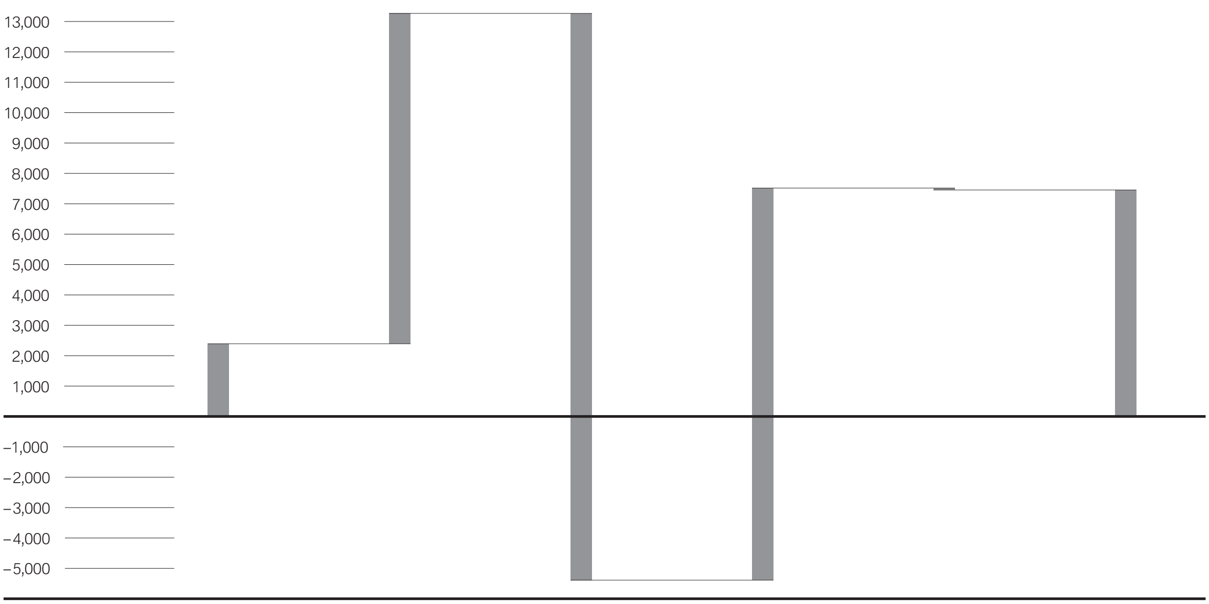
Net interest-bearing assets relating to the Automobiles segment (including inter-segment finance receivables) amounted to euro 9,046 million at the end of the reporting period, representing an increase of euro 1,692 million since 31 December 2007. Net interest-bearing assets relating to the Automobiles segment comprise cash and cash equivalents (euro 5,073 million), marketable securities (euro 557 million) and inter-segment finance receivables (euro 8,185 million) less the financial liabilities of the Automobiles segment. Excluding derivative financial instruments, they amount to euro 4,769 million.

Net Assets Position

The Group balance sheet total increased by euro 12,089 million or 13.6 % to euro 101,086 million. Currency effects, largely attributable to a weaker British pound, held down the increase in the balance sheet total in 2008. Adjusted for changes in exchange rates, the balance sheet total would

Change in cash and cash equivalents

in euro million



Cash and cash equivalents 31. 12. 2007	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. 2008
2,393	**+ 10,872**	**– 18,652**	**+ 12,904**	**– 63**	**7,454**

have increased by euro 15,044 million or 17.5 %. The main factors behind the increase on the assets side were the increased level of cash and cash equivalents (+ 211.5 %), receivables from sales financing (+ 11.2 %) and leased products (+ 14.8 %). On the equity and liabilities side of the balance sheet, the main increase related to financial liabilities (+ 37.5 %).

Intangible assets amounted to euro 5,641 million, slightly below their level one year earlier. Within this line item, capitalised development costs went up by 0.8 % to euro 5,073 million. Development costs recognised as assets during the year under report amounted to euro 1,224 million (– 8.2 %), equivalent to a capitalisation ratio of 42.7 % (2007: 42.4 %). The lower level of additions to capitalised development costs in 2008 was due to the smaller number of projects in the series development phase. Amortisation on intangible assets amounted to euro 1,185 million (+ 6.9 %).

The carrying amount of property, plant and equipment increased slightly by 1.7 % to euro 11,292 million. Capital expenditure increased by euro 2,865 million or 6.7 %, with the main focus on product investments for production start-ups and infrastructure improvements. Depreciation on property, plant and equipment totalled euro 2,375 million (– 3.9 %). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 67 million. Total capital expenditure as a percentage of revenues was 7.9 % (2007: 7.6 %).

The amount reported for leased products in the balance sheet rose sharply compared to the end of the previous year, reflecting a general increase in business volumes as well as the integration of the – previously off-balance-sheet – vehicle portfolio of a leasing company which had included a part of the leasing business for Germany. Leased products rose by 14.8 % to euro 19,524 million. Adjusted for changes in exchange rates, they would have risen by 14.4 %.

The carrying amount of other investments increased by 54.1 % to euro 322 million, mainly as a result of capital increases at non-consolidated companies.

Receivables from sales financing were up by 11.2 % to euro 38,063 million due to higher business volumes. Of this amount, customer and dealer financing accounted for euro 29,470 million (+ 12.6 %) and finance leases accounted for euro 8,593 million (+ 6.6 %). Inventories decreased by euro 59 million (– 0.8 %) to euro 7,290 million. Trade receivables were 13.7 % lower than at 31 December 2007.

Financial assets increased by 6.7 % to euro 5,114 million, mainly as a result of the higher fair values of derivative financial instruments.

Liquid funds increased by 86.3 % to euro 8,107 million. Marketable securities and investment funds decreased as a result of the transfer of assets to the newly founded BMW Trust e. V., Munich, in conjunction with the creation of an external fund for pension obligations.

Cash and cash equivalents rose by euro 5,061 million.

On the equity and liabilities side of the balance sheet, equity decreased by 6.8 % to euro 20,273 million. The profit for the year attributable to shareholders of BMW AG increased equity by euro 324 million. Fair value changes recognised directly in accumulated other equity reduced equity by euro 1,088 million (2007: euro 61 million). The latter comprises translation differences, fair value gains and losses on financial instruments and available-for-sale securities as well as actuarial gains and losses on pension plans.

Translation differences reduced accumulated other equity by euro 711 million. The fair values of derivative financial instruments decreased by a further euro 601 million. Actuarial gains and losses within accumulated other equity increased by euro 5 million. The fair values of marketable securities fell marginally by euro 7 million. Deferred taxes on fair value gains and losses recognised directly in equity increased equity by euro 226 million in 2008.

Minority interests amounted to euro 8 million. The equity ratio of the BMW Group fell by 4.3 percentage points to 20.1 %.

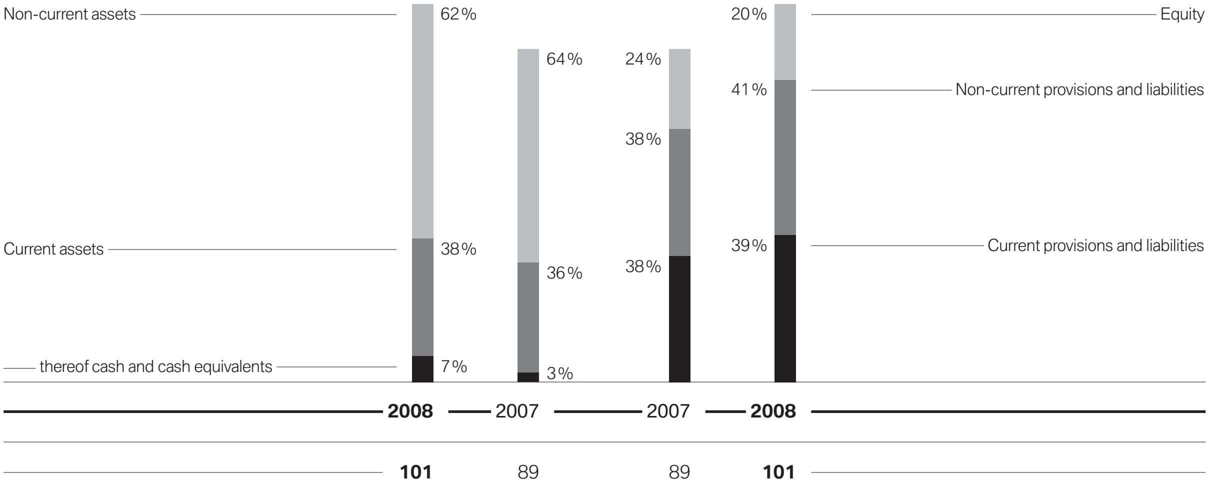
The equity ratio for the Automobiles segment was 42.3 % compared to 41.2 % at the end of the previous year. The equity ratio for the Financial Services segment fell from 6.9 % to 5.4 %.

The amount recognised in the balance sheet for pension provisions went down by 28.4 % to euro 3,314 million. In the case of pension plans with fund assets, the fair value of fund assets is offset against the defined benefit obligation. The reduction in pension obligations resulted primarily from the transfer of pension obligations to the newly

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 — Net Assets Position
55 — Subsequent Events Report
55 — Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

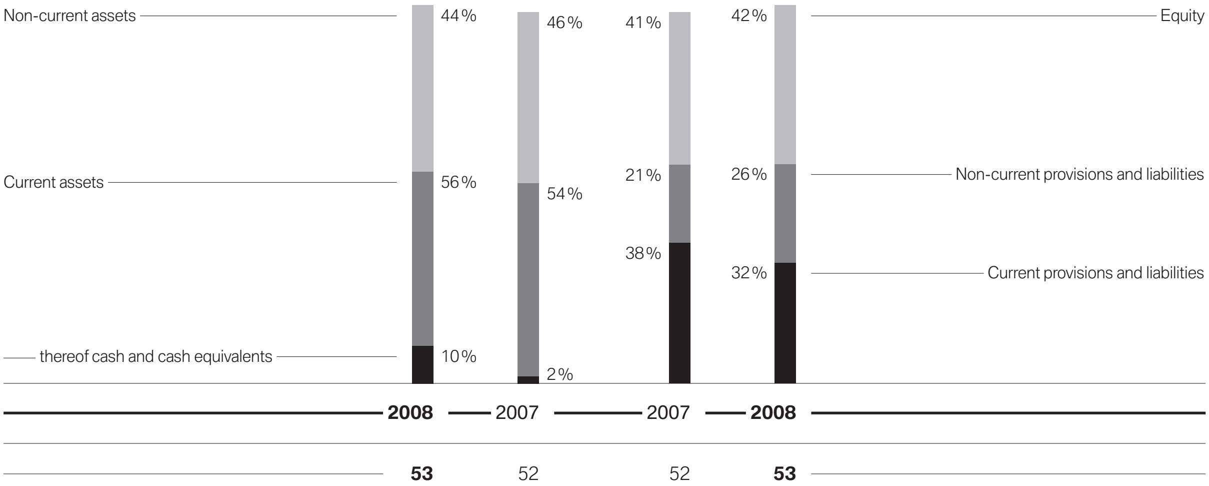
Balance sheet structure – Group

in euro billion



Balance sheet structure – Automobiles segment

in euro billion



founded BMW Trust e.V. in conjunction with a Contractual Trust Arrangement (CTA). Obligations also decreased because of the higher discount factor used.

Other provisions decreased by 11.3 % to euro 4,882 million, with the reduction mainly due to lower obligations for personnel-related and other expenses.

Financial liabilities increased by 37.5 % in conjunction with the refinancing of the Group's financial services business. Within financial liabilities, bonds increased by 31.4 % to euro 24,159 million. Liabilities to banks, asset-backed financing obligations and deposit liabilities were all also up.

Trade payables amounted to euro 2,562 million and were thus 27.9 % lower than one year earlier.

Other liabilities went up by 2.5 % to euro 6,281 million, mainly reflecting increases in deferred income relating to service and repair contracts, deferred income from lease financing and the valuation of financial instruments.

Compensation Report

The compensation of the Board of Management comprises fixed and variable 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 141–146. The Compensation Report is a sub-section of the Group Management Report.

Subsequent Events Report

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

Value Added Statement

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

Net value added by the BMW Group in 2008 decreased by 25.7 % to euro 10,469 million. The decrease over the previous year was largely attributable to the lower level of revenues. The decrease in gross value added, at 10.6 %, was less pronounced since it is not affected by depreciation and amortisation, which are higher than in the previous year.

Once again, the bulk of the net value added (64.8 %) is applied to employees. The amount applied to providers of finance increased to 27.0 % as a result of the higher funding volume required for the financial services business. The government/public sector (including deferred tax expense) accounted for 5.1 %. The proportion of net value added applied to shareholders, at 1.9 %, was lower than in the previous year. The remaining proportion of net value added (1.2 %) will be retained by the BMW Group to finance future operations. This represents a decrease of 16.1 percentage points.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 — Value Added Statement
57 — Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 Outlook

BMW Group Value added statement

	2008 in euro million	**2008** in %	2007 in euro million	2007 in %	Change in %
Work performed					
Revenues	**53,197**	98.1	56,018	98.9	
Financial income	**–410**	–0.7	–114	–0.2	
Other income	**1,428**	2.6	730	1.3	
Total output	**54,215**	**100.0**	**56,634**	**100.0**	**–4.3**
Cost of materials	**30,648**	56.5	31,019	54.8	
Other expenses	**5,447** *	10.1	5,355	9.4	
Bought-in costs	**36,095**	**66.6**	**36,374**	**64.2**	**–0.8**
Gross value added	**18,120**	**33.4**	**20,260**	**35.8**	–10.6
Depreciation and amortisation	**7,651**	14.1	6,164	10.9	
Net value added	**10,469**	**19.3**	**14,096**	**24.9**	**–25.7**
Applied to					
Employees	**6,781**	64.8	7,511	53.3	–9.7
Providers of finance	**2,823**	27.0	2,270	16.1	24.4
Government/public sector	**535**	5.1	1,181	8.4	–54.7
Shareholders	**197**	1.9	694	4.9	–71.6
Group	**127**	1.2	2,432	17.3	–94.8
Minority interest	**6**	–	8	–	–25.0
Net value added	**10,469**	**100.0**	**14,096**	**100.0**	**–25.7**

* including expenditure in conjunction with measures to reduce the size of the workforce

BMW Group Value added 2008

in %

Net value added	19.3	Depreciation and amortisation	14.1
Cost of materials	56.5	Other expenses	10.1

Key Performance Figures

		2008	2007
Gross margin	%	**16.7**	21.8
EBITDA margin	%	**8.6**	14.1
EBIT margin	%	**1.7**	7.5
Pre-tax return on sales	%	**0.7**	6.9
Post-tax return on sales	%	**0.6**	5.6
Pre-tax return on equity	%	**1.6**	20.2
Post-tax return on equity	%	**1.5**	16.4
Equity ratio – Group	%	**20.1**	24.4
Automobiles	%	**42.3**	41.2
Financial Services	%	**5.4**	6.9
Coverage of intangible assets, property, plant and equipment by equity	%	**119.7**	129.6
Return on Capital Employed			
Group	%	**2.3**	15.3
Automobiles	%	**4.9**	24.7*
Motorcycles	%	**13.9**	18.0*
Return on Equity			
Financial Services	%	**–**	18.1
Cash inflow from operating activities	euro million	**10,872**	12,183*
Cash outflow from investing activities	euro million	**18,652**	17,248
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	**58.3**	70.6*
Net financial assets Automobiles segment	euro million	**9,046**	7,354

* adjusted due to changed presentation

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 — Comments on BMW AG
62 Risk Management
68 Outlook

Comments on the Financial Statements of BMW AG

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

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 2008 decreased by 6.6 % to 1,439,918 units. At 31 December 2008, BMW AG had 71,596 employees, 4,468 fewer than one year earlier. This is largely due to the implementation of previously reported measures to reduce the size of the workforce. The expenditure incurred in this context increased administrative costs.

Consumer reluctance to spend in the face of the current financial crisis as well as model life cycle factors caused a reduction in the number of cars sold by BMW AG. As a consequence, revenues fell in 2008 by 8.3 %. Sales to foreign group sales companies accounted for euro 32.5 billion or approximately 73.3 % of the total revenues of euro 44.3 billion. In percentage terms, the decrease in cost of sales was slightly more pronounced than the decrease in revenues. Gross profit fell by euro 0.4 billion (– 5.6 %) and amounted to euro 6.5 billion.

Adverse currency factors relating to the US dollar and Japanese yen as well as continued intense competition on the automobile markets had a negative impact on BMW AG's earnings.

In conjunction with measures to optimise the structure of investments within the BMW Group, BMW AG incurred a loss of the disposal of subsidiaries and a higher profit on an existing profit and loss transfer agreement. Investments were reduced as a result of this transaction.

Capital expenditure on intangible assets and property, plant and equipment amounted to euro 2,064 million (2007: euro 1,670 million), up 23.6 % compared to the previous year. The increase was mainly related to high product investments for the new BMW 7 Series and the new Z4. Depreciation and amortisation amounted to euro 1,569 million.

In order to secure obligations resulting from pre-retirement part-time work arrangements and a part of the Company's pension obligations, an amount of euro 1,285 million was transferred to the newly founded BMW Trust e. V., Munich, in conjunction with a Contractual Trust Arrangement (CTA).

Equity decreased by euro 310 million to euro 5,338 million. The existing authorisation to acquire treasury common stock shares was not exercised during the financial year 2008. Of the preferred stock treasury shares acquired during 2008, 363,130 shares were held by the Company at the end of the reporting period. The equity ratio decreased from 25.0 % to 22.9 %. Long-term external capital (registered profit-sharing certificates, pension provisions, the liability to the BMW Unterstützungsverein e. V. and liabilities due later than one year) increased by 48.8 % to euro 6,054 million. Despite the heightening of the financial crisis during the second half of 2008, BMW AG had access to the credit and financial markets at all times and was able to increase its liquid funds significantly.

BMW AG Balance Sheet at 31 December

in euro million

	2008	2007
Assets		
Intangible assets	**143**	109
Property, plant and equipment	**5,404**	4,986
Investments	**1,096**	4,814
Tangible, intangible and investment assets	**6,643**	**9,909**
Inventories	**2,586**	2,654
Trade receivables	**982**	1,218
Receivables from subsidiaries	**6,098**	5,937
Other receivables and other assets	**623**	644
Marketable securities	**2,360**	1,763
Cash and cash equivalents	**3,970**	436
Current assets	**16,619**	**12,652**
Prepayments	**54**	**55**
Total assets	**23,316**	**22,616**
Equity and liabilities		
Subscribed capital	**654**	654
Capital reserves	**1,991**	1,991
Revenue reserves	**2,496**	2,309
Unappropriated profit available for distribution	**197**	694
Equity	**5,338**	**5,648**
Registered profit-sharing certificates	**34**	**34**
Special untaxed reserves	**13**	**34**
Pension provisions	**3,791**	3,793
Other provisions	**6,142**	6,292
Provisions	**9,933**	**10,085**
Liabilities to banks	**3,049**	394
Trade payables	**1,276**	1,716
Liabilities to subsidiaries	**2,311**	2,597
Other liabilities	**1,338**	2,094
Liabilities	**7,974**	**6,801**
Deferred income	**24**	**14**
Total equity and liabilities	**23,316**	**22,616**

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 — Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 — Comments on BMW AG
62 Risk Management
68 Outlook

BMW AG Income Statement

in euro million

	2008	2007
Revenues	**44,313**	48,310
Cost of sales	**–37,833**	–41,448
Gross profit	**6,480**	**6,862**
Sales costs	**–3,085**	–2,786
Administrative costs	**–1,366**	–881
Research and development costs	**–2,646**	–2,828
Other operating income and expenses	**–641**	731
Result on investments	**1,807**	255
Financial result	**–154**	–38
Profit from ordinary activities	**395**	**1,315**
Income taxes	**3**	–115
Other taxes	**–14**	–16
Net profit	**384**	**1,184**
Profit carried over from previous year	**–**	1
Transfer to revenue reserves	**–187**	–491
Unappropriated profit available for distribution	**197**	**694**

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

KPMG AG 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 for the financial year 2008 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.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 — Risk Management
68 Outlook

Risk management in the BMW Group

All business activities involve an element of risk. Some of those risks can be quite substantial. They may arise in conjunction with business operations or they may affect a company as a result of changes in external factors. Other risks arise as business becomes more international. As a globally operating organisation, the BMW Group is confronted with numerous risks. Price fluctuations on the global markets for currency, money, capital and commodities as well as shorter innovation cycles result in ever-increasing complexity, all of which place great demands on enterprises with international operations. The downturn that has befallen the world's economies over the past year has also affected the risk profile.

The BMW Group's approach to business has long been founded on the idea of consciously taking calculated risks and making full use of the opportunities arising from them. As part of the risk reporting system, the Board of Management and the Supervisory Board are regularly informed about risks which could have a significant impact on business performance. This information is derived from the BMW Group's integrated risk management system. Business decisions are reached after consideration of in-depth project analyses which show both potential risks and potential opportunities. In addition, as part of long-term planning, annual budget and short-term forecasts, 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 groupwide risk management process comprises the early identification of risks and opportunities, their measurement and the use of suitable instruments to manage and monitor risks. The risk management system comprises a wide range of organisational and methodological components that are all finely tuned to each other. The system's decentralised structure also encourages a balanced approach to risks at all organisational levels.

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

Standardised rules and procedures, consistently applied throughout the BMW Group form the basis for an organisation that is permanently learning. Risk management is a continuous process since changes in the legal, economic or regulatory environment or changes within the company itself could lead to new risks or to known risks being differently assessed. By regularly sharing experiences with other companies, the BMW Group ensures that innovative approaches and ideas flow into the risk management system and that risk management is subject to continual improvement. Regular basic and further training as well as information events are invaluable ways of preparing people for new or additional requirements with regard to the processes in which they are involved.

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

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

The areas of risk relevant for the BMW Group are presented in the following section. Additional comments on risks in conjunction with financial instruments are provided in note 39 — of the consolidated financial statements.

Risks relating to the general economic environment

As a globally operating enterprise, the BMW Group is affected by global economic conditions. This includes changes in exchange rates as well as developments on the financial markets. The financial crisis and its impact on the world's markets for goods and services had a major effect on reported Group revenues and earnings for 2008. In addition to the effect of changes in demand and refinancing conditions, fluctuations in exchange rates also had a significant impact on Group earnings. This related in particular to the US dollar (the main single source of risk in the BMW Group's currency portfolio), the Japanese yen, the British pound and the Chinese renminbi. Based on forecasts, these four currencies account for some 65 % of the foreign currency exposure of the BMW Group.

The BMW Group manages currency risks both at a strategic and at an operating level. At a strategic level (i. e. in the medium and long term), the BMW Group endeavours to manage foreign exchange risks by "natural hedging", in other words by increasing the volume of purchases denominated in foreign currency or increasing the volume of local production. In the short to medium term (i.e. at an operating level), currency risks are hedged on the financial markets. Hedging transactions are entered into only with financial partners of good credit standing. It must be noted, however, that the financial crisis has resulted in a deterioration of the creditworthiness of many financial institutions and set in motion a process of consolidation within the banking sector which has not yet been completed. The BMW Group takes account of these circumstances by adjusting counterparty limits as deemed appropriate. 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.

As a general rule, the BMW Group reduces currency risk by refinancing credit and lease business in the currency of the relevant market. If funds are raised in a foreign currency, exchange rate hedges are concluded immediately afterwards in the corresponding local currency in order to reduce the risk exposure.

Interest-rate risks are managed within the BMW Group by raising refinancing funds with matching maturities and by employing derivative financial instruments. Interest-rate risks are measured and limited both at country and Group level on the basis of the value-at-risk concept. The risk-return ratio is also measured regularly using simulated computations in conjunction with a present-value-based interest rate management system. Sensitivity analyses, which contain stress scenarios and show the potential impact of interest rate changes on earnings, are also used as tools to manage interest rate risks.

The deposit business operated by the Financial Services segment, credit lines with various banks and the use of a wide range of financing instruments ensure that sufficient liquid funds are available to the Group. Liquidity risk is continuously monitored at a separate entity level and documented in a rolling cash flow forecasting system.

Most of the financing and lease business undertaken by 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 terms and conditions. Despite all of those factors, the BMW Group was nevertheless not able entirely to extricate itself from the difficulties facing the automobile sector. This is reflected in revised long-term ratings published by the rating agencies: in November 2008, Standard & Poor’s lowered its long-term rating from A+ to A, while Moody’s changed its long-term rating from A1 to A2. Despite this development, the BMW Group and the securities issued by its Group entities retained the classification “investment grade”. Refinancing conditions deteriorated markedly as a result of the general crisis on financial markets during the second half of 2008. The high level of liquidity reported at the year-end reflects the BMW Group’s ability to obtain refinancing funds even in the face of extremely difficult market conditions. Any continued deterioration in these conditions entails the risk of further drops in ratings for the entire automobile sector.

Changes on international raw material markets also have an impact on the business performance of the BMW Group. In order to safeguard the supply of production materials and minimise the cost risk, the commodity markets relevant for the BMW Group are closely monitored. Changes in prices of precious metals (such as platinum, palladium and rhodium), steel and other non-ferrous metals have an impact on production costs. Hedging strategies are decided on for these metals and other raw materials as part of the BMW Group’s commodity management procedures.

Changes in the price of crude oil, an important basic material in the manufacture of components, have an indirect impact on production costs. Moreover, the price of crude oil also directly influences the purchasing behaviour of drivers when fuel prices change.

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

Sector risks

Fuel prices, whether influenced by market or governmental tax policies, and increasingly stringent requirements to reduce vehicle fuel consumption and emissions, present demanding challenges for the BMW Group’s engine and product development activities. One manifest result of this has been the reduction of consumption and emissions achieved through the BMW Group’s Efficient Dynamics programme.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 — Risk Management
68 Outlook

In conjunction with their "trilog debate", the European Commission, the European Parliament and the Council of the European Union reached agreement in December 2008 on the details of a CO_2 regulation, which constituted an important step towards the adoption of a CO_2 regulation for passenger cars. The proposed weight-based CO_2 emission standards result in considerably higher efficiency requirements for the BMW Group than for high-volume and small-car manufacturers. However, a definitive assessment of the situation is only possible after considering the legal basis and the manner in which the new regulations are transformed into national law. The proposed regulations on CO_2 emissions and fuel consumption could influence the business of the Automobiles segment and thus have a significant impact on Group earnings.

The BMW Group is confronting these challenges by rigorously applying its technological expertise and innovative strength to reduce the CO_2 emissions of its vehicles. The package of measures known as Efficient Dynamics was adopted in 2000: a combination of highly efficient engines, improved aerodynamics, lightweight construction and energy management reduces the average fuel consumption of the vehicle fleet. In the medium term, the BMW Group is working on achieving additional fuel economy with the aid of a wide range of measures from electrification of the drive train through to hybrid solutions. The BMW Group is also endeavouring to make sustainable mobility possible in densely populated areas. In this context, towards the end of the financial year the BMW Group presented the MINI E, a purely electrically powered vehicle. As part of a large-scale field trial, approximately 500 MINI E vehicles were made available to selected customers, most of them in the USA, at the beginning of 2009. The practical experience gained from this trial will be incorporated in the further development of electric vehicles. In the long term, the BMW Group is committed to the use of hydrogen gained from various renewable sources to power engines.

The need to reduce consumption and emissions is fully integrated in the Group's product innovation process. A specialist department is studying the interplay of energy management, aerodynamics, lightweight construction, performance and CO_2 emissions. The BMW Group advocates the use of differentiated CO_2 limits for different vehicle classes. These levels should be transparent and meet customers' expectations. Achieving real improvements for the environment requires measures to be applied fairly to all vehicle classes. The BMW Group therefore welcomes the current debate on the best way of achieving ecological improvements. The solution must provide sufficient incentives for all parties involved to contribute to the requisite development of efficient drive systems.

Operating risks

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

Close cooperation between manufacturers and suppliers is usual in the automotive sector and whilst this provides economic benefits, it also creates a degree of mutual dependence. Partly reflecting increasing consolidation within the automotive supply industry, certain suppliers have become extremely important for the BMW Group. Delivery delays, cancellations, strikes or poor quality can lead to production stoppages and thus have a negative impact on profitability. The currently adverse business climate is also affecting the supply industry. Revenue contraction in the automobile sector clearly has an impact on the earnings performance of suppliers. Simultaneously, as a result of the turmoil on the capital markets, the banks have only been willing to provide credit to businesses – including those of the supply industry – on a more restrictive scale and at less favourable conditions. The availability of capital is becoming increasingly critical for suppliers with high levels of debt. However, although the number of problem cases increased in 2008, the BMW Group was not affected by any defaults. In cooperation with other car manufacturers, the BMW Group endeavours to maintain close contact with its suppliers in order to identify troubled suppliers as early as possible and find appropriate solutions. When selecting suppliers, both their technical competence and financial strength are evaluated. Once a supplier has been selected, a comprehensive Supplier Relationship Management system – also covering social and ecological aspects – helps to reduce risk exposure.

Risks relating to the provision of financial services

The BMW Group's leasing business also entails a volume-induced increase in the residual value risk on vehicles returned at the end of lease contracts. The volatility of used car prices on the major sales markets has intensified as a result of the financial crisis, thus increasing the residual value risk. Residual values of BMW Group vehicles on used car markets are continuously monitored over long periods and future developments forecasted. External market observations are also used in this context. The overall risk position is measured by comparing forecasted market values and contractual values by model and market. The return ratio for lease vehicles is also computed. The resulting revaluation of the portfolio of vehicles exposed to residual value risks and the losses incurred when selling preowned cars has an additional negative impact on earnings of the Financial Services and Automobiles segments. Expected risks are covered in the balance sheet either by provisions or by write-downs on the lease vehicles concerned.

The BMW Group strives to mitigate declining residual values by actively managing the life cycle of current models, optimising reselling processes on international markets and implementing targeted price and volume measures. Residual values in the leasing business are reviewed regularly and adjusted to take account of the latest market conditions and expected future developments.

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

Credit risks affecting the retail customer business (leasing, financing) on the one hand and the commercial customer financing business (dealers, fleet customers, importers) on the other, are continually monitored, assessed and measured. Risk-mitigating measures are put into place where necessary. In line with the Group's own mandatory guidelines on risk mitigation and the stringent requirements imposed by Basle II, the main risk measurement methods used are customer scoring (retail customer business) and credit rating (commercial customer business). Close contacts with borrowers, a good understanding of the leased or financed vehicles involved, prudent measurement of collateral and the use of local credit audits all help to prevent losses. For risk management purposes, the BMW Group reverts to normal good banking practices, such as the use of maximum unsecured risks for each rating category. Risk criteria such as arrears and bad debt ratios are analysed quarterly and used to actively manage the credit portfolio and improve portfolio quality. Measures implemented during 2008 helped in part to scale back the increased credit risk. The credit decision process comprises up to three phases. Depending on the credit volume applied for and the credit risk rating of the party involved, financing applications for international dealers, importers and fleet customers are presented to the local, regional or global credit committees for approval. The dual control and segregation of duties principles apply worldwide and are rigorously implemented. In order to minimise risk further, the BMW Group is continuously making efforts to standardise its credit-decision processes and the quality of credit applications and to ensure that uniform and transparent rating systems are in place worldwide. Allowances are recognised in the balance sheet to cover identified risks.

Within the financial services business, the negative impact on the credit risk portfolio was reflected in a higher level of payment arrears and bad debts with retail customers. In addition, the drastic fall in sales caused by changes in customer purchasing behaviour is having an adverse impact on the financial situation of the dealer network and increases the risk of insolvency within the dealer organisation. Developments in 2008 necessitated higher risk provisions in the areas of retail customer and dealer financing business.

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

Compliance with the law is a basic prerequisite for the success of the BMW Group. Current law provides the binding framework for the BMW Group's various business activities around the world. The growing international scale of business and the huge number of complex legal regulations increase the risk of laws being broken simply because they are not known or fully understood. The BMW Group takes all necessary measures to ensure that its management bodies, managers and staff act lawfully. It is essential for all employees to know and to comply with current legal regulations. The extent of those regulations is set out in corporate guidelines and in the BMW Group's stated set of core principles. However, wrongdoing by individuals can never be entirely ruled out. It is the BMW Group's objective to keep such risks to a minimum and to systematically uncover any cases of corruption, bribery or blackmail. Further information on compliance in the BMW Group is included in the Compliance Report on pages 140 – 141.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 — Risk Management
68 Outlook

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

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

Personnel risks

As an attractive employer, the BMW Group has been in a favourable position for many years in the intense competition for qualified technical and management staff. A high level of employee satisfaction helps to minimise the risk of know-how drift. The BMW Group's attractiveness as an employer also helps to ensure that appropriately qualified staff can be recruited, particularly at a time when new strategies are being implemented.

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

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

Risks relating to pension obligations

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 the pension entitlements of BMW Group employees are held in pension funds which are kept separate from corporate assets and mainly invested in fixed-income securities (with a high level of creditworthiness), equities, property and other investment classes. In 2008, a part of the pension obligations arising in Germany was also transferred to an external fund, namely to BMW Trust e.V. It is planned that further pension obligations will be externalised in the coming years.

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

Risk indicators (e.g. value-at-risk) are regularly computed in order to identify risks at an early stage and used to develop measures to mitigate risk.

Information and IT risks

In the BMW Group, great importance is attached to the protection of data, business secrets and innovative development to safeguard against unauthorised access, damage and misuse. The protection of information and data is an integral component of business processes and systems are based on international security standards. Staff, process design and information technology each play a role in the overall security concept. Groupwide standards, which are incorporated in the BMW Group's set of core principles and documented in detailed working instructions, require employees to handle all information appropriately and to ensure that information systems are properly used. Purposeful communication and training measures create a high degree of security awareness on the part of the employees involved. Employees receive training from the Group's Compliance Organisation to ensure compliance with legal and regulatory requirements.

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 both operating system and application level. Further measures include internal testing procedures and the regular backing up of data. A security network is in place groupwide to ensure compliance with security specifications. Regular analyses and rigorous security management ensure high-quality protection. This includes the activities of the BMW Group's Security Operations Centre which is responsible for the security of internal network communications. The Group's core process "Product Development" and the related IT infrastructure have been audited and certified as conforming to international security standard ISO 27001. The protection of BMW Group-specific know-how also plays an important role in cooperation arrangements and relationships with partner companies. 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 pertaining to key areas of expertise is subject to particularly stringent security measures.

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 — Outlook

The economic environment in 2009
The BMW Group forecasts that the global economic downturn will continue throughout the whole of 2009. Economic output in most industrial countries is likely to shrink in the current year. The dynamism of emerging markets is also likely to slacken noticeably. An end to the downturn is not likely to come until confidence in the credit markets is restored and the property markets recover. This, however, is unlikely to happen before the end of 2009.

The turmoil on the property and credit markets in the USA will have a massive impact on the real economy in 2009. The situation cannot be expected to calm down until the second half of the year at the earliest. Consumer spending in particular will remain weak in the USA. Both the US Reserve Bank and the US Government are endeavouring with all means available to them to prevent the recession becoming any worse. These measures will, however, not be able to prevent a drop in economic output on a full year basis.

Europe will also suffer heavily in 2009 from the consequences of the economic and financial crisis. The gross domestic product is likely to shrink in this region too. Exports will drop further in the wake of the global economic downturn and consumer spending will falter in the face of uncertainty as to how the future will unfold. Governments and central banks in Europe will also apply countermeasures in the form of fiscal and monetary policies.

The growth rate in Germany in 2009 is also likely to be negative. Consumer spending will once again fail to generate any growth, while shrinking exports will also have a negative impact.

The Japanese economy will also contract in 2009. The negative trend with exports and the weakness of domestic demand will continue. Due to its policy of low interest rates to date, the Japanese Reserve Bank does not have the option of reducing interest rates further. Manoeuvring room for fiscal measures is also restricted due to the high level of national debt.

Growth rates in the emerging markets of Asia, Latin America and Eastern Europe are also likely to weaken significantly in 2009. In these regions, the global economic downturn will primarily have a negative impact on exports.

Euro likely to remain strong
The value of the US dollar against the euro increased significantly in the course of 2008. However, lower growth and lower interest rates plus the very high current account deficit in the USA suggest that the US dollar will depreciate in value once again. The British pound lost significant ground against the euro in 2008. In contrast, the Japanese yen appreciated sharply against the euro over the course of the year. In 2009, the Japanese yen is forecast to remain stable.

Risks affecting economic growth
The greatest risk for the global economy continues to come from the world's financial crisis and its knock-on impact on markets for goods and services. If confidence in the credit markets is restored more slowly than is currently being predicted, the impact for the global economy would be even more severe. The global recession will then be longer and have more serious consequences.

Although energy and raw material prices fell sharply in 2008, they still remain above long-term average levels. At present, the global economic downturn is preventing higher prices on the energy and commodity markets. Nevertheless, the risk remains of excessive price reactions caused by speculative forces.

Car markets in 2009
The financial crisis will again have a massively adverse impact on the global automotive economy in 2009. Overall, the slump in the world's industrial countries is expected to be at least as severe as in 2008.

Impetus from the triad of traditional markets (the USA, Japan and Western Europe) will once again be extremely weak in 2009. Passenger car sales are again likely to drop sharply. In Germany, the negative growth rate will probably be even higher than in 2008.

Lower volumes, in some cases reflecting quite substantial reductions, are also predicted for the majority of emerging markets. Even markets such as China and India which have experienced extreme high growth rates up to now are likely to see fewer new registrations. In Russia the reduction could even reach the double-digit range. The same applies to most markets in Eastern Europe and Latin America.

Motorcycle markets in 2009
One of the features of the motorcycle business is that most sales are recorded by the middle of the year. Largely because of this seasonal pattern, the BMW Group does not now expect to see a recovery of the motorcycles markets in 2009. Since the financial crisis and resulting crisis in

confidence is likely to last throughout the entire year, the performance of motorcycle markets will be severely affected in 2009. In line with the overall trend, the BMW Group forecasts that motorcycle sales in the 500 cc plus segment will be down in 2009.

Financial services sector in 2009
The business climate in the financial services sector is currently being overshadowed by a high degree of uncertainty, which, in turn, is having a negative impact on the refinancing and liquidity situation and the bad debt risk exposure of the whole sector. Until confidence in the financial markets is restored, there can be little hope that refinancing conditions will stabilise.

Based on recent developments, the situation on credit markets is unlikely to ease quickly. If the economic downward trend continues, the financial services sector too is likely to have to bear further losses in conjunction with credit risk. A recovery of the prices on the used car markets is also not in sight before the end of 2009.

Outlook for the BMW Group in 2009
Towards the end of 2008 the situation on international financial markets climaxed in an unprecedented fashion. At the same time, the crisis also spilled over to the real economy worldwide. The rapid pace of the economic downturn and uncertainty as to how the economic crisis will proceed make reliable forecasts extremely difficult, even for the near future.

The current business environment will also make the year 2009 a challenging one for the BMW Group. By the same token, the BMW Group has shown on numerous occasions in the past its ability to adapt successfully to changing conditions. Processes and structures have also been newly aligned and continually improved at the same time. For these reasons, the BMW Group has – now more than ever – the necessary manoeuvring room to position itself appropriately during the economic crisis in order to ensure as good a starting position as possible for the ensuing phase of economic recovery.

As long as the current situation shows no signs of easing, the BMW Group will continue to charter its course through this phase of extreme uncertainty by applying the necessary combination of coordinated tactical measures and a high degree of flexibility. In this way, the BMW Group is bracing itself to cope with the market conditions that the year 2009 brings with it.

The necessary flexibility was shown in early adoption of a wide range of measures to bring car production volumes into line with falling worldwide demand. The various measures implemented – such as flexible deployment of employees in the production network, the use of employee time accounts and the option of employees taking sabbaticals – are decided on in close cooperation with employee representatives. Production volumes are also being managed by the use of temporary short-time working arrangements at specific sites. The BMW Group has also been able to reduce workforce numbers on a targeted basis, especially in the production area, by introducing efficiency improvements, thus enabling personnel expense to be adapted to changing conditions at an early stage.

Due to its flexible manufacturing structures, the BMW Group is second to none in competitive terms. The extreme flexibility of the production network therefore provides a clear competitive advantage, enabling the BMW Group to adjust production capacities in line with changing situations on the various sales markets. The Group's customer-oriented sales and production processes enable capacities and sales processes to be adjusted flexibly and at short notice.

On the sales side, the BMW Group is responding to the challenges it faces by intensifying its various sales strategies. As part of the process of managing sales volume, this also includes tailoring volumes to suit demand in individual sales markets. This strategy allows the BMW Group to react quickly to changes in demand with due regard to its strong market position, customer satisfaction and the stability of the dealer organisation.

The BMW Group took measures to allow for changing business conditions at an early stage. For example, the first signs of problems in 2008 triggered an early adjustment to risk provisions when the portfolio of lease cars was reassessed. This move took account of the specific risks identified as well as the impact on the lease portfolio.

In view of the currently adverse climate, the strategy Number ONE is proving to be an appropriate and forward-looking entrepreneurial decision for redirecting the BMW Group. A great deal of preliminary work was carried out in originally developing this strategy. With business conditions having deteriorated so extremely, this preliminary work is proving to be a highly useful instrument in managing the business in the short term. The initiatives that emerged from the strategy Number ONE are now helping the business to charter its course through the crisis and

14 — Group Management Report
14 A Review of the Financial Year
16 General Economic Environment
20 Review of Operations
42 BMW Stock and Bonds
45 Disclosures pursuant to § 289 (4) and § 315 (4) HGB
47 Financial Analysis
47 Internal Management System
49 Earnings Performance
51 Financial Position
52 Net Assets Position
55 Subsequent Events Report
55 Value Added Statement
57 Key Performance Figures
58 Comments on BMW AG
62 Risk Management
68 — Outlook

will significantly improve opportunities for the BMW Group when the situation begins to ease.

In the subsequent phase of economic recovery – which is generally expected to gather pace during the course of 2010 – the BMW Group will also benefit from the additional impetus generated by its renewed range of models. Recently, for example, the new BMW Z4 and the MINI Convertible were presented to the public at the North American International Auto Show in Detroit. At the beginning of February, the new BMW 7 Series came onto the markets (in the USA and Asia together with the extended wheelbase version) and are receiving a positive response from customers and the media alike. In 2009, the X range of vehicles will be extended by the addition of the BMW X1. The BMW Group will also expand its portfolio with the Progressive Activity Sedan (PAS), the concept study of which was presented at the Geneva Motor Show.

After-sales business continues to gain in strategic importance for the BMW Group. A worldwide initiative is currently being implemented to tap the full potential of further profitable growth in the service and spare parts lines of business.

Despite difficult conditions, the BMW Group has successfully managed to increase efficiency and operating performance. Ongoing initiatives to improve efficiency and productivity on a continuous basis ensure the sustainable and economic use of resources. On the cost side, these measures represent another important aspect of the BMW Group's new strategic direction. Good progress has already been made in implementing the profitability programme in the areas of fixed and variable costs. This is being achieved by rigorous exploitation of benefits of scale, standardisation of processes throughout the business and targeted management of capital employed.

The BMW Group's research and development expense ratio in 2008 was within the announced target range of 5.0 % to 5.5 % of revenues. Despite its efforts to rationalise research and development activities, the BMW Group will continue to develop visionary products and technologies – such as the MINI E – and thus ensure that the combustion engine is not the only field in which it sets standards. The BMW Group will also continue to invest in the future in order to extend its competitive advantage. This also includes the development of innovative mobility concepts in conjunction with project i. In the current transitional phase, upfront expenditure in this area provides an important basis for opening up medium and long-term opportunities.

Thanks to its broad expertise in the area of innovation, the BMW Group will retain its ability to satisfy the needs of its customers with its premium products and services.

Rising to the substantial challenges that it faces, the BMW Group is now intensifying the various measures it has initiated to implement its new strategic direction. The BMW Group is convinced that these initiatives will yield benefits for the business in the medium term.

This confidence is based, amongst other things, on a discernible trend towards smaller-sized and more efficient drive systems that are nevertheless powerful. The BMW Group recognised this trend at an early stage. After measuring the impact on its own model programme, these concepts have now been incorporated in future forecasts. This trend and the move towards a CO_2 emissions-based tax are seen as the first important steps towards creating stable legal conditions, thus giving the BMW Group a great opportunity to increase its technological lead with Efficient Dynamics.

Automobiles segment
As a result of the massively adverse impact of the economic crisis, the BMW Group does not expect to achieve the car sales volume level it recorded in 2008. The prevailing uncertainties make it difficult to forecast sales volumes at present. The BMW Group is working on various market and sales volume performance scenarios and is preparing the appropriate measures.

From today's perspective, the BMW Group believes that these uncertainties will remain throughout 2009 and the following year. Since economic recovery generally lags behind, it is not now expected that the targeted return on sales and EBIT margin for 2010 will be achieved.

Motorcycles segment
The BMW Group will continue the Motorcycles segment's new model initiative in 2009 in an attempt to counter the reduction in consumer spending caused by the financial crisis. Despite this, motorcycle sales volume is still forecast to be lower than in 2008.

Financial Services segment
Business conditions for the Financial Services segment will again be subjected to a high degree of volatility in 2009. The availability of attractive credit and lease products for customers of BMW, MINI and Rolls-Royce brand cars will remain the basis for sustainable growth in the segment's business volume. The same applies in the area of dealer financing.

If the situation on used car markets does not stabilise in 2009, further losses on the sale of vehicles coming out of leases cannot be ruled out. Given the current economic situation, it seems unlikely that the bad debts risk for the retail customer and dealer financing lines of business will diminish in the short term.

As part of the strategy Number ONE, the further development of the various lines of business will be reviewed in the light of changed external parameters. As well as focusing on service quality and process efficiency, greater importance will be attached to achieving a well-balanced earnings and risk profile for the segment's various lines of business.

Profitability targets for 2012 remain in place
Against the background of the business conditions described above, it is not possible to provide any further quantitative earnings forecasts over and beyond those that are necessarily made in conjunction with the preparation of the Group Financial Statements and that are described in the notes to the Group Financial Statements and in the Group Management Report.

Since economic recovery will lag behind, the original forecast for the financial year 2009 and the target for 2010 are not attainable. The profitability targets for 2012 set in conjunction with the strategy Number ONE nevertheless remain in place. The BMW Group will continue to steer its new strategic course by stepping up cost-cutting and efficiency improvement measures and still intends to achieve a return on capital employed (ROCE) in the Automobiles segment in excess of 26 % and a return on sales of between 8 % and 10 %.

With its strategy Number ONE and the rigorous value-added approach adopted, the BMW Group is laying the foundation for achieving its ambitious targets in the future.

Group Financial Statements
BMW Group
Income Statement for Group and Segments

in euro million	Note	Group 2008	Group 2007*
Revenues	8	**53,197**	56,018
Cost of sales	9	**–44,323**	–43,832
Gross profit		**8,874**	**12,186**
Sales and administrative costs	10	**–5,369**	–5,254
Research and development costs	11	**–2,825**	–2,920
Other operating income	12	**1,428**	730
Other operating expenses	12	**–1,187**	–530
Profit before financial result		**921**	**4,212**
Result from equity accounted investments	13	**26**	11
Interest and similar income	14	**685**	645
Interest and similar expenses	14	**–930**	–897
Other financial result	15	**–351**	–98
Financial result		**–570**	**–339**
Profit before tax		**351**	**3,873**
Income taxes	16	**–21**	–739
Net profit / loss		**330**	**3,134**
Attributable to minority interest		**6**	8
Attributable to shareholders of BMW AG		**324**	**3,126**
Earnings per share of common stock in euro	17	**0.49**	4.78
Earnings per share of preferred stock in euro	17	**0.51**	4.80

* adjusted for changed presentation of financial result

72 — Group Financial Statements
72 — Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Automobiles		Motorcycles		Financial Services		Other Entities		Eliminations	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
48,782	53,818	**1,230**	1,228	**15,725**	13,940	**191**	290	**–12,731**	–13,258
–40,791	–43,290	**–913**	–883	**–15,332**	–12,595	**–145**	–229	**12,858**	13,165
7,991	**10,528**	**317**	**345**	**393**	**1,345**	**46**	**61**	**127**	**–93**
–4,572	–4,417	**–147**	–152	**–583**	–606	**–57**	–76	**–10**	–3
–2,714	–2,805	**–111**	–115	**–**	–	**–**	–	**–**	–
559	552	**3**	2	**31**	25	**891**	209	**–56**	–58
–574	–408	**–2**	–	**–57**	–47	**–607**	–145	**53**	70
690	**3,450**	**60**	**80**	**–216**	**717**	**273**	**49**	**114**	**–84**
25	11	**–**	–	**–**	–	**1**	–	**–**	–
766	710	**1**	–	**2**	2	**2,102**	1,768	**–2,186**	–1,835
–1,036	–870	**–10**	–9	**–8**	–2	**–1,927**	–1,591	**2,051**	1,575
–127	–69	**–**	–	**–70**	26	**–154**	–58	**–**	3
–372	**–218**	**–9**	**–9**	**–76**	**26**	**22**	**119**	**–135**	**–257**
318	**3,232**	**51**	**71**	**–292**	**743**	**295**	**168**	**–21**	**–341**
–92	–511	**–14**	–11	**131**	–269	**–16**	–5	**–30**	57
226	**2,721**	**37**	**60**	**–161**	**474**	**279**	**163**	**–51**	**–284**
6	8	**–**	–	**–**	–	**–**	–	**–**	–
220	**2,713**	**37**	**60**	**–161**	**474**	**279**	**163**	**–51**	**–284**

BMW Group
Balance Sheet for Group and Segments at 31 December

Assets

in euro million	Note	Group 2008	Group 2007
Intangible assets	20	**5,641**	5,670
Property, plant and equipment	21	**11,292**	11,108
Leased products	22	**19,524**	17,013
Investments accounted for using the equity method	23	**111**	63
Other investments	23	**322**	209
Receivables from sales financing	24	**22,192**	20,248
Financial assets	25	**1,808**	1,173
Deferred tax	26	**866**	720
Other assets	27	**660**	415
Non-current assets		**62,416**	**56,619**
Inventories	28	**7,290**	7,349
Trade receivables	29	**2,305**	2,672
Receivables from sales financing	24	**15,871**	13,996
Financial assets	25	**3,306**	3,622
Current tax	26	**602**	237
Other assets	27	**1,842**	2,109
Cash and cash equivalents	30	**7,454**	2,393
Current assets		**38,670**	**32,378**
Total assets		**101,086**	**88,997**

72 — Group Financial Statements
72 Income Statements
74 — Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Equity and liabilities

in euro million	Note	Group 2008	Group 2007
Subscribed capital		**654**	654
Capital reserves		**1,911**	1,911
Revenue reserves		**20,419**	20,789
Accumulated other equity		**–2,709**	–1,621
Treasury shares		**–10**	–
Minority interest		**8**	11
Equity	31	**20,273**	**21,744**
Pension provisions	32	**3,314**	4,627
Other provisions	33	**2,757**	2,676
Deferred tax	34	**2,757**	2,714
Financial liabilities	35	**30,497**	21,428
Other liabilities	36	**2,201**	2,024
Non-current provisions and liabilities		**41,526**	**33,469**
Other provisions	33	**2,125**	2,826
Current tax	34	**633**	808
Financial liabilities	35	**29,887**	22,493
Trade payables	37	**2,562**	3,551
Other liabilities	36	**4,080**	4,106
Current provisions and liabilities		**39,287**	**33,784**
Total equity and liabilities		**101,086**	**88,997**

Automobiles 2008	Automobiles 2007	Motorcycles 2008	Motorcycles 2007	Financial Services 2008	Financial Services 2007	Other Entities 2008	Other Entities 2007	Eliminations 2008	Eliminations 2007
5,403	5,333	**51**	65	**123**	120	**64**	152	**–**	–
11,074	10,870	**193**	194	**25**	25	**–**	19	**–**	–
268	254	**–**	–	**22,590**	19,911	**–**	–	**–3,334**	–3,152
82	63	**–**	–	**–**	–	**29**	–	**–**	–
2,693	6,121	**–**	–	**25**	23	**5,348**	5,319	**–7,744**	–11,254
–	–	**–**	–	**22,192**	20,248	**–**	–	**–**	–
238	92	**–**	–	**424**	349	**1,381**	762	**–235**	–30
1,346	1,010	**–**	–	**485**	385	**160**	219	**–1,125**	–894
2,144	404	**–**	–	**1,961**	392	**14,055**	11,015	**–17,500**	–11,396
23,248	**24,147**	**244**	**259**	**47,825**	**41,453**	**21,037**	**17,486**	**–29,938**	**–26,726**
7,005	7,036	**277**	292	**9**	9	**–**	13	**–1**	–1
2,070	2,438	**109**	119	**122**	80	**4**	35	**–**	–
–	–	**–**	–	**15,871**	13,996	**–**	–	**–**	–
1,401	2,734	**–**	–	**839**	442	**1,481**	1,026	**-415**	–580
358	180	**–**	–	**39**	8	**205**	49	**–**	–
14,028	14,630	**–**	–	**3,034**	2,879	**21,109**	19,937	**–36,329**	–35,337
5,073	1,249	**–**	–	**2,053**	789	**328**	355	**–**	–
29,935	**28,267**	**386**	**411**	**21,967**	**18,203**	**23,127**	**21,415**	**–36,745**	**–35,918**
53,183	**52,414**	**630**	**670**	**69,792**	**59,656**	**44,164**	**38,901**	**–66,683**	**–62,644**

Automobiles 2008	Automobiles 2007	Motorcycles 2008	Motorcycles 2007	Financial Services 2008	Financial Services 2007	Other Entities 2008	Other Entities 2007	Eliminations 2008	Eliminations 2007
22,481	**21,583**	**–**	**–**	**3,752**	**4,139**	**4,883**	**8,499**	**–10,843**	**–12,477**
2,847	3,831	**122**	111	**28**	31	**317**	654	**–**	–
2,412	2,354	**63**	62	**252**	258	**30**	2	**–**	–
1,931	2,062	**2**	2	**3,096**	2,725	**18**	12	**–2,290**	–2,087
2,685	715	**–**	–	**10,030**	7,663	**18,018**	13,063	**–236**	–13
3,986	2,024	**252**	285	**14,128**	12,020	**586**	418	**–16,751**	–12,723
13,861	**10,986**	**439**	**460**	**27,534**	**22,697**	**18,969**	**14,149**	**–19,277**	**–14,823**
1,795	2,612	**21**	35	**311**	178	**2**	27	**–4**	–26
468	630	**–**	–	**105**	115	**60**	63	**–**	–
2,599	2,087	**–**	–	**15,207**	10,806	**12,495**	10,198	**–414**	–598
2,029	2,769	**160**	162	**364**	612	**9**	18	**–**	–10
9,950	11,747	**10**	13	**22,519**	21,109	**7,746**	5,947	**–36,145**	–34,710
16,841	**19,845**	**191**	**210**	**38,506**	**32,820**	**20,312**	**16,253**	**–36,563**	**–35,344**
53,183	**52,414**	**630**	**670**	**69,792**	**59,656**	**44,164**	**38,901**	**–66,683**	**–62,644**

BMW Group
Cash Flow Statement for Group and Segments

in euro million	Note	Group 2008	Group 2007[1]
Net profit/loss		**330**	3,134
Reconciliation of net profit/loss to cash inflow from operating activities			
Current tax		**75**	1,002
Other interest and similar income/expenses		**–169**	–62
Depreciation of leased products		**6,763**	4,698
Depreciation and amortisation of tangible, intangible and investment assets		**3,676**	3,689
Change in provisions		**–332**	221
Change in deferred taxes		**–51**	–256
Other non-cash income and expense items		**424**	111
Gain/loss on disposal of non-current assets and marketable securities		**–21**	–181
Result from equity accounted investments		**–26**	–11
Changes in current assets and current liabilities			
Change in inventories		**37**	–700
Change in receivables		**859**	398
Change in liabilities		**–485**	571
Income taxes paid		**–448**	–817
Interest received		**240**	386
Cash inflow from operating activities	40	**10,872**	**12,183**
Investment in intangible assets and property, plant and equipment		**–4,204**	–4,267
Proceeds from the disposal of intangible assets and property, plant and equipment		**177**	272
Expenditure for investments		**–142**	–44
Proceeds from the disposal of investments		**2**	16
Investment in leased products		**–15,164**	–13,261
Disposals of leased products		**5,840**	4,917
Additions to receivables from sales financing		**–61,630**	–54,573
Payments received on receivables from sales financing		**56,562**	49,813
Investment in marketable securities		**–5,392**	–2,698
Proceeds from marketable securities		**5,299**	2,577
Cash outflow from investing activities	40	**–18,652**	**–17,248**
Repurchase of treasury shares		**–10**	–
Payment of dividend for the previous year		**–694**	–458
Interest paid		**–312**	–389
Proceeds from the issue of bonds		**9,959**	6,038
Repayment of bonds		**–5,080**	–4,152
Internal financing		**–**	–
Change in other financial liabilities		**9,050**	3,603
Change in commercial paper		**–9**	1,526
Cash inflow/outflow from financing activities	40	**12,904**	**6,168**
Effect of exchange rate and changes in composition of Group on cash and cash equivalents	40	**–63**	**–46**
Change in cash and cash equivalents		**5,061**	**1,057**
Cash and cash equivalents as at 1 January		**2,393**	1,336
Cash and cash equivalents as at 31 December	40	**7,454**	**2,393**

[1] adjusted for changed presentation of interest
[2] Interest relating to financial services business is generally classified as revenues/cost of sales.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 — Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Automobiles 2008	Automobiles 2007[1]	Financial Services 2008	Financial Services 2007[1]	
226	2,721	**–161**	474	Net profit/loss
				Reconciliation of net profit/loss to cash inflow from operating activities
379	1,043	**–294**	1	Current tax
–113	–155	**5**	–[2]	Other interest and similar income/expenses
6	4	**6,591**	4,324	Depreciation of leased products
3,567	3,568	**26**	24	Depreciation and amortisation of tangible, intangible and investment assets
–515	236	**62**	–109	Change in provisions
–213	–459	**192**	358	Change in deferred taxes
94	98	**163**	–78	Other non-cash income and expense items
–22	–180	**1**	1	Gain/loss on disposal of non-current assets and marketable securities
–25	–11	**–**	–	Result from equity accounted investments
				Changes in current assets and current liabilities
9	–663	**1**	3	Change in inventories
597	371	**–1,177**	–528	Change in receivables
571	85	**268**	738	Change in liabilities
–281	–589	**–74**	–98	Income taxes paid
191	177	**–**	–[2]	Interest received
4,471	**6,246**	**5,603**	**5,110**	**Cash inflow from operating activities**
–4,114	–4,103	**–31**	–110	Investment in intangible assets and property, plant and equipment
177	270	**–**	2	Proceeds from the disposal of intangible assets and property, plant and equipment
–319	–147	**–**	–	Expenditure for investments
2	16	**–**	–	Proceeds from the disposal of investments
–353	–359	**–14,811**	–12,902	Investment in leased products
333	354	**5,507**	4,563	Disposals of leased products
–	–	**–61,630**	–54,573	Additions to receivables from sales financing
–	–	**56,562**	49,813	Payments received on receivables from sales financing
–5,317	–2,698	**–75**	–	Investment in marketable securities
5,039	2,568	**260**	9	Proceeds from marketable securities
–4,552	**–4,099**	**–14,218**	**–13,198**	**Cash outflow from investing activities**
–10	–	**–**	–	Repurchase of treasury shares
–694	–458	**–**	–	Payment of dividend for the previous year
–127	–147	**–**	–[2]	Interest paid
–	–	**1,129**	1,127	Proceeds from the issue of bonds
–	–	**–1,412**	–1,160	Repayment of bonds
2,786	–1,389	**3,768**	6,233	Internal financing
2,858	–333	**6,405**	2,140	Change in other financial liabilities
–868	845	**–**	–	Change in commercial paper
3,945	**–1,482**	**9,890**	**8,340**	**Cash inflow/outflow from financing activities**
–40	**–15**	**–11**	**–20**	**Effect of exchange rate and changes in composition of Group on cash and cash equivalents**
3,824	**650**	**1,264**	**232**	**Change in cash and cash equivalents**
1,249	599	**789**	557	Cash and cash equivalents as at 1 January
5,073	**1,249**	**2,053**	**789**	**Cash and cash equivalents as at 31 December**

BMW Group
Statement of Income and Expenses recognised in Equity

in euro million	2008	2007
Fair value gains and losses on available-for-sale investments recognised directly in equity	**–7**	–183
Fair value gains and losses on financial instruments used for hedging purposes recognised directly in equity	**–617**	373
Exchange differences arising on the translation of foreign subsidiaries	**–806**	–422
Actuarial gains and losses on defined benefit pension and similar obligations	**116**	559
Deferred tax on gains and losses recognised directly in equity	**226**	–388
Gains and losses recognised directly in equity	**–1,088**	**–61**
Profit after tax attributable to shareholders of BMW AG	**324**	**3,126**
Aggregate amount of net profit for period and gains and losses recognised in equity	**–764**	**3,065**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 — Statement of Income and Expenses recognised in Equity
79 — Notes
79 — Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

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 2008 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) mandatory for the financial year 2008 are also applied.

The Group Financial Statements comply with § 315 a 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 segment income statements are presented using the cost of sales method. The Group and segment 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 credit and lease financing – to retail customers and to dealers. The inclusion of the financial services activities of the Group has a significant impact on the Group Financial Statements.

To coincide with the first-time application of IFRS 8 (Operating Segments) at 31 December 2008, the previous practise of providing additional information on the BMW Group's Industrial Operations and Financial Operations has been discontinued and replaced by the uniform presentation of segment information. In addition to the mandatory segment information disclosures required by IFRS 8, additional detailed segment information is provided on a voluntary basis in order to provide a better insight into the earnings, financial and net assets position of the BMW Group.

The changes relate to the following:

- supplementation of the Group Income Statement with segment income statements for the Automobiles, Motorcycles, Financial Services and Other Entities segments,
- supplementation of the Group Balance Sheet with segment balance sheets for the Automobiles, Motorcycles, Financial Services and Other Entities segments and
- supplementation of the Group Cash Flow Statement with segment cash flow statements for the Automobiles and Financial Services segments.

Inter-segment transactions – relating primarily to internal sales of products, the provision of funds and the related interest – are eliminated in the "Eliminations" column. Further information regarding the allocation of activities of the BMW Group to segments and a description of the segments is provided in the explanatory notes to segment information on pages 129 – 131. The differences between the new and old method of presentation and a reconciliation of significant performance indicators can be found on the BMW Group's website at www.bmwgroup.com/ir.

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 2008 totalled euro 8.7 billion (31 December 2007: euro 6.3 billion).

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

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

All consolidated subsidiaries have the same year-end as BMW AG.

The Group Financial Statements, drawn up in accordance with § 315 a HGB, and the Management Report for the financial year 2008 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Printed copies will also be made available on request. In addition the Group Financial Statements and the Group Management Report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

The Board of Management authorised the Group Financial Statements for issue on 18 February 2009.

2 — Consolidated companies

The BMW Group Financial Statements include, besides BMW AG, all material subsidiaries, 7 special purpose securities funds and 24 special purpose trusts (almost all used for asset-backed financing transactions).

The number of subsidiaries, special purpose securities funds and other special purpose trusts included in the Group Financial Statements changed in 2008 as follows:

	Germany	Foreign	Total
Included at 31.12.2007	49	155	204
Included for the first time in 2008	–	9	9
No longer included in 2008	18	11	29
Included at 31.12.2008	**31**	**153**	**184**

54 subsidiaries (2007: 65), either dormant or generating a negligible volume of business, are not included. These subsidiaries were not consolidated because the resulting impact on the Group Financial Statements would not influence the economic decisions of users taken on the basis of the financial statements. Non-inclusion of operating subsidiaries reduces total Group revenues by 1.1% (2007: 1.2%).

The joint venture BMW Brilliance Automotive Ltd., Shenyang, and the participation in Cirquent GmbH, Munich, are accounted for using the equity method. 14 (2007: 16) participations are not consolidated using the equity method on the grounds of immateriality. They are included in the balance sheet in the line "Other investments", measured at cost less, where applicable, accumulated impairment losses.

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

BMW Roma S. r. l., Rome, BMW de Argentina S. A., Buenos Aires, and BMW of Manhattan, Inc., Wilmington, Del., are consolidated in the BMW Group Financial Statements for the first time. In addition, SimeLease (Malaysia) Sdn Bhd, Kuala Lumpur, and that entity's subsidiary, SimeCredit (Malaysia) Sdn Bhd, Kuala Lumpur – acquired by BMW Holding B.V., The Hague, on 13 April 2007 following receipt of approval from the relevant local authorities – were also consolidated for the first time. The names of these entities were changed to BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, immediately after acquisition.

The purchase consideration for the two companies – all settled with cash and cash equivalents – was euro 23 million.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 — Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Transaction costs were not incurred. The transaction involved the acquisition of all issued share capital and voting rights. Based on the purchase price allocation, the following carrying amounts and fair values were attributed to the assets and liabilities of the acquired companies at the acquisition date:

in euro million	Carrying amount/ Fair value
Assets	
Receivables from sales financing	**179**
Other assets	**3**
Liabilities	
Provisions	**4**
Financial liabilities	**141**
Other liabilities	**28**
Net assets acquired	**9**
Acquisition cost	**23**
Goodwill	**14**

The excess of cost over the fair value of recognised net assets amounted to euro 14 million. This relates primarily to potential synergy benefits that can be realised by expanding lease and financing business. The full amount is attributable to the Financial Services segment. This goodwill is tested annually for impairment.

BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and its subsidiary, BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, recorded a net profit of euro 3 million in 2008. Net revenues of the two entities in 2008 amounted to euro 18 million.

The companies entory AG, Ettlingen, axentiv AG, Darmstadt, Nexolab GmbH, Munich, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, all ceased to be consolidated companies in 2008 following their merger with Cirquent GmbH, Munich. As a result of the sale of 72.9 % of Cirquent GmbH, Munich, with effect from 30 September 2008, that entity and its subsidiaries ceased to be consolidated companies on that date. Aveling Barford Manufacturing (Pty) Ltd., Cape Town, entory S.A. Luxembourg, Luxembourg, Midland Gears Ltd., Bracknell, Lingford Australia Pty Ltd., Sydney, and BMW Vertriebs GmbH, Munich – the latter due to its merger with BMW Leasing GmbH, Munich – also ceased to be consolidated companies.

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

The changes are not material, because the resulting impact on the Group Financial Statements would not influence the economic decisions of users taken on the basis of the financial statements.

3 — Business disposals

72.9 % of the shares of Cirquent GmbH, Munich, were sold with effect from 30 September 2008. Due to the fact that this entity is no longer controlled in accordance with the criteria stipulated in IAS 27, Cirquent GmbH, Munich, and its subsidiaries arcensis GmbH, Stuttgart, Silverstroke AG, Ettlingen, Cirquent Ges.m.b.H., Vienna, Cirquent AG, Zurich, and Cirquent Ltd., Birmingham, ceased to be consolidated companies. A put option exists for the remaining 25.1 % of the shares of Cirquent GmbH, Munich, which can be exercised through to 2012.

The remaining interest in Cirquent GmbH, Munich, is included in the Group Financial Statements as an investment accounted for using the equity method.

Income and expenses recorded by Cirquent GmbH, Munich, and by its subsidiaries during the first nine months of 2008 are included in the Group Financial Statements for the year ended 31 December 2008.

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 is netted against reserves. The companies BMW Roma S.r.l., Rome, and BMW de Argentina S.A., Buenos Aires, were consolidated for the first time with effect from 1 January 2008. The equivalent date for BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, was 1 April 2008, and that for BMW of Manhattan, Inc., Wilmington, Del., was 1 October 2008.

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

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 — Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

5 — Foreign currency translation

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

Foreign currency receivables and payables in the single entity accounts of BMW AG and subsidiaries are recorded, at the date of the transaction, at cost. Exchange gains and losses computed at the end of the reporting period 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	
	31.12.2008	31.12.2007	**2008**	2007
US Dollar	**1.40**	1.46	**1.47**	1.37
British Pound	**0.95**	0.73	**0.80**	0.68
Chinese Renminbi	**9.54**	10.70	**10.23**	10.42
Japanese Yen	**126.74**	163.77	**152.29**	161.28
Australian Dollar	**2.03**	1.67	**1.74**	1.64

6 — Accounting principles

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

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

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 BMW 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.

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

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

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

Purchased and internally-generated **intangible assets** are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition and/or manufacturing cost and, to the extent that they have a finite useful life, amortised on a straight-line basis over their estimated useful lives. With the exception of capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and five years. Intangible assets with 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 manufacturing cost, to the extent that costs can be allocated reliably and both technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process, including development-related overheads. Capitalised development costs are amortised on a systematic basis, following the commencement of production, over the estimated product life which is generally seven years.

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

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

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

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

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

Financing costs are not included in acquisition or manufacturing cost.

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

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

Where Group products are recognised by BMW Group leasing companies as leased assets under operating leases, they are measured at manufacturing cost. All other leased products are measured at acquisition cost. All leased products are depreciated using the straight-line method over the period of the lease to the lower of their imputed residual value or estimated fair value. Residual value provisions are treated as write-downs and offset against leased products on the assets side of the balance sheet.

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

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

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

Participations are measured at their quoted market price or fair value. When, in individual cases, these values are not available or cannot be determined reliably, participations 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.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 — Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

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 end of the reporting period.

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

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

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

With the exception of derivative financial instruments, all **receivables** and **other current assets** relate to loans and receivables which are not held for trading and 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 impairment losses are recognised to take account of all identifiable risks.

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

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

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

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

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

Derivative financial instruments are only used within the BMW Group for hedging purposes 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 in cash flow hedges which are used to mitigate the future cash flow risk on a recognised asset or liability or on forecast transactions, unrealised gains and losses on the hedging instrument are recognised initially directly in accumulated other equity. Any such gains or losses are recognised subsequently in the income statement when the hedged item (usually external revenue) is recognised in the income statement. The portion of the gains or losses from fair value measurement not relating to the hedged item is recognised immediately in the income statement. If, contrary to the normal case within the BMW Group, hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the income statement.

In accordance with IAS 12 (Income Taxes), **deferred taxes** are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward (where future 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 manufacturing cost and net realisable value. Manufacturing cost comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing cost.

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

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

The expense related to the reversal of the discounting of 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 BMW 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 end of the reporting period.

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 other 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 groupwide determination of economic useful lives, the recognition and measurement of provisions and the recoverability of future tax benefits. All assumptions and estimates are based on factors known at the end of the reporting period. They are determined on the basis of the most likely outcome of future business developments. This includes the situation in the auto-

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 — Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

motive sector and the general business environment. Estimates and underlying assumptions are checked regularly. Actual amounts could differ from those assumptions and estimates if business conditions develop differently to the Group's expectations at the end of the reporting period. Where new information comes to light, differences are reflected in the income statement and assumptions changed accordingly.

7 — New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2008

The following Standards and Revised Standards were applied for the first time in the financial year 2008:

On 13 October 2008 the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Reclassification of Financial Assets) permitting the reclassification of certain financial instruments. Due to the necessity to be able to apply these amendments with immediate effect in the light of the deterioration of the financial market crisis during the third quarter 2008, the IASB's usual due process was suspended. The reclassification amendments can be applied retrospectively from 1 July 2008. On 27 November 2008, the IASB published an update of these amendments (Reclassification of Financial Assets – Effective Date and Transition) in order to clarify the effective dates of the amendments.

Reclassifications of the kind referred to in the amendments are not made by the BMW Group.

IFRS 8 (Operating Segments) was applied by the BMW Group for the first time in the financial year 2008, resulting in changes in the preparation and presentation of segment information.

The following Interpretations were also applied early for the first time:

- IFRIC 11 (IFRS 2 Group and Treasury Share Transactions)
- IFRIC 12 (Service Concession Arrangements), not yet endorsed by the EU
- IFRIC 14 (IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

Interpretations applied for the first time in 2008 did not have a significant impact on the BMW Group.

(b) New financial reporting rules issued in 2008

The IASB revised the following Standards in 2008:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Reclassification of Financial Assets and Reclassification of Financial Assets: Effective Date and Transition)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (revised version)
- Amendment to IFRS 2 (Vesting Conditions and Cancellations)
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (Puttable Financial Instruments and Obligations Arising on Liquidation)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement (Eligible Hedged Items).

The Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Reclassification of Financial Assets and Reclassification of Financial Assets: Effective Date and Transition) are mandatory from 1 July 2008.

The amended IFRS 1 (revised version) replaces the current IFRS 1 and must be applied by entities drawing up IFRS financial statements after 1 July 2009.

The amendments to IAS 39 Financial Instruments: Recognition and Measurement (Eligible Hedged Items) are mandatory for the first time for financial years beginning on or after 1 July 2009. The revised IAS 39 is required to be applied retrospectively.

All other amendments referred to above are mandatory for the first time for financial years commencing on or after 1 January 2009.

The IASB also published a revised version of IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements) in 2008. The new rules come into effect for financial years beginning on or after 1 July 2009.

The IASB has also published a collection of amendments to various IFRSs ("Improvements to IFRSs"). This includes amendments to various existing IFRSs. The total of 35 amendments to 20 IFRSs are presented in two parts: Part I contains amendments that involve accounting changes for presentation, recognition or measurement purposes (24 improvements). Part II contains 11 amendments involving terminology or editorial changes with minimal effect on accounting. Unless otherwise specified, the amendments are effective for financial years beginning on or after 1 January 2009.

These new financial reporting rules are not expected to have a significant impact on the BMW Group.

In addition, the following Interpretations were also issued:

– IFRIC 15 (Agreements for the Construction of Real Estate). This Interpretation is mandatory for the first time for financial years beginning on or after 1 January 2009.
– IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). This Interpretation is mandatory for financial years commencing on or after 1 October 2008, whereby existing hedging relationships that do not meet the criteria contained in IFRIC 16 may be wound up prospectively.
– IFRIC 17 (Distributions of Non-cash Assets to Owners). This Interpretation is mandatory for the first time for reporting periods in financial years beginning on or after 1 July 2009.

These new financial reporting rules are not expected to have a significant impact on the BMW Group. This also applies to financial reporting rules issued in earlier periods and for which application in 2008 is encouraged but not mandatory.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 — Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

8 — Revenues

Revenues by activity comprise the following:

in euro million	2008	2007
Sales of products and related goods	**38,652**	43,297
Income from lease instalments	**5,544**	5,069
Sale of products previously leased to customers	**4,997**	4,185
Interest income on loan financing	**2,943**	2,457
Other income	**1,061**	1,010
Revenues	**53,197**	56,018

An analysis of revenues by operating segment and geographical region is shown in the segment information on pages 129 – 131.

9 — Cost of sales

Cost of sales comprises:

in euro million	2008	2007
Manufacturing costs	**26,727**	29,536
Warranty expenditure	**990**	1,309
Cost of sales directly attributable to financial services	**9,634**	8,450
Interest expense relating to financial services business	**2,666**	2,045
Expense for risk provisions and write-downs for financial services business	**1,697**	529
Other cost of sales	**2,609**	1,963
Cost of sales	**44,323**	43,832

Cost of sales include euro 13,997 million (2007: euro: 11,024 million) relating to the financial services business.

Manufacturing costs include impairment losses on intangible assets and property, plant and equipment of euro 3 million (2007: euro 17 million). Cost of manufacturing is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to euro 23 million (2007: euro 16 million).

10 — Sales and administrative costs

Sales costs amounted to euro 4,047 million (2007: euro 4,284 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative costs amounted to euro 1,322 million (2007: euro 970 million) and comprise expenses for administration not attributable to development, production or sales functions. This includes most of the expenditure incurred to reduce the size of the workforce.

11 — Research and development costs

Research and development costs of euro 2,825 million (2007: euro 2,920 million) comprise all research costs and development costs not recognised as assets as well as amortisation of capitalised development costs of euro 1,185 million (2007: euro 1,109 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	**2008**	2007
Research and development costs	**2,825**	2,920
Amortisation	**–1,185**	–1,109
New expenditure for capitalised development costs	**1,224**	1,333
Total research and development expenditures	**2,864**	**3,144**

12 — Other operating income and expenses

in euro million	**2008**	2007
Exchange gains	**827**	204
Income from the reversal of provisions	**278**	90
Income from the reversal of write-downs	**8**	38
Gains on the disposal of assets	**50**	229
Sundry operating income	**265**	169
Other operating income	**1,428**	**730**
Exchange losses	**748**	231
Expense for additions to provisions	**113**	64
Expenses for impairment losses	**52**	25
Sundry operating expenses	**274**	210
Other operating expenses	**1,187**	**530**
Other operating income and expenses	**241**	**200**

Other operating income includes public-sector grants of euro 32 million (2007: euro 36 million).

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 — Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

13 — Result from equity accounted investments

The profit from equity accounted investments of euro 26 million (2007: euro 11 million) includes the result of the joint venture BMW Brilliance Automotive Ltd., Shenyang and the result for the final three months of the financial year 2008 relating to the remaining investment in Cirquent GmbH, Munich.

14 — Net interest result

in euro million	2008	2007
Expected return on plan assets	360	358
Other interest and similar income*	325	287
— thereof from subsidiaries euro 10 million (2007: euro 12 million)		
Interest and similar income	**685**	**645**
Expense from reversing the discounting of pension obligations	–550	–537
Expense from reversing the discounting of other long-term provisions	–96	–86
Write-downs on marketable securities	–123	–49
Other interest and similar expenses*	–161	–225
— thereof to subsidiaries euro 1 million (2007: euro 1 million)		
Interest and similar expenses	**–930**	**–897**
Net interest result	**–245**	**–252**

* Interest income and expenses relating to stand-alone derivatives are netted within the net interest result. Interest expenses include net interest expenses of euro 102 million (2007: euro 70 million) relating to stand-alone derivatives.

15 — Other financial result

in euro million	2008	2007
Income from investments	4	3
— thereof from subsidiaries euro 4 million (2007: euro 1 million)		
Expense of assuming losses under profit and loss transfer agreements	–1	–
— thereof from subsidiaries – euro 1 million (2007: –)		
Impairment losses on investments in subsidiaries	–6	–6
Result on investments	**–3**	**–3**
Losses and gains relating to financial instruments	–348	–95
Sundry other financial result	**–348**	**–95**
Other financial result	**–351**	**–98**

Other financial result includes losses on other derivative financial instruments, in particular on stand-alone interest rate derivatives. The decrease in the fair values of these financial instruments reflected the change in the interest rate structure.

16 — Income taxes

Taxes on income comprise the following:

in euro million	2008	2007
Current tax expense	75	1,002
Deferred tax expense	–54	–263
Income taxes	**21**	**739**

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 uniform corporation tax rate of 15.0 % applies in Germany from 1 January 2008. After taking account of the average multiplier rate (Hebesatz) of 410.0 % for municipal trade tax and the solidarity charge of 5.5 %, the overall tax rate for BMW companies in Germany is 30.2 % (2007: 38.9 %). This reduced rate was already applied in the financial year 2007 to measure deferred tax assets and liabilities. The non-deductibility of municipal trade tax for corporation tax purposes with effect from the beginning of the financial year 2008 has been taken into account. The tax rates for companies outside Germany range from 12.5 % (2007: 12.5 %) to 46.9 % (2007: 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 considered. 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:

	Deferred tax assets		Deferred tax liabilities	
in euro million	**2008**	2007	**2008**	2007
Intangible assets	**1**	1	**1,541**	1,528
Property, plant and equipment	**43**	43	**454**	428
Leased products	**573**	558	**4,137**	3,205
Investments	**3**	2	**5**	1
Other current assets	**1,796**	1,110	**3,196**	3,767
Tax loss carryforwards	**1,438**	1,072	**–**	–
Provisions	**1,197**	1,145	**75**	51
Liabilities	**2,945**	3,084	**1,296**	690
Consolidations	**1,736**	1,661	**406**	329
	9,732	8,676	**11,110**	9,999
Valuation allowance	**–513**	–671	**–**	–
Netting	**–8,353**	–7,285	**–8,353**	–7,285
Deferred taxes	**866**	720	**2,757**	2,714

“Netting” relates to the offset of deferred tax assets and liabilities within individual separate entities or tax groups.

Deferred tax assets on tax losses available for carryforward and on capital losses increased on a net basis. Tax losses available for carryforward, which for the most part can be carried forward without restriction, totalled euro 3.8 billion at the end of the reporting period (2007: euro 1.8 billion). A valuation allowance of euro 30 million (2007: euro 43 million) was recognised in 2008 on deferred tax assets relating to tax losses available for carryforward. Capital losses in the United Kingdom decreased to euro 1.7 billion in 2008 (2007: euro 2.2 billion) due to exchange rate factors. As in previous years, these tax losses – amounting to euro 483 million at the end of the reporting period (2007: euro 628 million) – were fully written down since they can only be utilised against future capital gains. Capital losses are not connected to on-going business operations.

Deferred tax assets were recognised in 2008 for entities which recorded tax losses in either 2008 or 2007. These deferred tax assets exceed deferred tax liabilities by euro 185 million (2007: euro 325 million). Deferred tax assets are recognised on the basis of management’s assessment of whether it is probable that the relevant entities will generate sufficient taxable profits against which deductible temporary differences can be offset.

Deferred taxes recognised directly in equity amounted to euro 303 million (2007: euro 116 million). The increase of euro 187 million relates to deferred taxes on gains and losses arising on items recognised directly in equity, namely on marketable securities (negative amount of euro 11 million), on derivative financial instruments (positive amount of euro 231 million) and on actuarial gains and losses relating to defined benefit pension plans (negative amount of euro 33 million). The change also includes a euro 39 million reduction in deferred taxes arising from the translation of foreign subsidiaries’ financial statements.

Deferred taxes are not recognised on retained profits of euro 15,641 million (2007: euro 13,925 million) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

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

The actual tax expense for the financial year 2008 of euro 21 million (2007: euro 739 million) is euro 85 million (2007: euro 767 million) lower than the expected tax expense of euro 106 million (2007: euro 1,506 million) which would theoretically arise if the tax rate of 30.2 % (2007: 38.9 %), 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	2008	2007
Expected tax expense	**106**	**1,506**
Variances due to different tax rates	**24**	– 731
Tax reductions (–)/tax increases (+) as a result of non-taxable income and non-deductible expenses	**–49**	4
Tax expense (+)/benefits (–) for prior periods	**–60**	–4
Other variances	**–**	–36
Actual tax expense	**21**	**739**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 — Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

The effects of the sale of Cirquent GmbH, Munich, are included in the line relating to non-taxable income. Rulings made by the European Court of Justice with regard to German tax legislation have had a positive impact on the tax expense of German entities. The impact in 2008 is included on the line "Tax expenses/benefits for prior periods". The line "Variances due to different tax rates" includes a tax expense of euro 18 million relating to the revaluation of deferred tax assets and liabilities as a result of changed tax rates (2007: tax income of euro 491 million).

The effect of the reduction in tax expense as a result of the utilisation of tax losses for which deferred tax assets had not previously been recognised amounted to euro 4 million (2007: euro 12 million). Moreover, the tax expense was reduced by euro 9 million (2007: euro 2 million) as a result of deferred taxes on previously unrecognised temporary differences. The tax expense for the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences amounted to euro 21 million (2007: euro 4 million). Tax income from the reversal of previously recognised allowances amounted to euro 21 million (2007: euro 67 million). Overall, the net tax income from new or reversing temporary differences totalled euro 63 million (2007: tax expense of euro 293 million).

17 — Earnings per share

		2008	2007
Net profit for the year after minority interest	euro million	**324.3**	3,125.9
Profit attributable to common stock	euro million	**297.9**	2,878.4
Profit attributable to preferred stock	euro million	**26.4**	247.5
Average number of common stock shares in circulation	number	**601,995,196**	601,995,196
Average number of preferred stock shares in circulation	number	**51,296,162**	51,535,857
Earnings per share of common stock	euro	**0.49**	**4.78**
Earnings per share of preferred stock	euro	**0.51**	**4.80**
Dividend per share of common stock	euro	**0.30**	**1.06**
Dividend per share of preferred stock	euro	**0.32**	**1.08**

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.

18 — **Other disclosures relating to the income statement**

The income statement includes personnel costs as follows:

in euro million	2008	2007
Personnel costs		
Wages and salaries	**5,991**	6,268
Social security, retirement and welfare costs	**1,245**	1,243
— thereof retirement costs: euro 811 million (2007: euro 761 million)		
	7,236	**7,511**

Personnel costs include euro 455 million of expenditure incurred to reduce the size of the workforce. The average number of employees during the year was:

	2008	2007
Employees	**95,699**	97,922
Apprentices and students gaining work experience	**6,034**	6,480
Average number of employees	**101,733**	**104,402**

For information regarding the number of employees at the year-end, reference is made to pages 29–31 in the Group Management Report.

The fee expense recognised in the financial year 2008 for the auditors of the Group Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated entities, pursuant to § 314 (1) no. 9 HGB amounted to euro 7 million (2007: euro 5 million) and consists of the following:

in euro million	2008[1]	2007[2]
Year-end audits	**3**	2
Audit-related services	**1**	–
Tax advisory services	**3**	3
	7	**5**

[1] Fee expense for KPMG Europe LLP
[2] Fee expense for KPMG Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

The item "Year-end audits" includes fees for the audit of annual financial statements of BMW AG, the audit of the Group Financial Statements and the audit of the annual financial statements of subsidiaries in Germany, the United Kingdom, Switzerland and Spain.

19 — Analysis of changes in Group tangible, intangible and investment assets 2008

in euro million	Acquisition and manufacturing cost 1.1.2008[1]	Translation differences	Additions	Reclassifications	Disposals	31.12.2008
Development costs	8,479	–	1,224	–	848	8,855
Other intangible assets	1,020	–11	115	13	175	962
Intangible assets	**9,499**	**–11**	**1,339**	**13**	**1,023**	**9,817**
Land, titles to land, buildings, including buildings on third party land	6,623	–127	255	266	142	6,875
Plant and machinery	20,430	–330	1,535	471	440	21,666
Other facilities, factory and office equipment	2,062	–22	179	32	182	2,069
Advance payments made and construction in progress	1,019	5	896	–782	17	1,121
Property, plant and equipment	**30,134**	**–474**	**2,865**	**–13**	**781**	**31,731**
Leased products	**20,860**	**–22**	**12,376**	**–**	**7,807**	**25,407**
Investments accounted for using the equity method	**63**	**–**	**48**	**–**	**–**	**111**
Investments in non-consolidated subsidiaries	261	–1	158	–	43	375
Participations	8	–	–	–	–	8
Non-current marketable securities	21	–5	7	–	–	23
Other investments	**290**	**–6**	**165**	**–**	**43**	**406**

[1] including gross balances brought forward for entities consolidated for the first time in the financial year
[2] including impairment losses of euro 3 million
[3] including assets under construction of euro 727 million

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

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

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

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Depreciation and amortisation					Carrying amount	
1.1.2008[1]	Translation differences	Current year	Disposals	31.12.2008	**31.12.2008**	31.12.2007
3,445	−2	1,185	846	3,782	**5,073**	5,034
378	−2	110	92	394	**568**	636
3,823	**−4**	**1,295**	**938**	**4,176**	**5,641**	**5,670**
2,626	−58	202	52	2,718	**4,157**	3,945
14,783	−214	2,002	423	16,148	**5,518**	5,635
1,549	−18	171	130	1,572	**497**	510
1	–	–	–	1	**1,120**[3]	1,018
18,959	**−290**	**2,375**[2]	**605**	**20,439**	**11,292**	**11,108**
3,847	**28**	**3,975**	**1,967**	**5,883**	**19,524**	**17,013**
–	**–**	**–**	**–**	**–**	**111**	**63**
76	–	6	3	79	**296**	185
5	–	–	–	5	**3**	3
–	–	–	–	–	**23**	21
81	**–**	**6**	**3**	**84**	**322**	**209**

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

20 — 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, research and development costs and other operating expenses.

In addition, intangible assets include a brand-name right amounting to euro 37 million (2007: euro 49 million) and goodwill amounting to euro 111 million (2007: euro 163 million) with indefinite useful lives. The latter comprises goodwill arising on the acquisition of DEKRA SüdLeasing Services GmbH, Stuttgart, and its subsidiaries and on the acquisition of SimeLease (Malaysia) Sdn Bhd, Kuala Lumpur, and its subsidiary SimeCredit (Malaysia) Sdn Bhd, Kuala Lumpur. This item is not presented separately in the Group balance sheet since the amount is not significant in relation to either the balance sheet total or intangible assets.

As in the previous year there were no reversals of impairment losses on intangible assets.

Changes in intangible assets during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 94–95.

21 — 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 94–95.

Property, plant and equipment include a total of euro 68 million (2007: euro 102 million) relating to operational buildings used by BMW AG as well as leased plant, machinery and other equipment used primarily at 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 BMW Group. The leases for buildings, with a carrying amount of euro 50 million (2007: euro 60 million) run for periods up to 2028 at the latest. Some of the leases contain extension and purchase options. The leases for plant and machinery and other equipment at the Oxford plant, with a carrying amount of euro 6 million (2007: euro 19 million) at 31 December, run for periods up to 2011 at the latest. For each of the leases, there is a recurring option to extend the leases by one year. A purchase option was not agreed. The lease for plant and machinery and other facilities, factory and office equipment at the Hams Hall production plant, with a carrying amount of euro 10 million (2007: euro 17 million) runs until 2018 and may be extended for one year periods thereafter. A purchase option was not agreed.

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

Minimum lease payments of the relevant leases are as follows:

in euro million	**31.12.2008**	31.12.2007
Total of future minimum lease payments		
due within one year	**67**	85
due between one and five years	**202**	318
due later than five years	**157**	201
	426	**604**
Interest portion of the future minimum lease payments		
due within one year	**9**	16
due between one and five years	**27**	48
due later than five years	**49**	73
	85	**137**
Present value of future minimum lease payments		
due within one year	**58**	69
due between one and five years	**175**	270
due later than five years	**108**	128
	341	**467**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

22 — 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 8,515 million (2007: euro 7.419 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2008	31.12.2007
within one year	**4,589**	3,902
between one and five years	**3,925**	3,516
later than five years	**1**	1
Leased products	**8,515**	**7,419**

Contingent rents of euro 30 million (2007: euro 10 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 94 – 95.

23 — Investments accounted for using the equity method and other investments

Investments accounted for using the equity method comprise the Group's interests in the joint venture BMW Brilliance Automotive Ltd., Shenyang, and, for the first time in 2008, the investment in Cirquent GmbH, Munich. The disclosures relating to the income statement include the income and expenses of Cirquent GmbH, Munich, since the deconsolidation of the Cirquent Group. The aggregated interests of the Group are as follows:

in euro million	31.12.2008	31.12.2007
Disclosures relating to the income statement		
Income	**627**	627
Expenses	**603**	615
Disclosures relating to the balance sheet		
Non-current assets	**139**	106
Current assets	**234**	259
Equity	**126**	80
Non-current liabilities	**31**	41
Current liabilities	**216**	244

Other investments relate primarily to investments in non-consolidated subsidiaries, participations and non-current marketable securities.

Additions to investments in non-consolidated subsidiaries relate to the foundation of BMW Bank OOO, Moscow, and an equity capital increase at the level of Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno.

Items reported as disposals of investments in non-consolidated subsidiaries result primarily from the first-time consolidation of BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, BMW Roma S.r.l., Rome, and BMW de Argentina S.A., Buenos Aires.

Impairment losses on investments in subsidiaries relate to BMW Philippines Corp., Manila.

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 94 – 95.

24 — Receivables from sales financing

Receivables from sales financing, totalling euro 38,063 million (2007: euro 34,244 million), comprise euro 29,470 million (2007: euro 26,181 million) for credit financing for retail customers and dealers and euro 8,593 million (2007: euro 8,063 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2008	31.12.2007
Gross investment in finance leases		
due within one year	**3,315**	3,215
due between one and five years	**6,357**	6,013
due later than five years	**29**	1
	9,701	**9,229**
Present value of future minimum lease payments		
due within one year	**2,932**	2,886
due between one and five years	**5,634**	5,176
due later than five years	**27**	1
	8,593	**8,063**
Unrealised interest income	**1,108**	**1,166**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Contingent rents recognised as income (generally relating to the distance driven) amounted to euro 5 million (2007: euro 12 million). Write-downs on finance leases amounting to euro 52 million (2007: euro 52 million) were measured and recognised on the basis of specific credit risks.

Receivables from sales financing include euro 22,192 million (2007: euro 20,248 million) with a remaining term of more than one year.

Allowance for impairment and credit risk

in euro million	31.12.2008	31.12.2007
Gross carrying amount	**39,116**	35,036
Allowance for impairment	**1,053**	792
Net carrying amount	**38,063**	**34,244**

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

2008 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January*	672	125	797
Allocated / reversed	543	10	553
Utilised	–262	–14	–276
Exchange rate impact and other changes	–15	–6	–21
Balance at 31 December	**938**	**115**	**1,053**

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

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

At the end of the reporting period, impairment allowances of euro 115 million (2007: euro 125 million) were recognised on a group basis on gross receivables from sales financing totalling euro 17,274 million (2007: euro 18,979 million). Impairment allowances of euro 938 million (2007: euro 667 million) were recognised at 31 December 2008 on a specific item basis on gross receivables from sales financing totalling euro 7,755 million (2007: euro 5,493 million).

Receivables from sales financing which were not overdue at the end of the reporting period amounted to euro 14,087 million (2007: euro 10,564 million). No impairment losses were recognised for these balances.

The estimated fair value of collateral received for receivables on which impairment losses were recognised totalled euro 14,570 million (2007: euro 14,617 million) at the end of the reporting period. This collateral related primarily to vehicles. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to euro 44 million (2007: euro 36 million).

As in the previous year, there were no receivables from sales financing at the end of the reporting period which have been renegotiated and which were otherwise overdue or otherwise required recognition of an impairment loss.

25 — Financial assets

Financial assets comprise:

in euro million	31.12.2008	31.12.2007
Interest and currency derivatives	**3,449**	1,980
Marketable securities and investment funds	**653**	1,959
Loans to third parties	**13**	28
Credit card receivables	**253**	260
Other	**746**	568
Financial assets	**5,114**	**4,795**
thereof non-current	**1,808**	1,173
thereof current	**3,306**	3,622

The change in the line item "Interest and currency derivatives" relates primarily to changed exchange rate parities and the changed interest rate structure.

The decrease in marketable securities and investment funds was primarily attributable to the transfer of securities to the newly founded BMW Trust e.V., Munich, in conjunction with the creation of an external fund for pension obligations.

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

in euro million	31.12.2008	31.12.2007
Stocks	**32**	452
Investment funds	**–**	415
Fixed income securities	**620**	1,082
Sundry marketable securities	**1**	10
Marketable securities and investment funds	**653**	**1,959**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2008	31.12.2007
Fixed income securities		
due within three months	–	–
due later than three months	620	1,082
Sundry marketable securities		
due within three months	1	1
due later than three months	–	9
Debt securities	**621**	**1,092**

Obligations resulting from pre-retirement part-time work arrangements were previously secured by investment funds maintained with the Deutsche Treuinvest Stiftung, Frankfurt am Main. In 2008, these investment funds were transferred to the newly founded BMW Trust e.V., Munich, in conjunction with a Contractual Trust Arrangement (CTA). The value of the investment funds that exceeds the obligations for pre-retirement part-time work arrangements (settlement arrears) amounting to euro 35 million is reported under other financial assets.

Allowance for impairment and credit risk

Receivables relating to the credit card business comprise the following:

in euro million	31.12.2008	31.12.2007
Gross carrying amount	268	267
Allowance for impairment	15	7
Net carrying amount	**253**	**260**

Allowances for impairment losses on receivables relating to credit card business developed as following:

2008 in euro million	Allowance for impairment recognised on a specific item basis	 group basis	Total
Balance at 1 January	1	6	7
Allocated/reversed	28	–5	23
Utilised	–15	–1	–16
Exchange rate impact and other changes	1	–	1
Balance at 31 December	**15**	**–**	**15**

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

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

26 — Income tax assets

Income tax assets can be analysed as follows:

31 December 2008 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	866	866
Current tax	498	104	602
Income tax assets	**498**	**970**	**1,468**

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

27 — Other assets

Other assets comprise:

in euro million	**31.12.2008**	31.12.2007
Other taxes	**373**	554
Receivables from subsidiaries	**425**	641
Receivables from other companies in which an investment is held	**103**	104
Prepayments	**848**	729
Collateral receivables	**291**	135
Sundry other assets	**462**	361
Other assets	**2,502**	**2,524**
thereof non-current	**660**	415
thereof current	**1,842**	2,109

Receivables from subsidiaries include trade receivables of euro 139 million (2007: euro 96 million) and financial receivables of euro 286 million (2007: euro 545 million). They include euro 43 million (2007: euro 25 million) with a remaining term of more than one year.

Receivables from other companies in which an investment is held are, as in the previous year, all due within one year.

Prepayments of euro 848 million (2007: euro 729 million) relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 483 million (2007: euro 494 million) have a maturity of less than one year.

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

28 — Inventories

Inventories comprise the following:

in euro million	31.12.2008	31.12.2007
Raw materials and supplies	**596**	632
Work in progress, unbilled contracts	**803**	871
Finished goods and goods for resale	**5,891**	5,846
Inventories	**7,290**	**7,349**

At 31 December 2008, inventories measured at their net realisable value amounted to euro 426 million (2007: euro 473 million) and are included in total inventories of euro 7,290 million (2007: euro 7,349 million). Write-downs to net realisable value amounting to euro 47 million (2007: euro 40 million) were recognised in 2008.

29 — Trade receivables

Trade receivables amounting in total to euro 2,305 million (2007: euro 2,672 million) include euro 40 million due later than one year (2007: euro 3 million).

Allowance for impairment and credit risk

in euro million	31.12.2008	31.12.2007
Gross carrying amount	**2,373**	2,717
Allowance for impairment	**68**	45
Net carrying amount	**2,305**	**2,672**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

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

2008 in euro million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	38	7	45
Allocated / reversed	32	2	34
Utilised	–8	–2	–10
Exchange rate impact and other changes	–	–1	–1
Balance at 31 December	**62**	**6**	**68**

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

As in the previous year, there were no trade receivables at the end of the reporting period which have been renegotiated and which were otherwise overdue or otherwise required recognition of an impairment loss.

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

in euro million	**31.12.2008**	31.12.2007
1–30 days overdue	**301**	327
31–60 days overdue	**81**	63
61–90 days overdue	**3**	24
91–120 days overdue	**6**	14
More than 120 days overdue	**43**	46
	434	474

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

30 — Cash and cash equivalents

Cash and cash equivalents of euro 7,454 million (2007: euro 2,393 million) comprise cash on hand and at bank, all with a maturity of under three months.

31 — Equity

Equity of the BMW Group developed during the year under report as follows:

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity				Treasury shares	Minority interest	Total
				Translation differences	Securities	Derivative financial instruments	Pension obligations			
31 December 2006	**654**	**1,911**	**18,121**	**–837**	**214**	**178**	**–1,115**	**–**	**4**	**19,130**
Dividends paid	–	–	–458	–	–	–	–	–	–	–458
Translation differences	–	–	–	–422	–	7	31	–	–1	–385
Financial instruments	–	–	–	–	–183	366	–	–	–	183
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	528	–	–	528
Deferred tax on transactions recognised directly in equity	–	–	–	–	4	–113	–279	–	–	–388
Net profit 2007	–	–	3,126	–	–	–	–	–	8	3,134
31 December 2007	**654**	**1,911**	**20,789**	**–1,259**	**35**	**438**	**–835**	**–**	**11**	**21,744**
Repurchase of treasury shares	–	–	–	–	–	–	–	–10	–	–10
Dividends paid	–	–	–694	–	–	–	–	–	–	–694
Translation differences	–	–	–	–806	–	–16	111	–	–1	–712
Financial instruments	–	–	–	–	–7	–601	–	–	–	–608
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	5	–	–	5
Deferred tax on transactions recognised directly in equity	–	–	–	–	–11	224	13	–	–	226
Net profit 2008	–	–	324	–	–	–	–	–	6	330
Other changes	–	–	–	–	–	–	–	–	–8	–8
31 December 2008	**654**	**1,911**	**20,419**	**–2,065**	**17**	**45**	**–706**	**–10**	**8**	**20,273**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Number of shares issued

At 31 December 2008, 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, also unchanged from the previous year. Unlike the common stock, no voting rights are attached to the preferred stock. All of the Company's stock is issued to bearer. Preferred stock bears an additional dividend of euro 0.02 per share.

During the financial year 2008, BMW AG acquired 900,000 treasury shares of preferred stock at an average price of euro 28.54 per share. 536,870 of these shares were issued to employees at a reduced price of euro 13.77 per share in conjunction with an employee share scheme. These shares are entitled to receive dividends for the financial year 2009. The remaining 363,130 shares of preferred stock were held by BMW AG as treasury shares at 31 December 2008. As a result of the buy-back of shares of preferred stock and their subsequent issue, the preferred stock portion of share capital remained unchanged at euro 52 million. The effect of applying IFRS 2 (Share-Based Payments) to the employee share scheme was not material for the Group.

At the Annual General Meeting of BMW AG on 8 May 2008, the shareholders again authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10 % of the share capital in place at the date of the resolution and to withdraw those shares from circulation without any further resolution by the Annual General Meeting. At the same time, the authorisation from 15 May 2007 to acquire treasury shares was rescinded. The authorisation from 8 May 2008 is valid until 6 November 2009. The authorisation was not exercised in 2008. It has not yet been decided whether or the extent to which the authorisation will be used in the future.

Capital reserves

Capital reserves include premiums arising from the issue of shares and were unchanged at euro 1,911 million.

Revenues reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated 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 decreased marginally to euro 20,419 million during the year under report. They were increased in 2008 by the amount of the net profit attributable to shareholders of BMW AG amounting to euro 324 million and were reduced by the payment of the dividend for 2007 amounting to euro 694 million.

The unappropriated profit of BMW AG of euro 197 million for 2008 will be proposed to the Annual General Meeting for distribution. The proposed distribution must be authorised by the shareholders at the Annual General Meeting of BMW AG. It is therefore not recognised as a liability in the Group Financial Statements.

Accumulated other equity

Accumulated other equity consists of all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, the effects of recognising changes in the fair value of derivative financial instruments and marketable securities directly in equity, actuarial gains and losses relating to defined benefit pension plans and similar obligations and deferred taxes.

Minority interest

Equity attributable to minority interests amounted to euro 8 million (2007: euro 11 million). This includes a minority interest of euro 6 million (2007: euro 8 million) in the results for the year.

Capital management disclosures

The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

In order to manage its capital structure, the BMW Group uses various instruments including the amount of dividends paid to shareholders and share buy-backs.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

The capital structure at the end of the reporting period was as follows:

in euro million	31.12.2008	31.12.2007
Equity attributable to shareholders of BMW AG	**20,275**	21,733
Proportion of total capital	**25.1%**	33.1%
Non-current financial liabilities	**30,497**	21,428
Current financial liabilities	**29,887**	22,493
Total financial liabilities	**60,384**	43,921
Proportion of total capital	**74.9%**	66.9%
Total capital	**80,659**	**65,654**

Equity attributable to shareholders of BMW AG decreased during the financial year by 6.7%, mainly as a result of higher translation differences on various items within equity. The decrease in percentage terms (equity attributable to shareholders of BMW AG as a percentage of total capital) was due to the higher funding requirements for financial services business.

The BMW Group is officially rated by the rating agencies Standard & Poor's and Moody's. The long-term ratings for the BMW Group published by Standard & Poor's and Moody's in September 2005 remain valid. In November 2008 Moody's issued an A2 rating (with negative outlook) and Standard & Poor's issued an A rating (with stable outlook) for the BMW Group. On 18 February 2009 Moody's revised the rating to "under review for possible downgrade". 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 also able to obtain competitive refinancing terms and conditions in the short term.

	Moody's	Standard & Poor's
Non-current financial liabilities	A2	A
Current financial liabilities	P-1	A-1
Outlook	under review*	stable

* rating under review for possible downgrade

32 Pension provisions

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service, final salary and remuneration structure of the employees involved. 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 66 million (2007: euro 55 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 6% p.a. (unchanged from the previous year). The expense for medical care costs in the financial year 2008 was euro 7 million (2007: euro 6 million).

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for all defined contribution plans of the BMW Group amounted to euro 412 million (2007: euro 442 million). This includes employer contributions paid to state pension insurance schemes amounting to euro 376 million (2007: euro 406 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 covered by accounting provisions. Most of the pension commitments of the BMW Group in Germany relate to BMW AG. In 2008 BMW AG and a number of German subsidiaries transferred some of their pension obligations to the newly founded BMW Trust e.V., Munich, in conjunction with a Contractual Trust Arrangement (CTA). In addition, the existing deferred remuneration retirement scheme, into which employees can make contributions in the form of salary conversion, was transferred in full to BMW Trust e.V., Munich. Obligations not covered by assets held by the fund are covered by pension provisions. The main other countries with funded plans were 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 and in the other countries:

31 December	Germany		United Kingdom		Other	
in %	**2008**	2007	**2008**	2007	**2008**	2007
Discount rate	**6.00**	5.50	**6.01**	5.53	**5.44**	5.78
Salary level trend	**3.25**	3.25	**4.01**	4.39	**3.58**	3.36
Pension level trend	**2.25**	1.75	**3.11**	3.38	**1.86**	1.90

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and career development of employees within the Group.

In the case of externally 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 sundry other assets. In the case of externally funded 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:

	Germany		United Kingdom		Other		Total	
in euro million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Present value of pension benefits covered by accounting provisions	**31**	3,849	**–**	–	**131**	119	**162**	3,968
Present value of funded pension benefits	**3,817**	–	**4,403**	6,327	**406**	336	**8,626**	6,663
Defined benefit obligations	**3,848**	3,849	**4,403**	6,327	**537**	455	**8,788**	10,631
Fair value of plan assets	**1,155**	–	**4,059**	5,686	**277**	343	**5,491**	6,029
Net obligation	**2,693**	3,849	**344**	641	**260**	112	**3,297**	4,602
Income (+) expense (–) from past service cost not yet recognised	**–**	–	**–**	–	**4**	–2	**4**	–2
Amount not recognised as an asset because of the limit in IAS 19.58	**–**	–	**1**	6	**9**	17	**10**	23
Balance sheet amounts at 31 December	**2,693**	**3,849**	**345**	**647**	**273**	**127**	**3,311**	**4,623**
thereof pension provision	**2,693**	3,849	**345**	651	**276**	127	**3,314**	4,627
thereof pension assets (–)	**–**	–	**–**	–4	**–3**	–	**–3**	–4

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Pension provisions relating to pension plans in other countries amounted to euro 276 million (2007: euro 127 million). This includes euro 145 million (2007: euro 8 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. In addition, exchange rate changes, in particular the depreciation of the British pound, had a substantial impact on the measurement of the defined benefit obligations and fund assets.

The **changes in the pension provision** and pension assets (reimbursement claims or right to reduce future contributions to the funds) as disclosed in the balance sheet can be derived as follows:

	Germany		United Kingdom		Other		Total	
in euro million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance sheet amounts at 1 January	**3,849**	4,414	**647**	439	**127**	164	**4,623**	5,017
Deconsolidation effects	**–4**	–	**4**	–	**–**	–	**–**	–
Expense from pension obligations	**293**	239	**76**	52	**30**	28	**399**	319
Pension payments or transfers to external funds	**–1,471**	–80	**–98**	–47	**–14**	–67	**–1,583**	–194
Actuarial gains (–) and losses (+) on defined benefit obligations	**–271**	–776	**–647**	211	**–1**	8	**–919**	–557
Actuarial gains (–) and losses (+) on plan assets	**278**	–	**486**	42	**104**	2	**868**	44
Employee contributions to the deferred remuneration retirement scheme	**20**	52	**–**	–	**–**	–	**20**	52
Translation differences and other changes	**–1**	–	**–123**	–50	**27**	–8	**–97**	–58
Balance sheet amounts at 31 December	**2,693**	**3,849**	**345**	**647**	**273**	**127**	**3,311**	**4,623**
thereof pension provision	**2,693**	3,849	**345**	651	**276**	127	**3,314**	4,627
thereof pension assets (–)	**–**	–	**–**	–4	**–3**	–	**–3**	–4

The defined benefit plans of the BMW Group give rise to an **expense from pension obligations** in the financial year 2008 of euro 399 million (2007: euro 319 million), comprising the following components:

	Germany		United Kingdom		Other		Total	
in euro million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Current service cost	**117**	150	**59**	64	**31**	29	**207**	243
Expense from reversing the discounting of pension obligations	**209**	192	**316**	323	**25**	22	**550**	537
Past service cost	**–1**	–103	**4**	–	**–1**	–	**2**	–103
Expected return on plan assets (–)	**–32**	–	**–303**	–335	**–25**	–23	**–360**	–358
Expense from pension obligations	**293**	**239**	**76**	**52**	**30**	**28**	**399**	**319**

The expense from reversing the discounting of pension obligations and the income from the expected return on plan assets are reported as part of the financial result. All other components of pension expense are included in the relevant income statement under costs by function.

Depending on the risk structure of the pension obligations involved, pension plan assets are invested in various investment classes, the most predominant one being bonds. Other equity instruments, property and alternative investments (e.g. infrastructure funds) are also considered. The expected rate of return is derived on the basis of the specific investment strategy applied to each individual pension fund. This is determined on the basis of the rates of return from the individual investment classes taking account of costs and unplanned risks. This approach resulted in the following expected rates of return on plan assets (disclosed on the basis of weighted averages).

in %	Germany 2008	Germany 2007	United Kingdom 2008	United Kingdom 2007	Other 2008	Other 2007
Expected rate of return on plan assets	**5.43**	–	**5.93**	5.75	**6.99**	7.25

Compared to the expected return of euro 360 million (2007: euro 358 million), fund assets actually decreased in the financial year 2008 by euro 508 million (2007: increase in fund assets of euro 314 million). This gave rise to actuarial losses on fund assets of euro 868 million (2007: euro 44 million). The actuarial losses on fund assets compare with actuarial gains of euro 919 million (2007: euro 557 million) on benefit obligations. This offsetting effect was attributable primarily to the fact that the pension funds' investment strategy is based on the structure of the related benefit obligations.

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 on the one hand and arrangements financed by the individual on the other. 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:

Germany

in euro million	Defined benefit obligation 2008	Defined benefit obligation 2007	Plan assets 2008	Plan assets 2007	Net obligation 2008	Net obligation 2007
1 January	**3,849**	4,414	**–**	–	**3,849**	4,414
Deconsolidation effects	**–4**	–	**–**	–	**–4**	–
Expense from pension obligations	**325**	239	**–32**	–	**293**	239
Payments to external funds	**–**	–	**–1,375**	–	**–1,375**	–
Employee contributions (deferred remuneration retirement scheme)	**49**	52	**–29**	–	**20**	52
Payments on account and pension payments	**–99**	–80	**3**	–	**–96**	–80
Actuarial gains (–) and losses (+)	**–271**	–776	**278**	–	**7**	–776
Translation differences and other changes	**–1**	–	**–**	–	**–1**	–
31 December	**3,848**	**3,849**	**–1,155**	**–**	**2,693**	**3,849**

United Kingdom

in euro million	Defined benefit obligation 2008	Defined benefit obligation 2007	Plan assets 2008	Plan assets 2007	Net obligation 2008	Net obligation 2007
1 January	**6,327**	6,568	**–5,686**	–6,134	**641**	434
Deconsolidation effects	**–24**	–	**28**	–	**4**	–
Expense from pension obligations	**379**	387	**–303**	–335	**76**	52
Payments to external funds	**–**	–	**–98**	–47	**–98**	–47
Employee contributions	**13**	15	**–13**	–15	**–**	–
Pension payments	**–285**	–293	**285**	293	**–**	–
Actuarial gains (–) and losses (+)	**–647**	211	**486**	42	**–161**	253
Translation differences and other changes	**–1,360**	–561	**1,242**	510	**–118**	–51
31 December	**4,403**	**6,327**	**–4,059**	**–5,686**	**344**	**641**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Other

in euro million	Defined benefit obligation 2008	Defined benefit obligation 2007	Plan assets 2008	Plan assets 2007	Net obligation 2008	Net obligation 2007
1 January	**455**	450	**–343**	–298	**112**	152
Effects of first-time consolidation	**1**	–	**–**	–	**1**	–
Deconsolidation effects	**–1**	–	**–**	–	**–1**	–
Expense from pension obligations	**55**	51	**–25**	–23	**30**	28
Payments to external funds	**–**	–	**–8**	–57	**–8**	–57
Employee contributions	**1**	1	**–1**	–1	**–**	–
Pension payments	**–17**	–16	**11**	6	**–6**	–10
Actuarial gains (–) and losses (+)	**–1**	8	**104**	2	**103**	10
Translation differences and other changes	**44**	–39	**–15**	28	**29**	–11
31 December	**537**	**455**	**–277**	**–343**	**260**	**112**

Plan assets in Germany, the United Kingdom and other countries comprised the following:

Components of plan assets

in euro million	Germany 2008	Germany 2007	United Kingdom 2008	United Kingdom 2007	Other countries 2008	Other countries 2007	Total 2008	Total 2007
Equity instruments	**379**	–	**642**	1,266	**151**	205	**1,172**	1,471
Debt securities	**641**	–	**2,620**	3,135	**101**	111	**3,362**	3,246
Real estate	**–**	–	**278**	487	**7**	6	**285**	493
Other	**135**	–	**519**	798	**18**	21	**672**	819
31 December	**1,155**	**–**	**4,059**	**5,686**	**277**	**343**	**5,491**	**6,029**

For the first time, benefit obligations in Germany are being financed partly by pension provisions and partly by fund assets. In both Germany and the United Kingdom, a substantial portion of plan assets is invested in debt securities in order to minimise the effect of capital market fluctuations. Other investment classes, such as stocks, serve to generate higher rates of return. This is necessary to cover risks (such as longer life expectancies) not taken into account in the actuarial assumptions applied.

The present value of the defined benefit obligations and the fair values of fund assets – as well as the experience-based (actuarial) adjustments made for those two items – have developed as follows over the last four years:

in euro million	2008	2007	2006	2005
Defined benefit obligation	**8,788**	10,631	11,430	11,237
Fair value of plan assets	**5,491**	6,029	6,432	6,017
Net obligation	**3,297**	4,602	4,998	5,220
Actuarial gains (–) and losses (+) on defined benefit obligations	**–919**	–557	–400	1,131
Actuarial gains (–) and losses (+) on plan assets	**868**	44	–117	–424

Experience adjustments on defined benefit obligations are not disclosed since the amounts involved are immaterial. Actuarial gains on plan assets are primarily attributable to experience adjustments.

33 — Other provisions

Other provisions comprise the following items:

in euro million	31.12.2008 Total	31.12.2008 thereof due within one year	31.12.2007 Total	31.12.2007 thereof due within one year
Obligations for personnel and social expenses	**1,241**	**603**	1,559	1,062
Obligations for ongoing operational expenses	**2,790**	**1,081**	2,818	1,129
Other obligations	**851**	**441**	1,125	635
Other provisions	**4,882**	**2,125**	**5,502**	**2,826**

Provisions for obligations for personnel and social expenses comprise mainly performance-related remuneration components, early retirement part-time working arrangements and employee long-service awards.

Provisions for obligations for on-going operational expenses comprise primarily warranty obligations.

Provisions for other obligations cover numerous specific risks and obligations of uncertain amount.

Other provisions changed during the year as follows:

in euro million	At 1.1.2008[1]	Translation differences	Additions	Reversal of discounting	Utilised[2]	Reversed	At 31.12.2008
Obligations for personnel and social expenses	1,562	–7	659	14	–950	–37	1,241
Obligations for ongoing operational expenses	2,836	–51	1,173	74	–1,197	–45	2,790
Other obligations	1,129	–28	414	8	–213	–459	851
	5,527	**–86**	**2,246**	**96**	**–2,360**	**–541**	**4,882**

[1] actuarial gains (-) and losses (+) on plan assets
[2] including entities deconsolidated during the financial year

Of the amount shown as reversed, euro 263 million are included in costs by function in the income statement.

34 — Income tax liabilities

31 December 2008 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,757	2,757
Current tax	265	368	633
Income tax liabilities	**265**	**3,125**	**3,390**

31 December 2007 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,714	2,714
Current tax	378	430	808
Income tax liabilities	**378**	**3,144**	**3,522**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

Current tax liabilities of euro 633 million (2007: euro 808 million) comprise euro 97 million (2007: euro 161 million) for taxes payable and euro 536 million (2007: euro 647 million) for tax provisions. In 2008, tax provisions of euro 141 million were reversed (2007: euro 8 million).

35 — **Financial liabilities**

Financial liabilities include all liabilities of the BMW Group at the relevant reporting dates relating to financing activities and comprise the following:

31 December 2008 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	6,685	11,787	5,687	24,159
Liabilities to banks	6,365	3,879	900	11,144
Liabilities from customer deposits (banking)	6,402	1,785	22	8,209
Commercial paper	5,471	–	–	5,471
Asset backed financing transactions	3,439	5,263	–	8,702
Interest and currency derivatives	762	796	63	1,621
Other	763	207	108	1,078
Financial liabilities	**29,887**	**23,717**	**6,780**	**60,384**

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	5,230	8,945	4,208	18,383
Liabilities to banks	4,548	1,450	503	6,501
Liabilities from customer deposits (banking)	5,030	702	–	5,732
Commercial paper	5,445	–	–	5,445
Asset backed financing transactions	1,638	4,708	–	6,346
Interest and currency derivatives	105	472	39	616
Other	497	273	128	898
Financial liabilities	**22,493**	**16,550**	**4,878**	**43,921**

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 16,500 million	1.6	1.2
	variable	SKK 768 million	3.0	4.5
	variable	EUR 2,698 million	2.6	5.1
	variable	USD 111 million	2.5	2.7
	fixed	JPY 98,700 million	4.3	1.2
	fixed	EUR 7,740 million	6.6	5.0
	fixed	USD 1,250 million	4.4	4.9
	fixed	GBP 400 million	6.0	5.2
	fixed	SEK 1,300 million	1.3	4.6
	fixed	CZK 735 million	1.0	4.4
BMW (UK) Capital plc, Bracknell	variable	JPY 67,100 million	3.3	0.8
	variable	EUR 200 million	1.5	2.9
	variable	GBP 12 million	1.0	2.8
	variable	CZK 1,080 million	3.0	3.4
	variable	SEK 690 million	1.5	2.4
	fixed	EUR 267 million	1.0	5.1
	fixed	GBP 300 million	5.2	6.4
	fixed	JPY 39,000 million	3.5	1.6
BMW US Capital, LLC, Wilmington, Del.	variable	JPY 10,000 million	2.0	1.0
	variable	USD 261 million	3.4	1.8
	variable	EUR 100 million	3.0	2.9
	variable	CAD 100 million	3.0	2.3
	variable	MXN 405 million	5.0	8.7
	fixed	JPY 2,200 million	3.0	1.1
	fixed	EUR 4,250 million	7.1	4.4
	fixed	USD 1,212 million	8.1	5.3
	fixed	MXN 1,725 million	4.4	7.8
	fixed	CHF 1,150 million	4.4	2.9
Rolls-Royce Motor Cars Ltd., Bracknell	variable	GBP 46 million	–*	3.0
Other	variable	JPY 22,200 million	2.6	1.2
	variable	EUR 660 million	1.9	4.3
	variable	SEK 800 million	2.0	4.4
	variable	USD 320 million	4.1	2.8
	fixed	JPY 111,700 million	10.7	2.0
	fixed	CHF 500 million	4.5	2.3
	fixed	SEK 400 million	1.5	2.5

* unlimited

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

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 760 million	24.8	5.1
BMW Finance N.V., The Hague	EUR 1,895 million	40.2	4.7
BMW (UK) Capital plc, Bracknell	GBP 275 million	30.7	5.2
BMW US Capital, LLC, Wilmington, Del.	USD 3,580 million	25.0	2.4

36 **Other liabilities**

Other liabilities comprise the following items:

31 December 2008 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	335	–	–	335
Social security	30	8	6	44
Advance payments from customers	327	19	–	346
Deposits received	88	177	–	265
Payables to subsidiaries	44	1	–	45
Payables to other companies in which an investment is held	28	–	–	28
Deferred income	1,262	1,675	244	3,181
Other	1,966	29	42	2,037
Other liabilities	**4,080**	**1,909**	**292**	**6,281**

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	537	–	–	537
Social security	46	–	–	46
Advance payments from customers	367	15	–	382
Deposits received	56	90	–	146
Payables to subsidiaries	75	–	–	75
Payables to other companies in which an investment is held	–	–	–	–
Deferred income	1,002	1,651	191	2,844
Other	2,023	36	41	2,100
Other liabilities	**4,106**	**1,792**	**232**	**6,130**

Deferred income comprises the following items:

in euro million	**31.12.2008**		31.12.2007	
	Total	thereof due within one year	Total	thereof due within one year
Deferred income from lease financing	**1,068**	**654**	977	580
Deferred income relating to service contracts	**1,615**	**485**	1,433	317
Grants	**303**	**56**	358	49
Other deferred income	**195**	**67**	76	56
Deferred income	**3,181**	**1,262**	**2,844**	**1,002**

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. Other deferred income includes primarily the effects of the initial measurement of financial instruments.

37 — Trade payables

31 December 2008 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	2,525	37	–	2,562

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,516	35	–	3,551

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts euro 7,072 million (2007: euro 5,110 million).

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 — Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

BMW Group
Notes to the Group Financial Statements
Other Disclosures

38 — **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	31.12.2008	31.12.2007
Guarantees	**83**	132
Performance guarantees	**8**	13
Bills of exchange	**–**	2
Other	**60**	78
Contingent liabilities	**151**	**225**

Contingent liabilities relate primarily to non-group entities. Guarantees include an amount of euro 5 million (2007: –) in respect of non-consolidated subsidiaries.

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 94 years and in some cases contain extension and / or purchase options. In 2008 an amount of euro 230 million (2007: euro 169 million) was recognised as expense in conjunction with other financial commitments.

The total of future minimum lease payments under non-cancellable leases can be analysed by maturity as follows:

in euro million	31.12.2008	31.12.2007
Nominal total of future minimum lease payments		
due within one year	**222**	212
due between one and five years	**619**	575
due later than five years	**695**	683
Other financial obligations	**1,536**	**1,470**

The above amounts include euro 7 million (2007: euro 3 million) in respect of non-consolidated subsidiaries and euro 1 million (2007: euro 7 million) for back-to-back operating leases.

Purchase commitments for property, plant and equipment amount to euro 1,891 million (2007: euro 1,925 million).

Sundry other financial commitments amount to euro 158 million (2007: euro 161 million).

39 — Financial instruments

The carrying amounts and fair values of financial instruments are allocated below to IAS 39 categories, cash funds, cash flow hedges and fair value hedges:

31 December 2008 in euro million	Cash funds		Loans and receivables	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Other investments	–	–	–	–
Receivables from sales financing	–	–	37,839	38,063
Financial assets				
Derivative instruments	–	–	–	–
Marketable securities and investment funds	–	–	–	–
Loans to third parties	–	–	13	13
Credit card receivables	–	–	253	253
Other financial assets	–	–	711	711
Cash and cash equivalents	7,454	7,454	–	–
Trade receivables	–	–	2,305	2,305
Other assets				
Receivables from subsidiaries	–	–	425	425
Receivables from companies in which an investment is held	–	–	103	103
Collateral receivables	291	291	–	–
Other	–	–	186	186
Liabilities				
Financial liabilities				
Bonds	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–
Commercial paper	–	–	–	–
Asset backed financing transactions	–	–	–	–
Derivative instruments	–	–	–	–
Other financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other liabilities				
Liabilities to subsidiaries	–	–	–	–
Other	–	–	–	–

* Carrying amount corresponds to fair value.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

Held-to-maturity investments		Other liabilities		Available-for-sale	Fair value-option	Held for trading	Cash flow hedges	Fair value hedges
Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount *	Carrying amount *	Carrying amount *	Carrying amount *	Carrying amount *
–	–	–	–	322	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	836	817	1,796
–	–	–	–	653	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	24,280	24,159	–	–	–	–	–
–	–	11,120	11,144	–	–	–	–	–
–	–	8,263	8,209	–	–	–	–	–
–	–	5,473	5,471	–	–	–	–	–
–	–	8,615	8,702	–	–	–	–	–
–	–	–	–	–	–	610	637	374
–	–	1,097	1,078	–	–	–	–	–
–	–	2,562	2,562	–	–	–	–	–
–	–	45	45	–	–	–	–	–
–	–	1,931	1,931	–	–	–	–	–

31 December 2007 in euro million	Cash funds		Loans and receivables	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Other investments	–	–	–	–
Receivables from sales financing	–	–	33,490	34,244
Financial assets				
Derivative instruments	–	–	–	–
Marketable securities and investment funds	–	–	–	–
Loans to third parties	–	–	27	28
Credit card receivables	–	–	260	260
Other financial assets	–	–	568	568
Cash and cash equivalents	2,393	2,393	–	–
Trade receivables	–	–	2,672	2,672
Other assets				
Receivables from subsidiaries	–	–	641	641
Receivables from companies in which an investment is held	–	–	104	104
Collateral receivables	135	135	–	–
Other	1	1	78	78
Liabilities				
Financial liabilities				
Bonds	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–
Commercial paper	–	–	–	–
Asset backed financing transactions	–	–	–	–
Derivative instruments	–	–	–	–
Other financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other liabilities				
Liabilities to subsidiaries	–	–	–	–
Other	–	–	–	–

* Carrying amount corresponds to fair value.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

Held-to-maturity investments		Other liabilities		Available-for-sale	Fair value-option	Held for trading	Cash flow hedges	Fair value hedges
Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount *	Carrying amount *	Carrying amount *	Carrying amount *	Carrying amount *
–	–	–	–	209	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	195	802	983
52	51	–	–	1,904	4	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	18,808	18,383	–	–	–	–	–
–	–	6,485	6,501	–	–	–	–	–
–	–	5,702	5,732	–	–	–	–	–
–	–	5,446	5,445	–	–	–	–	–
–	–	5,882	6,346	–	–	–	–	–
–	–	–	–	–	–	180	13	423
–	–	910	898	–	–	–	–	–
–	–	3,551	3,551	–	–	–	–	–
–	–	75	75	–	–	–	–	–
–	–	2,081	2,081	–	–	–	–	–

Fair value measurement of financial instruments

The fair values shown are computed using market information available at the end of the reporting period on the basis of prices quoted by the counterparties or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2008 on the basis of the following interest rates:

ISO-Code in %	EUR	USD	GBP	JPY
Interest rate for six months	2.1	1.8	3.0	1.0
Interest rate for one year	2.0	2.0	3.1	1.1
Interest rate for five years	3.3	2.1	3.2	0.9
Interest rate for ten years	3.8	2.5	3.5	1.2

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

As a result of the impact of the financial market crisis, some of the interest rates used to measure the fair value of derivatives are based on wider-than-normal credit and liquidity spreads. It is therefore possible that the calculated fair values cannot be traded at present on the markets.

Currency hedging contracts used to hedge cash flows are measured on the basis of the zero-coupon method. As a result of the financial crisis and current climate, it is possible – unlike in the past – that different models (e.g. the par-method) could result in different fair values.

Closing out existing positions could have an impact on profit or loss. The contracts involved have, however, been entered into for hedging purposes, and it is therefore intended to hold them until maturity.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

Gains and losses on financial instruments

The following table shows the net gains and losses arising for each of the categories of financial instrument defined by IAS 39:

in euro million	**2008**	2007
Held for trading		
— Gains / losses from the use of derivative instruments	**–208**	–39
Available-for-sale		
— Gains / losses on sale and fair value gains / losses on available-for-sale securities; including equity investments carried at cost	**–195**	49
— Income from investments	**4**	3
— Accumulated other equity		
—— Balance at 1 January	**35**	214
—— Total change during the year	**–18**	–179
——— of which recognised in the income statement during the period under report	**20**	–168
—— Balance at 31 December	**17**	35
Loans and receivables		
— Impairment losses / reversals of impairment losses	**–610**	–277
— Other income / expenses	**–41**	–12
Other liabilities		
— Income / expenses	**–109**	168

Gains / losses from the use of derivatives relate primarily to fair value gains or losses arising on stand-alone derivatives.

Write-downs of euro 123 million (2007: euro 49 million) on available-for-sale securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2008. Reversals of write-downs on current marketable securities of euro 5 million were recognised directly in equity (2007: euro 2 million).

The disclosure of interest income resulting from the unwinding of interest on future expected receipts would normally only be relevant for the BMW Group where assets have been discounted as part of the process of determining impairment losses. However, as a result of the assumption that most of the income that is subsequently recovered is received within one year and the fact that the impact is not material, the BMW Group does not discount assets for the purposes of determining impairment losses.

Cash flow hedges

The effect of cash flow hedges on accumulated other equity was as follows:

in euro million	2008	2007
Balance at 1 January	**438**	178
Total changes during the year	**–393**	260
of which recognised in the income statement during the period under report	**–627**	–260
Balance at 31 December	**45**	**438**

During the period under report, an expense of euro 32 million (2007: euro 4 million) was recognised in the income statement to reflect the ineffective portion of cash flow hedges due to over-hedging.

At 31 December 2008, the BMW Group held derivative instruments with terms of up to 48 months (2007: 41 months) to hedge currency risks attached to future transactions. It is expected that euro 258 million of net gains, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2009.

At 31 December 2008, the BMW Group held derivative instruments with terms of up to 96 months (2007: 108 months) to hedge interest rate risks attached to future transactions. It is expected that euro 27 million of net losses, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2009.

Cash flow hedges are used to hedge cash flows arising in conjunction with the supply of vehicles to subsidiaries.

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in euro million	31.12.2008	31.12.2007
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	**386**	272
Gains/loss from hedged items	**–405**	–271
	–19	1

The difference between the gains/losses on hedging instruments and the result recognised on hedged items represents the ineffective portion of fair value hedges.

Fair value hedges are mainly used to hedge bonds and other financial liabilities.

Credit risk

Notwithstanding the existence of collateral accepted, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that the counterparties will not be able to fulfill their contractual obligations. The maximum credit risk for irrevocable credit commitments relating to the credit card business amounts to euro 1,570 million (2007: euro 2,082 million). The equivalent figure for dealer financing is euro 12,490 million (2007: euro 12,043 million).

In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit-standing of the counterparty obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk, all depending on the nature and amount of the exposure that the BMW Group is proposing to enter into.

Within the financial services business, the financed items (e.g. vehicles, equipment and property) in the retail customer and dealer lines of business serve as first-ranking collateral with a recoverable value. Security is also put up by customers in the form of collateral asset pledges, asset assignment and first-ranking mortgages, supplemented where appropriate by warranties and guarantees. If an item previously accepted as collateral is acquired, it undergoes a multi-stage process of repossession and disposal in accordance with the legal situation prevailing in the relevant market. The assets involved are generally vehicles which can be converted into cash at any time via the dealer organisation.

Impairment losses are recorded as soon as credit risks are identified on individual financial assets, using a methodology specifically designed by the BMW Group. More detailed information regarding this methodology is provided in the section on accounting policies.

The use of comprehensive rating and scoring techniques and credit monitoring procedures ensures the recoverability of the value of receivables from sales financing which are neither overdue nor impaired.

The credit risk relating to derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant. A concentration of credit risk with particular borrowers or groups of borrowers has not been identified. In the context of the current climate for financing, it must be reckoned with that assessments of individual counter parties' creditworthiness may need to be amended.

Further disclosures relating to credit risk, in particular impairment losses recognised, are provided in the notes to the relevant category of receivables on pages 98, 100 and 102.

Liquidity risk

The following table shows the maturity structure of contractual cash flows (undiscounted) for financial liabilities:

31 December 2008 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	–7,755	–13,690	–5,900	–27,345
Liabilities to banks	–6,434	–4,236	–945	–11,615
Liabilities from customer deposits (banking)	–6,639	–1,866	–26	–8,531
Commercial paper	–5,504	–	–	–5,504
Asset backed financing transactions	–3,670	–5,405	–	–9,075
Interest and currency derivative instruments	349	383	–106	626
Trade payables	–2,525	–37	–	–2,562
Other financial liabilities	–766	–218	–145	–1,129
	–32,944	**–25,069**	**–7,122**	**–65,135**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

31 December 2007 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	–5,947	–10,627	–4,920	–21,494
Liabilities to banks	–4,736	–1,630	–551	–6,917
Liabilities from customer deposits (banking)	–5,193	–774	–	–5,967
Commercial paper	–5,474	–	–	–5,474
Asset backed financing transactions	–1,854	–5,043	–	–6,897
Interest and currency derivative instruments	63	234	132	429
Trade payables	–3,516	–35	–	–3,551
Other financial liabilities	–497	–273	–128	–898
	–27,154	**–18,148**	**–5,467**	**–50,769**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for interest rate and currency derivatives include all cash flows relating to derivatives that have a negative fair value at the balance sheet date as well as all cash flows relating to derivatives that have a positive fair value at the balance sheet date but which are part of a hedging relationship with a financial liability.

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt ratio. The long-term ratings published by Standard & Poor's (A) and Moody's (A2) enable the BMW Group to obtain financing on competitive terms and conditions. Against the background of the current financial market and economic crisis and the resulting impact on the automobile sector, Moody's revised the rating on 18 February 2009 to "under review for possible downgrade". The BMW Group will continue to be able to raise sufficient funds to refinance its business even after taking account of forthcoming rating adjustments.

Short-term liquidity is managed primarily by issuing money market instruments (commercial paper). As a result of its good credit standing, reflected in the first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is also able to obtain competitive terms and conditions in this area.

Also reducing liquidity risk, additional secured and unsecured lines of credit are in place with first-class international banks. Intragroup cash flow fluctuations are evened out by the use of daily cash pooling arrangements.

Market risks

The principal market risks to which the BMW Group is exposed are currency risk and interest rate risk.

Protection against such risks is provided at first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Financial instruments are only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in detailed internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Currency and interest rate risks are managed at a corporate level.

Further disclosures relating to risk management are provided in the Group Management Report.

Currency risk

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues are generated outside the euro currency region and the procurement of production material and funding is also organised on a worldwide basis, the currency risk is an extremely important factor for Group earnings.

At 31 December 2008, derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies US dollar, British pound, Canadian dollar and Japanese yen. The hedging contracts comprise mainly option and forward currency contracts.

A description of how these risks are managed is provided in the Group Management Report on page 62. The BMW Group measures currency risks using a cash-flow-at-risk model.

The starting point for analysing currency risk with this model is the identification of forecast foreign currency transactions or "exposures". At the end of the reporting period, exposures for the coming year were as follows:

in euro million	**31.12.2008**	31.12.2007
Euro/US Dollar	**3,631**	6,140
Euro/British Pound	**2,291**	3,484
Euro/Japanese Yen	**835**	1,263

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential exchange rate fluctuations to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings for the current period is computed on the basis of current market prices and exposures to a confidence level of 95 % for each currency. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable at the balance sheet date to unfavourable changes in exchange rates for the three principal currencies.

in euro million	**31.12.2008**	31.12.2007
Euro/US Dollar	**39**	33
Euro/British Pound	**56**	14
Euro/Japanese Yen	**54**	56

The BMW Group's currency risk relates primarily to the three currencies shown.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

Interest rate risk

The BMW Group's financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore also exposed to risks resulting from changes in interest rates. These risks arise when funds with differing fixed-rate periods or differing terms are borrowed and invested. All items subject to, or bearing, interest are exposed to interest rate risk. Interest rate risks can affect either side of the balance sheet.

The fair values of the Group's interest rate portfolios for the three principal currencies were as follows at the end of the reporting period:

in euro million	**31.12.2008**	31.12.2007
Euro	**6,241**	6,930
US Dollar	**5,646**	6,012
British Pound	**1,860**	2,278

Interest rate risks can be managed by the use of interest rate derivatives. The interest rate contracts used for hedging purposes comprise mainly swaps which are accounted for on the basis of whether they are designated as a fair value hedge or as a cash flow hedge. A description of how interest rate risk is managed is provided in the Group Management Report on page 63.

As stated there, the BMW Group applies a value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts measured on the basis of a holding period of three months and a confidence level of 99 %. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

In the following table the potential volume of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest rate relevant positions of the BMW Group for the three principal currencies:

in euro million	**31.12.2008**	31.12.2007
Euro	**52**	76
US Dollar	**119**	109
British Pound	**7**	10

Other risks
The BMW Group is exposed to raw material price risks. A description of how these risks are managed is provided in the Group Management Report on pages 62–63. Derivative financial instruments are used on a relatively small scale to reduce these risks, primarily for the purchase of precious metals. The risk from these derivatives was not material to the Group in 2008 and 2007 and remains small at the present time. For this reason, a sensitivity analysis for these derivatives is not provided.

A further exposure relates to the residual value risk on vehicles returned to the Group at the end of finance lease contracts. The risks from financial instruments used in this context were not material to the Group in the past and at the end of the reporting period. A description of how these risks are managed is provided in the Group Management Report on pages 62–63. Information regarding the residual value risk from operating leases is provided in the section on accounting policies.

40 — **Explanatory notes to the cash flow statements**
The cash flow statements show how the cash and cash equivalents of the BMW Group and of the Automobiles and Financial Services segments 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 Group and segment cash flow statements are presented on pages 76–77.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, and cash at bank, to the extent that they are available within three months from the end of the reporting period 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 2008 was euro 44 million (2007: euro 47 million).

The cash flows from investing and financing activities are based on actual payments and receipts. The cash flow from operating activities is computed using the indirect method, starting from the net profit of the Group. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group and segment balance sheets.

If the BMW Group acts as the lessor in a finance lease, the relevant cash flows are reported in the cash flow statement as part of the cash flow from investing activities. If the BMW Group acts as the lessee in a finance lease, the cash flows are reported as part of the cash flows from operating and investing activities.

If the BMW Group acts as the lessor in an operating lease, cash flows are reported as part of the cash flow from investing activities. In the final case, where the BMW Group acts as the lessee in an operating lease, cash flows are reported as part of the cash flow from operating activities.

In 2008, some of the shares of Cirquent GmbH, Munich, were sold to NTT Data Corporation, Tokyo. The cash inflow for the purchase consideration, amounting to euro 153 million, was not reported on a separate line within investing activities on the grounds of materiality. The sale of Cirquent GmbH, Munich, resulted in an outflow of cash funds amounting to euro 21 million. The amounts of assets and liabilities of Cirquent GmbH, Munich, summarised by major category pursuant to IAS 7.40 (d), are not disclosed on the grounds of materiality.

Cash outflows for taxes on income and cash inflows for interest are classified as cash flows from operating activities in accordance with IAS 7.31 and IAS 7.35. Cash outflows for interest are presented on a separate line within cash flows from financing activities.

Cash flows from dividends received amounted to euro 4 million (2007: euro 3 million).

41 — 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 participations, joint ventures 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 BMW 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 2008, the disclosure requirements contained in IAS 24 only affect the BMW Group with regard to business relationships with non-consolidated subsidiaries, joint ventures and participations as well as with members of the Board of Management and Supervisory Board of BMW AG.

The BMW Group maintains normal business relationships with non-consolidated subsidiaries. Transactions with these entities are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Transactions of BMW Group companies with the joint venture, BMW Brilliance Automotive Ltd., Shenyang, all arise in the normal course of business and are conducted on the basis of arm's length principles. Group companies sold goods and services to BMW Brilliance Automotive Ltd., Shenyang, during 2008 for an amount of euro 406 million (2007: euro 293 million). At 31 December 2008, receivables of Group companies from BMW Brilliance Automotive Ltd., Shenyang, amounted to euro 102 million (2007: euro 103 million). As in the previous year there were no payables from Group companies to BMW Brilliance Automotive Ltd., Shenyang, at the end of the reporting period.

Business transactions of the BMW Group with participations all arise in the normal course of business and are conducted on the basis of arm's length principles. With the exception of Cirquent GmbH, Munich, business relationships with such entities are on a small scale. Group companies did not provide any services to Cirquent GmbH, Munich, during the fourth quarter 2008. During the final three months of 2008 Group entities purchased services and goods from Cirquent GmbH, Munich, for euro 45 million. At 31 December 2008, receivables of Group companies from Cirquent GmbH, Munich, totalled euro 1 million. Payables of Group companies to Cirquent GmbH, Munich, amounted to euro 28 million.

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 2008. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sales contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG, and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Wesel, which purchased vehicles from the BMW Group during the financial year 2008. These sale contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

With the exception of these related party transactions, BMW Group companies did not enter into any significant contracts with members of the Board of Management or Supervisory Board of BMW AG. The same applies to close members of the families of those persons.

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 Segment Information

42 — **Declaration with respect to the Corporate Governance Code**

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act. The Declaration of Compliance is reproduced on page 147 and is also available to shareholders on the BMW Group website at www.bmwgroup.com/ir.

43 — **Shareholdings of members of the Board of Management and Supervisory Board**

The members of the Supervisory Board of BMW AG hold in total 27.70 % of the issued common and preferred stock shares, of which 16.12 % relates to Stefan Quandt, Bad Homburg v. d. H. and 11.58 % to Susanne Klatten, Munich. The shareholdings of the members of the Board of Management of BMW AG is, in total, less than 1 % of the issued stock shares.

44 — **Compensation of members of the Board of Management and Supervisory Board**

The compensation of current members of the Board of Management and Supervisory Board amounted to euro 13.3 million (2007: euro 18.7 million) and comprised the following:

in euro million	**2008**	2007
Short-term employment benefits	**12.5**	18.0
Post-employment benefits	**0.8**	0.7
Compensation	**13.3**	**18.7**

The remuneration of the members of the Board of Management for the financial year 2008 amounted to euro 10.9 million (2007: euro 15.2 million). This comprised fixed components of euro 3.1 million (2007: euro 2.7 million) and variable components of euro 7.8 million (2007: euro 12.5 million).

In addition, an amount of euro 0.8 million (2007: euro 0.7 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.

The compensation of the members of the Supervisory Board for the financial year 2008 amounted to euro 1.6 million (2007: euro 2.8 million), comprising only fixed components (2007: euro 0.1 million for fixed components and euro 2.7 million for variable components).

The compensation system for members of the Board of Management and the Supervisory Board does not include any stock options, value appreciation rights comparable to stock options or any other stock-based compensation components.

Further details about the remuneration of current members of the Board of Management and the Supervisory Board can be found in the Compensation Report on pages 141 – 146. The Compensation Report is part of the Group Management Report.

The remuneration of former members of the Board of Management and their surviving dependants amounted to euro 3.1 million (2007: euro 4.3 million).

Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to euro 44.3 million (2007: euro 38.3 million), computed in accordance with IAS 19.

Members of the Board of Management and the Supervisory Board holding a credit card issued by BMW Bank GmbH, Munich, during the financial year 2008 had a credit line of up to euro 7,500 (2007: euro 25,565). The amounts arising from credit card usage were all within the agreed limits.

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 134 – 137.

45 — Application of § 264 (3) and § 264 b HGB

A number of companies and incorporated partnerships (as defined by § 264 a HGB) which are affiliated, consolidated entities of BMW AG and for which the consolidated financial statements of BMW AG represent exempting consolidated financial statements, apply the exemptions available in § 264 (3) and § 264 b HGB with regard to the drawing up of a management report. The exemptions have been applied by:

- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fahrzeugtechnik GmbH, Eisenach
- BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart
- BMW Hams Hall Motoren GmbH, Munich
- BMW Ingenieur-Zentrum GmbH + Co., Dingolfing
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- BMW Vertriebs GmbH & Co. oHG, Dingolfing
- Rolls-Royce Motor Cars GmbH, Munich

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

- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fuhrparkmanagement Beteiligungs GmbH, Stuttgart
- BMW Hams Hall Motoren GmbH, Munich
- BMW Ingenieur-Zentrum GmbH + Co., Dingolfing
- BMW INTEC Beteiligungs GmbH, Munich
- BMW Vertriebs GmbH & Co. oHG, Dingolfing
- Rolls-Royce Motor Cars GmbH, Munich

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 — Other Disclosures
129 — Segment Information

BMW Group
Notes to the Group Financial Statements
Segment Information

46 — **Explanatory notes to segment information**

Information on reportable segments

For the purposes of presenting segment information, the activities of the BMW Group are divided into operating segments in accordance with the rules contained in IFRS 8 (Operating Segments). Operating segments are identified on the same basis that is used internally to manage and report on performance and takes account of the organisational structure of the BMW Group based on the various products and services of the reportable segments.

The activities of the BMW Group are broken down into the operating segments Automobiles, Motorcycles, Financial Services and Other Entities.

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 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.

Holding and Group financing companies are included in the Other Entities segment. This segment also includes the operating companies (BMW Services Ltd., Bracknell, and BMW (UK) Investments Ltd., Bracknell) which are not allocated to one of the other segments. It also includes the income and expenses recorded by the Cirquent Group in the first nine months of 2008.

Eliminations comprise the effects of eliminating business relationships between the operating segments.

Internal management and reporting

Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. There were no changes in accounting policies compared to previous periods. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in the column “Eliminations”. Inter-segment sales take place at arm’s length prices.

The role of “chief operating decision maker” with respect to resource allocation and performance assessment of reportable segments is embodied in the full Board of Management. In order to assist the decision-taking process, various measures of segment result and of segment assets have been set for the different operating segments.

The Automobiles and Motorcycles segments are managed on the basis of the profit before financial result. Capital employed is the corresponding measure of segment assets used to determine how to allocate resources. Capital employed comprises all current and non-current operational assets of the segment, adjusted for liabilities used operationally which are not subject to interest.

The performance of the Financial Services segment is measured on the basis of profit or loss before tax. Net assets, defined as all assets less all liabilities, are used as the basis for assessing the allocation of resources.

The performance of the Other Entities segment is assessed on the basis of profit or loss before tax. The corresponding measure of segment assets used to manage the Other Entities segment is total assets less tax-related assets and investments.

Segment information by operating segment is as follows:

Segment information by operating segment

in euro million	Automobiles 2008	Automobiles 2007	Motorcycles 2008	Motorcycles 2007
External revenues	**37,877**	42,435	**1,222**	1,223
Inter-segment revenues	**10,905**	11,383	**8**	5
Total revenues	**48,782**	**53,818**	**1,230**	**1,228**
Segment result	**690**	3,450	**60**	80
Segment assets	**14,367**	15,108	**423**	440
Capital expenditure on non-current assets	**4,467**	4,462	**55**	45
Depreciation and amortisation on non-current assets	**3,567**	3,566	**70***	86*

* including impairment losses of euro 3 million (2007: euro 17 million)

Interest and similar income of the Financial Services segment totalling euro 2 million (2007: euro 2 million) are included in segment result. Interest and similar expenses of the Financial Services segment amounted to euro 8 million (2007: euro 2 million). The Other Entities segment result includes interest and similar income amounting to euro 2,102 million (2007: euro 1,768 million) and interest and similar expenses amounting to euro 1,927 million (2007: euro 1,591 million).

The profit of the "Other Entities" segment was influenced above all by the partial sale of the Cirquent Group and the reversal of a provision no longer required. Also included in the Other Entities segment profit is the result from equity accounted investments amounting to euro 1 million in 2008. In the previous year, the Other Entities segment did not record any profit/loss from equity accounted investments. Segment assets of the Other Entities segment at 31 December 2008 included investments accounted for using the equity method amounting to euro 29 million (2007: –). The information disclosed for capital expenditure and depreciation and amortisation relates to property, plant and equipment, intangible assets and leased products.

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

in euro million	2008	2007
Reconciliation of segment result		
Total for reportable segments	**753**	4,441
Financial result of Automobiles segment and Motorcycles segment	**–381**	–227
Elimination of inter-segment items	**–21**	–341
Group profit before tax	**351**	**3,873**
Reconciliation of segment assets		
Total for reportable segments	**57,090**	53,106
Non-operating assets – Other Entities segment	**5,616**	5,482
Operating liabilities – Financial Services segment	**66,040**	55,517
Interest-bearing assets – Automobiles segment	**24,849**	23,899
Liabilities of Automobiles and Motorcycles segments subject to interest	**14,174**	13,637
Elimination of inter-segment items	**–66,683**	–62,644
Total Group assets	**101,086**	**88,997**
Reconciliation of capital on non-current assets		
Total for reportable segments	**19,368**	17,528
Elimination of inter-segment items	**–2,788**	–2,223
Total Group capital expenditure on non-current assets	**16,580**	**15,305**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	**9,989**	7,787
Elimination of inter-segment items	**–2,344**	–1,629
Total Group depreciation and amortisation on non-current assets	**7,645**	**6,158**

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 — Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 — Segment Information

Financial Services		Other Entities		Reconciliation to Group figures		Group	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
13,952	12,146	**146**	214	**–**	–	**53,197**	56,018
1,773	1,794	**45**	76	**–12,731**	–13,258	**–**	–
15,725	**13,940**	**191**	**290**	**–12,731**	**–13,258**	**53,197**	**56,018**
–292	743	**295**	168	**–402**	–568	**351**	3,873
3,752	4,139	**38,548**	33,419	**43,996**	35,891	**101,086**	88,997
14,842	13,012	**4**	9	**–2,788**	–2,223	**16,580**	15,305
6,339	4,124	**13**	11	**–2,344**	–1,629	**7,645**	6,158

In the case of segment information by geographical region, external sales are based on the location of the customer's registered office. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. The reconciling item disclosed for non-current assets relates to leased products.

Information by region

in euro million	External revenues 2008	External revenues 2007	Non-current assets 2008	Non-current assets 2007
Germany	**10,739**	11,918	**21,916**	18,111
USA	**11,349**	11,110	**11,081**	11,549
United Kingdom	**4,913**	5,945	**1,739**	2,302
Rest of Europe	**15,780**	16,450	**3,337**	3,101
Africa/Asia/Oceania	**8,471**	8,691	**549**	498
Rest of America	**1,945**	1,904	**1,169**	1,382
Eliminations	**–**	–	**–3,334**	–3,152
Group	**53,197**	**56,018**	**36,457**	**33,791**

IFRS 8 was applied early with effect from 1 January 2008. The comparative figures for 2007 have been adjusted accordingly.

Munich, 18 February 2009

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Responsibility Statement by the Company's Legal Representatives

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 3 and § 315 (1) sentence 6 of the German Commercial Code (HGB)
"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 18 February 2009

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

72 — Group Financial Statements
72 Income Statements
74 Balance Sheets
76 Cash Flow Statements
78 Statement of Income and Expenses recognised in Equity
79 Notes
79 Accounting Principles and Policies
88 Notes to the Income Statement
94 Notes to the Balance Sheet
115 Other Disclosures
129 Segment Information

BMW Group
Auditors' Report

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement, the balance sheet, statements of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the Company and the Group for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and Group Management Report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that material misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit also includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 27 February 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Dr. Schindler	Pastor
Wirtschaftsprüfer	Wirtschaftsprüfer

Corporate Governance
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 and Nomination Committee; member of Audit Committee and the Mediation Committee

Mandates
— Bertelsmann AG
— FESTO AG
— SAP AG
— ZF Friedrichshafen AG (since 15. 04. 2008)
— Deere & Company

Manfred Schoch*
Deputy Chairman
Chairman of the General Works Council
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Stefan Quandt
Deputy Chairman
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee, Nomination Committee and Mediation Committee

Mandates
— DELTON AG (Chairman)
— DataCard Corp.

Stefan Schmid*
Deputy Chairman
Chairman of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Konrad Gottinger*
(until 15. 02. 2008)
Deputy Chairman
Member of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Prof. Dr. Jürgen Strube
Deputy Chairman
Chairman of the Supervisory Board of BASF SE

Chairman of the Audit Committee;
member of the Presiding Board, Personnel Committee and Mediation Committee

Mandates
— Allianz Deutschland AG
— BASF SE (Chairman)
— Bertelsmann AG (Deputy Chairman)
— Commerzbank AG (until 15. 05. 2008)
— Fuchs Petrolub AG (Chairman)
— Hapag-Lloyd AG
— Linde AG (until 03. 06. 2008)

Dr. Hans-Dietrich Winkhaus
(until 08. 05. 2008)
Deputy Chairman
Former Chairman of the Board of
Henkel AG & Co. KGaA

Member of the Presiding Board, Personnel Committee, Audit Committee and Nomination Committee

Mandates
— Deutsche Lufthansa AG (until 29. 04. 2008)
— ERGO Versicherungsgruppe AG (until 05. 05. 2008)
— Henkel AG & Co. KGaA (until 14. 04. 2008)

134 — Corporate Governance
134 — Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

* Employee representative
— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Ulrich Eckelmann*
Head of the Industry, Technology and Environment section
IG Metall Executive Board

Mandates
- VOITH AG (since 11.03.2008)

Bertin Eichler*
Executive Member of the Executive Board of IG Metall

Mandates
- ThyssenKrupp AG (Deputy Chairman)
- BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH (Chairman)

Franz Haniel
Engineer, MBA

Mandates
- DELTON AG (Deputy Chairman)
- Franz Haniel & Cie. GmbH (Chairman)
- Heraeus Holding GmbH
- Metro AG (Chairman)
- secunet Security Networks AG
- Giesecke & Devrient GmbH

Prof. Dr. rer. nat. Dr. h. c. Reinhard Hüttl
(since 08.05.2008)
Chairman of the Executive Board of Helmholtz-Zentrum Potsdam Deutsches GeoForschungsZentrum – GFZ
University professor

Arthur L. Kelly
(until 08.05.2008)
Managing Partner of KEL Enterprises L.P.

Mandates
- BASF SE (until 14.01.2008)
- DataCard Corp. (until 30.06.2008)
- Deere & Company
- Northern Trust Corp.
- Robert Bosch Corp.
- Snap-on Inc.

Susanne Klatten
BSc., MBA
Honorary Senator of the Technical University of Munich

Mandates
- ALTANA AG (Deputy Chairman)
- UnternehmerTUM GmbH (Chairman)

Dr. jur. Karl-Ludwig Kley
(since 08.05.2008)
Chairman of the Executive Management of Merck KGaA

Mandates
- Bertelsmann AG
- WestLB AG (until 31.12.2008)

Prof. Dr. rer. pol. Renate Köcher
(since 08.05.2008)
Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH

Mandates
- Allianz SE
- BASF SE (until 14.01.2008)
- Infineon Technologies AG
- MAN AG

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. (until 14.05.2008)

Wolfgang Mayrhuber
Chairman of the Board of Management of Deutsche Lufthansa AG

Mandates
— Eurowings Luftverkehrs AG (until 31. 12. 2008)
— Fraport AG
— LSG Lufthansa Service Holding AG (until 30. 09. 2008)
— Lufthansa Cargo AG (until 30. 09. 2008)
— Lufthansa Technik AG
— Münchener Rückversicherungs-Gesellschaft AG
— HEICO Corp.
— SWISS International Air Lines AG

Heinz-Joachim Neubürger
(until 08. 05. 2008)
Senior Advisor of Kohlberg Kravis Roberts & Co.
Managing Director of Kohlberg Kravis Roberts & Co. Ltd.
Export Merchant, MBA

Mandates
— Allianz Versicherungs-AG (until 24. 04. 2008)
— ProSiebenSat.1 Media AG (until 05. 09. 2008)

Werner Neugebauer*
Regional Executive Officer of IG Metall Bavaria

Mandates
— ZF Sachs AG (since 11. 09. 2008)

Franz Oberländer*
Member of the Works Council, Munich

Anton Ruf*
Director Product Line L7

Maria Schmidt*
(since 25. 03. 2008)
Member of the Works Council, Dingolfing

Werner Zierer*
Chairman of the Works Council, Regensburg

134 — Corporate Governance
134 — Members of the Supervisory Board
137 — Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

*Employee representative
— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Members of the Board of Management

Dr.-Ing. Norbert Reithofer
Chairman

Frank-Peter Arndt
Production

Mandates
— BMW Motoren GmbH (Chairman)
— BMW (South Africa) (Pty) Ltd. (Chairman)
— Leipziger Messe GmbH

Ernst Baumann
(until 30. 11. 2008)
Human Resources, Industrial Relations Director

Mandates
— Krones AG

Dr.-Ing. Herbert Diess
Purchasing and Supplier Network

Dr.-Ing. Klaus Draeger
Development

Dr. Friedrich Eichiner
Corporate and Brand Development (until 02. 12. 2008)
Finance (since 02. 12. 2008)

Mandates
— Allianz Deutschland AG (since 25. 04. 2008)
— BMW Brilliance Automotive Ltd. (Deputy Chairman)
— BMW (US) Holding Corp.

Dr. Michael Ganal
(† 04. 12. 2008)
Finance (until 02. 12. 2008)

Stefan Krause
(until 13. 03. 2008)
Sales and Marketing

Mandates
— Allianz Deutschland AG (until 25. 04. 2008)

Harald Krüger
(since 01. 12. 2008)
Human Resources, Industrial Relations Director

Mandates
— BMW Brilliance Automotive Ltd.

Ian Robertson
(since 13. 03. 2008)
Sales and Marketing

Mandates
— Rolls-Royce Motor Cars Limited (Chairman)

General Counsel:
Dr. Dieter Löchelt

— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Corporate governance – in other words ensuring that actions are taken in accordance with the principles of responsible management in order to increase the value of the business on a sustainable basis – is an all-embracing issue for the BMW Group which affects all areas of the enterprise. The corporate culture within the BMW Group is founded on transparent reporting and internal communication, a policy of corporate governance aimed at the interests of stakeholders, a fair and open approach towards employees and between Board of Management and Supervisory Board and compliance with the law.

Information on the Company's governing constitution
Bayerische Motoren Werke Aktiengesellschaft (BMW AG) is a stock corporation (Aktiengesellschaft) based on the German Stock Corporation Act (Aktiengesetz). It has three representative bodies, namely Annual General Meeting, Supervisory Board and Board of Management. The duties and authorities of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG, the full text of which is published on the BMW Group's website. Shareholders – the owners of the business – exercise their rights at the Annual General Meeting. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and of the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation, specified capital measures and – in accordance with legislation applicable to BMW AG relating to co-determination by employees – on the composition of one half of the Supervisory Board. The Board of Management manages the enterprise under its own responsibility. Within this framework, it is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, at any time, revoke an appointment if there is an important reason. The Board of Management keeps the Supervisory Board informed of all significant matters regularly, without delay and comprehensively, following the principles of conscientious and faithful accountability and in accordance with prevailing law and reporting duties allocated to it by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major transactions. The Supervisory Board is not, however, authorised to undertake management measures itself.

In accordance with the regulations contained in the German Co-determination Act, BMW AG's Supervisory Board comprises ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected by employees). The close interaction between Board of Management and Supervisory Board in the interests of the enterprise as described above is also known as a "two-tier board structure". The composition of the Board of Management and the Supervisory Board and of sub-committees set up by the Supervisory Board is disclosed on pages 134 to 137 of the Annual Report.

Core principles
Within the BMW Group, the Board of Management, the Supervisory Board and employees base their actions on twelve core principles which create the cornerstone of the success of the BMW Group:

Customer focus
The success of our company is determined by our customers. They are at the heart of everything we do. The results of all our activities must be valued in terms of the benefits they will generate for our customers.

Peak performance
We aim to be the best – a challenge to which all of us must rise. Each and every employee must be prepared to deliver peak performance. We strive to be among the elite, but without being arrogant. For us, it is the company and our products that count – nothing else.

Responsibility
Every BMW Group employee has the personal responsibility to ensure the company's success. In team work, every employee must assume personal responsibility. We are fully aware that as we work to achieve our corporate targets, we have responsibility to each other – in the interests of the company.

Effectiveness
For our company, the only results that count are those with a lasting effect. In evaluating leadership, we must consider the effect of performance on improving results.

Adaptability
To ensure our long-term success, we must adapt to new challenges with speed and flexibility. We see change as an opportunity – and in order to capitalise on it, we need to be adaptable.

Dissent (frankness)
As we strive to find the best solution, our employees are encouraged to express opposing opinions, if they wish.

134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 — Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

However, the solutions we agree upon will then be implemented without exception by everybody involved.

Respect, trust, fairness
We trust each other with respect. Leadership is based on mutual trust. Trust is rooted in fairness and reliability.

Employees
People make companies. Our employees are the strongest factor in our success – which means our personnel decisions will be among the most important we ever make.

Leading by example
Every manager must lead by example.

Sustainability
In our view, sustainability refers to our business success which is the basis for the fulfillment of our ecological and social responsibility.

Society
Social responsibility is an integral part of our corporate self-image.

Independence
We are securing the corporate independence of the BMW Group through sustained profitable growth.

Declaration of Compliance and the BMW Group Corporate Governance Code
Management and Supervisory Boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by the "German Government Corporate Governance Code Commission", as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or are not being applied.

The Board of Management and Supervisory Board of BMW AG believe that the recommendations and suggestions contained in the German Corporate Governance Code (GCGC) contribute to an enhancement of the financial markets in Germany, in particular for international investors. At the joint meeting held in December 2008, the Board of Management and Supervisory Board of BMW AG issued the current year's declaration of compliance with the new version of the GCGC valid from 8 August 2008 and posted to the BMW Group's website. The full text of the declaration is also provided on page 147 of the Annual Report. BMW AG continues to comply with the recommendations of the GCGC with only one exception: The Supervisory Board has delegated the task of determining the remuneration and remuneration system (including the principal contractual components and the regular review of the system) to the Personnel Committee. The full Supervisory Board is, however, informed regularly and in great detail of the work of the Personnel Committee. From the perspective of the Supervisory Board, this division of duties has proved its worth and increases the efficiency of the Supervisory Board's work. All other recommendations are being complied with. In addition, the Board of Management and the Supervisory Board have, in past years, developed the BMW Group's own Corporate Governance Code based on the GCGC in order to provide shareholders and other stakeholders with a comprehensive and stand-alone document covering the corporate governance practices applied by the BMW Group. The BMW Group's Corporate Governance Code has been revised in conjunction with the new version of the GCGC. A copy of it can be obtained, along with other shareholder information, from the BMW Group website.

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

Reportable securities transactions ("Directors' Dealings")
Members of the Board of Management and the Supervisory Board and related persons of those members, are required, pursuant to § 15 a of the German Securities Trading Act, to give notice of any of their transactions with BMW stock or related financial instruments, when the total sum of such transactions exceeds an amount of euro 5,000 during the calendar year. BMW AG gives notice of any transaction reported to it on its website at the address www.bmwgroup.com/ir and in its Annual Document pursuant to § 10 (1) of the German Securities Prospectus Act.

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 Company's issued common and preferred stock shares of the Company, of which 16.12 % relates to Stefan Quandt, Bad Homburg v. d. H. and 11.58 % to Susanne Klatten, Munich. The shareholding of the members of the Board of Management is, in total, less than 1 % of the issued stock shares.

Compliance in the BMW Group

Responsible and lawful conduct provides the basis for the success of the BMW Group. This approach is integral to the Group's corporate culture and it is the reason why customers, shareholders, business partners and the general public place their trust in the BMW Group. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with the law.

This principle has been embedded in the Group's internal guidelines for many years now. All departments can avail themselves of assistance from designated experts from the relevant Legal and Patents, Group Internal Audit and Group Security departments to ensure that legal provisions are complied with.

In order to ensure better protection against compliance-related and reputational risks, the Board of Management created a Compliance Committee in 2007 which is mandated to establish a worldwide Compliance Organisation throughout the BMW Group.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal and Patents, Corporate Communication and Governmental Affairs, Group Internal Audit, Group Financial Reporting, Organisation / In-house Consulting and Group Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law (Legal Compliance). These activities include training, information and communication measures, following up potential cases of non-compliance and implementing compliance requirements. The Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in setting up the Compliance Organisation, details of investigations performed, identified cases of non-compliance, sanctions imposed and corrective / preventative measures implemented. The BMW Group Compliance Committee operates through the newly established Compliance Committee Office which is in organisation terms to the Chairman of the Board of Management.

The Board of Management keeps the Audit Committee (i. e. a part of the Supervisory Board) informed on the up-to-date status of compliance activities within the BMW Group – both on a regular basis and on a case-by-case basis where necessary. The Compliance Organisation was implemented at BMW AG and a number of German subsidiaries in 2008 and will be rolled out internationally in 2009. A whole new landscape of principles, guidelines and instructions was also put in place in 2008. To some extent, these internal rules stipulate processes that reflect current legislation and thus supplement the Group's compliance activities.

The Compliance Organisation comprises the whole set of measures taken to ensure that the BMW Group, its representative bodies, its managers and its staff act lawfully. The various elements of the Compliance Organisation are shown in the diagram below and are valid throughout the BMW Group. To the extent that additional compliance requirements apply to individual countries or for specific lines of business, this is covered by local compliance measures.

The BMW Group Legal Compliance Code ("LCC") forms the centre of the Compliance Organisation. This document explains the significance of legal compliance and provides an overview of the various legal areas that are relevant for the BMW Group. The LCC is available for download to employees in German and English. Translations into seven other languages will be available from 2009 onwards.

Managers in particular bear a high degree of responsibility and must set a good example in the process of avoiding incidences of non-compliance. All managers are required to inform the staff working for them of the content and significance of the LCC and to draw attention to legal risks. Managers must, at regular intervals and on their

Compliance Committee

134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 — Compliance in the BMW Group
141 — Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

own initiative, check compliance with the law and communicate regularly with staff on this issue. Any indications of non-compliance with the law must be rigorously investigated.

As part of the first implementation phase, more than 4,500 managers received training in essential compliance matters in 2008. This training is obligatory for all managers working for the BMW Group and is available in the form of web-based training sessions in either German or English. Successful participation in the relevant training sessions is documented in a certificate. This basic training is also supplemented by training sessions for specific target groups covering specific compliance issues.

In order to avoid legal risks, all members of staff are expected to discuss matters with their managers and with the relevant departments within the BMW Group, in particular the Legal Department, the Group Internal Audit Department and the Group Security Department. As a further point of contact (telephone or e-mail), the BMW Group Compliance Contact was set up in 2008 for employees and non-employees with questions regarding compliance. This also applies if weaknesses or circumstances have been identified which could result in non-compliance with the law. Information can also be provided anonymously if so desired.

Compliance-related queries and all matters to which attention has been drawn are documented and followed up by the Compliance Committee Office, where necessary with the assistance of Group Internal Audit, Group Security and legal advisory departments. A reporting system is currently being established for the Compliance Organisation which will enable compliance-relevant issues to be reported to the Compliance Committee on a regular basis, and – where necessary – on an ad hoc basis. This includes reporting on the status and the progress made in setting up the Compliance Organisation, identified legal risks and incidences of non-compliance as well as corrective / preventative measures implemented.

Compliance with, and the implementation of, the LCC is reviewed regularly by the Group Internal Audit and Group Security departments. For this purpose, the Group Internal Audit Department also performs on-site audits and interviews employees.

It is essential that employees are aware of, and comply with applicable legal regulations. The BMW Group does not tolerate violations of law by its employees. Culpable violations of law may result in employment-contract sanctions and personal liability consequences for the employee involved. In order to avoid this situation, the BMW Group's employees are – via various internal channels – kept fully informed of the tools and measures used by the Compliance Organisation. The central channel of communication is the Compliance website within the BMW Group Intranet where employees can find compliance-related information and also have access to training materials, in both German and English. Employees can use the website to access frequently asked questions (and related answers) on compliance-related issues.

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 appointed – as early as 1994 – an Ad-hoc Committee which is made up from representatives of various specialist departments and whose members examine the relevance of issues for ad-hoc disclosure purposes. All persons working on behalf of the enterprise and with access to insider information in accordance with existing rules have been, and continue to be, included in an appropriate list – which is regularly updated – and informed of the duties arising from insider rules.

Compensation Report

The BMW Group supports the endeavours of the German Corporate Governance Code (GCGC) to increase transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. As well as discussing the structure of remuneration, the components of compensation are also disclosed in absolute figures. In accordance with the recommendations of the GCGC, the compensation of each member of the Board of Management and the Supervisory Board is disclosed by name and analysed into components.

1. Compensation of the Board of Management, Responsibilities

In order to increase the efficiency of the Supervisory Board's work in personnel-related matters, the task of determining the remuneration of the Board of Management has been delegated to the Personnel Committee. The Supervisory Board is informed regularly and in detail of the work of the Personnel Committee.

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. The objective of the variable component of compensation is to create an incentive for exceptional individual performance, linked to the performance 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 fixed and variable components. In addition, benefits are also payable at the end of members' mandates, primarily in the form of pension benefits. For the purposes of determining the overall compensation of the Board of Management, the Personnel Committee, having considered the overall position and forecasts of the BMW Group, decides on an overall remuneration 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 as well as the payment of insurance premiums, contributions towards relocation costs and security systems.

The measures used to determine the variable component of compensation are the BMW Group's net profit and the dividend level for the relevant year, the return on sales and the individual performance of the Board of Management members as evaluated by the Personnel Committee of the Supervisory Board. Upper limits are in place for all Board of Management members.

The compensation system does not include any stock options, value appreciation rights comparable to stock options, other share-based compensation components or other long-term incentives. No compensation agreements were concluded with members of the Board of Management for situations involving a takeover offer. Similarly, they did not receive any payments or benefits from third parties in 2008 on account of their activities as the members of the Board of Management.

Pension agreements are in place for the event of the termination of a mandate. Pensions are paid to former members of the Board of Management who have either reached the age of 65, or, if their mandate had terminated earlier and had not been extended, to members who have either reached the age of 60, or who are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. The amount of the pension comprises, unchanged from the previous year, 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 153 and euro 600, for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted by analogy to the rules applicable for the adjustment of civil servants' pensions: the pensions of members of the Board of Management are adjusted accordingly when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5%.

If a mandate is ended early before the member of the Board of Management reaches the age of 60, a transitional payment amounting to two-thirds of the pension theoretically earned up to the date when a full pension can be drawn, may become payable if, after a minimum of three years of service as a member of the Board of Management, this is considered appropriate on the basis of an objective evaluation of all circumstances. Arrangements are in place concerning the offsetting of other income against pensions and transitional payments.

No performance-based or compensatory payments have been agreed for the event of the termination of members' mandates.

The amounts disclosed below as the annual pension provision allocation for each member corresponds to the pension service cost.

Members of the Board of Management holding a credit card issued by BMW Bank GmbH, Munich, during the financial year 2008 had a credit line of up to euro 7,500 (2007: euro 25,565). The amounts arising from credit card usage were all within the agreed limits.

Compensation of the Board of Management for the financial year 2008 (total)

The total remuneration of the current members of the Board of Management of BMW AG for the financial year 2008 amounted to euro 10.9 million (2007: euro 15.2 million). This comprises fixed components (including other remuneration) of euro 3.1 million (2007: euro 2.7 million) and variable components of euro 7.8 million (2007: euro 12.5 million).

in euro million	2008		2007	
	Amount	Proportion in %	Amount	Proportion in %
Fixed remuneration	**3.1**	**28.4**	2.7	17.8
Variable remuneration	**7.8**	**71.6**	12.5*	82.2
Total remuneration	**10.9**	**100.0**	**15.2**	**100.0**

* calculated on the basis of an agreed upper limit.

134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 — Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

The fixed remuneration of board members remained unchanged for the financial year 2008. The increase in the total amount of fixed remuneration for all members was primarily due to the fact that the Board of Management comprised eight members for practically the whole of the financial year 2008, whereas this had only been the case during the fourth quarter of the financial year 2007.

In addition, an expense of euro 0.8 million (2007: euro 0.7 million) was recognised for current members of the Board of Management for post-employment benefits. This relates to the expense for allocations to pension provisions (service cost).

The amount paid to former members of the Board of Management and their dependants was euro 3.1 million (2007: euro 4.3 million). Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 44.3 million (2007: euro 38.3 million), computed in accordance with IAS 19.

Compensation of the individual members of the Board of Management for the financial year 2008 (2007)

in euro	Fixed compensation			Variable compensation	Compensation Total	Allocation for year to pension provision
	Salary	Other compensation	Total			
Norbert Reithofer	600,000	16,271	616,271	1,650,000	2,266,271	124,912
	(600,000)	(15,222)	(615,222)	(3,139,200)	(3,754,422)	(161,124)
Frank-Peter Arndt	300,000	19,708	319,708	825,000	1,144,708	69,327
	(300,000)	(98,199)	(398,199)	(1,569,600)	(1,967,799)	(84,851)
Ernst Baumann[1]	330,000	17,725	347,725	882,292	1,230,017	86,079
	(360,000)	(15,737)	(375,737)	(1,818,300)	(2,194,037)	(95,394)
Herbert Diess	300,000	29,762	329,762	825,000	1,154,762	89,930
	(75,000)	(9,662)	(84,662)	(392,400)	(477,062)	(28,909)
Klaus Draeger	300,000	26,276	326,276	825,000	1,151,276	70,871
	(300,000)	(55,900)	(355,900)	(1,569,600)	(1,925,500)	(85,602)
Friedrich Eichiner	300,000	23,516	323,516	825,000	1,148,516	81,547
	(75,000)	(11,068)	(86,068)	(392,400)	(478,468)	(25,157)
Michael Ganal[2]	333,871	61,464	395,335	892,641	1,287,976	102,093
	(360,000)	(14,220)	(374,220)	(1,818,300)	(2,192,520)	(122,013)
Stefan Krause[3]	72,581	3,697	76,278	360,000	436,278	56,423
	(360,000)	(16,222)	(376,222)	(1,818,300)	(2,194,522)	(72,557)
Harald Krüger[4]	25,000	2,777	27,777	68,750	96,527	4,616
	(–)	(–)	(–)	(–)	(–)	(–)
Ian Robertson[5]	240,323	102,938	343,261	660,887	1,004,148	133,533
	(–)	(–)	(–)	(–)	(–)	(–)
Total	**2,801,775**	**304,134**	**3,105,909**	**7,814,570**	**10,920,479**	**819,331**
	(2,430,000)	(236,230)	(2,666,230)	(12,518,100)	(15,184,330)	(675,607)

[1] Member of the Board of Management until 30 November 2008
[2] Member of the Board of Management until 4 December 2008
[3] Member of the Board of Management until 13 March 2008
[4] Member of the Board of Management from 1 December 2008
[5] Member of the Board of Management from 13 March 2008

2. Compensation of the Supervisory Board
Responsibilities, regulation pursuant to the Articles of Incorporation

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. The compensation regulation valid for the financial year 2008 is the result of the shareholders' resolutions taken at the Annual General Meeting on 8 May 2008 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 line with the recommendations of the German Corporate Governance Code (section 5.4.6 paragraph 2 GCGC), the members of the Supervisory Board receive fixed as well as performance-related compensation.

Each member of the Supervisory Board receives, in addition to the reimbursement of expenses, a fixed amount of euro 55,000 (payable at the end of the year) as well as a profit-oriented compensation of euro 220 for each full euro 0.01 by which the earnings per share (EPS) of common stock reported in the Group Financial Statements for the relevant financial year (compensation year) exceeds a minimum amount of euro 2.30 (payable after the Annual General Meeting held in the following year). An upper limit of euro 110,000 is in place for the performance-related compensation. Since the minimum EPS was not achieved in 2008, no performance-related compensation is payable for the financial year 2008.

The German Corporate Governance Code also recommends that the exercising of chair and deputy chair positions in the Supervisory Board as well the chair and membership of committees should also be considered when determining the level of compensation (section 5.4.6 paragraph 1 GCGC).

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Provided the relevant committee convened for meetings on at least three days during the financial year, each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one and a half times the amount of the remuneration of a Supervisory Board member. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function which is remunerated with the highest amount, thus avoiding amounts accumulating when more than one function is exercised.

In addition, each member of the Supervisory Board receives an attendance fee of euro 2,000 for each full meeting of the Supervisory Board (Plenum) which the member has attended (payable at the end of the financial year). Attendance at more than one meeting on the same day is not remunerated separately.

The Company also reimburses to each member of the Supervisory Board any value added tax arising on their remuneration. The amounts disclosed below are net amounts.

Compensation of the Supervisory Board for the financial year 2008 (total)

In accordance with § 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2008 amounted to euro 1.6 million (2007: euro 2.8 million). This includes fixed compensation of euro 1.6 million (2007: euro 0.1 million). No variable compensation is payable for 2008 (2007: euro 2.7 million) since the conditions stipulated in the Articles of Incorporation (minimum EPS of euro 2.30) were not met.

in euro million	**2008** Amount	**2008** Proportion in %	2007 Amount	2007 Proportion in %
Fixed compensation	**1.6**	**100.0**	0.1	3.6
Variable compensation	**–**	**–**	2.7*	96.4
Total compensation	**1.6**	**100.0**	**2.8**	**100.0**

* calculated on the basis of an agreed upper limit.

134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 — Compensation Report
147 Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

Compensation of the individual members of the Supervisory Board for the financial year 2008 (2007)[1]

in euro	Fixed compensation	Attendance fee	Variable compensation	Total
Joachim Milberg (Chairman)	165,000 (18,000)	10,000 (–)	(–) (310,680)	175,000 (328,680)
Manfred Schoch (Deputy Chairman)	110,000 (12,000)	10,000 (–)	(–) (207,120)	120,000 (219,120)
Stefan Quandt (Deputy Chairman)	110,000 (12,000)	10,000 (–)	(–) (207,120)	120,000 (219,120)
Konrad Gottinger (Deputy Chairman)[2]	13,825 (12,000)	(–) (–)	(–) (207,120)	13,825 (219,120)
Stefan Schmid (Deputy Chairman)[3]	99,180 (5,967)	10,000 (–)	(–) (102,993)	109,180 (108,960)
Jürgen Strube (Deputy Chairman)[4]	90,765 (6,000)	10,000 (–)	(–) (103,560)	100,765 (109,560)
Hans-Dietrich Winkhaus (Deputy Chairman)[5]	38,770 (12,000)	2,000 (–)	(–) (207,120)	40,770 (219,120)
Ulrich Eckelmann	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Bertin Eichler	55,000 (6,000)	8,000 (–)	(–) (103,560)	63,000 (109,560)
Franz Haniel	55,000 (6,000)	8,000 (–)	(–) (103,560)	63,000 (109,560)
Reinhard Hüttl[6]	35,765 (–)	8,000 (–)	(–) (–)	43,765 (–)
Arthur L. Kelly[7]	19,385 (6,000)	2,000 (–)	(–) (103,560)	21,385 (109,560)
Susanne Klatten	55,000 (6,000)	8,000 (–)	(–) (103,560)	63,000 (109,560)
Karl-Ludwig Kley[8]	35,765 (–)	4,000 (–)	(–) (–)	39,765 (–)
Renate Köcher[9]	35,765 (–)	8,000 (–)	(–) (–)	43,765 (–)
Willibald Löw	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Hubert Markl	55,000 (6,000)	8,000 (–)	(–) (103,560)	63,000 (109,560)
Wolfgang Mayrhuber	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Heinz-Joachim Neubürger[10]	19,385 (6,000)	2,000 (–)	(–) (103,560)	21,385 (109,560)
Werner Neugebauer	55,000 (6,000)	8,000 (–)	(–) (103,560)	63,000 (109,560)
Franz Oberländer	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Anton Ruf	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Maria Schmidt[11]	42,377 (–)	8,000 (–)	(–) (–)	50,377 (–)
Werner Zierer	55,000 (6,000)	10,000 (–)	(–) (103,560)	65,000 (109,560)
Total	**1,420,982** (155,967)	**184,000** (–)	**(–)** (2,691,993)	**1,604,982** (2,847,960)

[1] Fixed and variable compensation are calculated on a time-apportioned basis, i.e. based on the actual period of office during the financial year.
[2] Member of the Supervisory Board until 15 February 2008
[3] Deputy Chairman of the Supervisory Board from 13 March 2008
[4] Deputy Chairman of the Supervisory Board from 8 May 2008
[5] Member of the Supervisory Board until 8 May 2008
[6] Member of the Supervisory Board from 8 May 2008
[7] Member of the Supervisory Board until 8 May 2008
[8] Member of the Supervisory Board from 8 May 2008
[9] Member of the Supervisory Board from 8 May 2008
[10] Member of the Supervisory Board until 8 May 2008
[11] Member of the Supervisory Board from 25 March 2008

Members of the Supervisory Board holding a credit card issued by BMW Bank GmbH, Munich, during the financial year 2008 had a credit line of up to euro 7,500 (2007: euro 25,565). The amounts arising from credit card usage were all within the agreed limits.

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity in 2008. In consequence, no additional compensation was paid. It is BMW Group's policy and practice, not to enter into contractual relationships with members of the Supervisory Board requiring them to provide personal services, in particular advisory and agency services, in return for compensation (cf. Section 4.4 of the BMW Group Corporate Governance Code).

In addition to the BMW Group Corporate Governance Code, the Legal Compliance Code and the Articles of Incorporation, further information on the BMW Group's business (including financial publications) is available on the Group's website at www.bmwgroup.com/ir.

134 — Corporate Governance
134 Members of the Supervisory Board
137 Members of the Board of Management
138 Corporate Governance in the BMW Group
140 Compliance in the BMW Group
141 — Compensation Report
147 — Declaration of the Board of Management and of the Supervisory Board pursuant to § 161 AktG

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission of the German Corporate Governance Code" pursuant to § 161 German Stock Corporation Act

I. Declaration of compliance
The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following with respect to the recommendations of the "Government Commission on the German Corporate Governance Code":

1. During the period since filing the most recent declaration on 4 December 2007, BMW AG has complied with all recommendations published on 20 July 2007 in the official section of the electronic Federal Gazette (Code version dated 14 June 2007), except for the divergence from section 4.2.2 paragraph 1 GCGC already declared on 4 December 2007, 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 and not, additionally, by the full Supervisory Board.

2. BMW AG will comply with all recommendations published on 8 August 2008 in the official section of the electronic Federal Gazette (Code version dated 6 June 2008) except for only one divergence, namely that the Supervisory Board has delegated the task of taking resolutions regarding the Management Board remuneration system, including the principal contractual components and the regular review of that system, to the Personnel Committee (section 4.2.2 paragraph 1 GCGC).

II. Explanatory notes
The task of determining the Management Board compensation system, including the principal contractual components and the regular review of that system has been delegated to the Personnel Committee in order to increase the efficiency of the Supervisory Board's work in personnel-related matters. The Supervisory Board is informed regularly and in detail of the work of the Personnel Committee.

Munich, December 2008

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board | Board of Management

Other Information
BMW AG
Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2008	Equity in euro million	Net result in euro million	Capital investment in %
Domestic[1]			
BMW INTEC Beteiligungs GmbH, Munich[3]	3,769	–	100
BMW Bank GmbH, Munich[3]	268	–	100
BMW Finanz Verwaltungs GmbH, Munich	247	117	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	–4	100
BMW Maschinenfabrik Spandau GmbH, Berlin	42	1	100
BMW Leasing GmbH, Munich[3]	16	–	100
BMW Hams Hall Motoren GmbH, Munich[4]	15	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[3]	11	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[3]	[5]	–	100

[1] In the case of German subsidiaries, based on financial statements drawn up in accordance with HGB.
[2] 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.
[3] profit and loss transfer agreement with BMW AG
[4] profit and loss transfer agreement with a subsidiary of BMW AG
[5] below euro 500,000

148 — Other Information
148 — BMW AG Principal Subsidiaries
150 BMW Group Ten-year Comparison
152 BMW Group Locations
154 Glossary
156 Index
158 Index of graphs
159 Financial Calendar
160 Contacts

Principal subsidiaries of BMW AG at 31 December 2008	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[2]			
BMW Österreich Holding GmbH, Steyr	1,950	394	100
BMW Motoren GmbH, Steyr	740	144	100
BMW China Automotive Trading Ltd., Beijing	136	130	100
BMW Russland Trading OOO, Moscow	127	3	100
BMW Austria Gesellschaft m.b.H., Salzburg	63	10	100
BMW Holding B.V., The Hague	3,688	906	100
BMW Italia S.p.A., Milan	414	58	100
BMW (Schweiz) AG, Dielsdorf	381	45	100
BMW Australia Finance Ltd., Melbourne, Victoria	370	21	100
BMW (South Africa) (Pty) Ltd., Pretoria	342	45	100
BMW Finance N.V., The Hague	341	–64	100
— BMW Overseas Enterprises N.V., Willemstad	64	2	100
BMW Japan Corp., Tokyo	297	7	100
— BMW Japan Finance Corp., Tokyo	347	26	100
BMW Belgium Luxembourg S.A./N.V., Bornem	213	22	100
BMW France S.A., Montigny le Bretonneux	175	61	100
BMW Canada Inc., Whitby	153	–91	100
BMW Australia Ltd., Melbourne, Victoria	118	26	100
BMW Portugal Lda., Lisbon	53	15	100
BMW Hellas Trade of Cars SA, Athens	46	14	100
BMW Korea Co., Ltd., Seoul	25	9	100
BMW Automotive (Ireland) Ltd., Dublin	24	9	100
BMW Sverige AB, Stockholm	24	–9	100
BMW New Zealand Ltd., Auckland	22	[5]	100
BMW Nederland B.V., The Hague	19	7	100
BMW (UK) Holdings Ltd., Bracknell	1,084	–10	100
BMW (UK) Ltd., Bracknell	868	–21	100
BMW (UK) Manufacturing Ltd., Bracknell	805	90	100
BMW Financial Services (GB) Ltd., Hook	168	–89	100
BMW (UK) Capital plc, Bracknell	105	–18	100
BMW Malta Ltd., St. Julians	972	107	100
— BMW Malta Finance Ltd., St. Julians	833	58	100
—— BMW Coordination Center V.o.F., Bornem	592	–2	100
BMW España Finance S.L., Madrid	360	21	100
— BMW Ibérica S.A., Madrid	262	32	100
— BMW de Mexico, S.A. de C.V., Mexico City	–3	–14	100
BMW (US) Holding Corp., Wilmington, Del.	1,206	5	100
BMW Manufacturing, LLC, Wilmington, Del.	690	135	100
BMW Financial Services NA, LLC, Wilmington, Del.	577	–106	100
BMW of North America, LLC, Wilmington, Del.	242	–60	100
BMW US Capital, LLC, Wilmington, Del.	233	20	100

BMW Group Ten-year Comparison

		2008 IASs/IFRSs	2007 IASs/IFRSs
Deliveries to customers			
Automobiles[3]	units	**1,435,876**	1,500,678
Motorcycles[4]	units	**101,685**	102,467
Production			
Automobiles[3]	units	**1,439,918**	1,541,503
Motorcycles[5]	units	**104,220**	104,396
Financial Services			
Contract portfolio	contracts	**3,031,935**	2,629,949
Business volume (based on balance sheet carrying amounts)	euro million	**57,587**	51,257
Income Statement			
Revenues	euro million	**53,197**	56,018
Gross profit margin Group	%	**16.7**	21.8
Profit before financial result	euro million	**921**	4,212
Profit before tax	euro million	**351**	3,873
Return on sales (earnings before tax/revenues)	%	**0.7**	6.9
Income taxes	euro million	**21**	739
Effective tax rate	%	**6.0**	19.1
Net profit/– loss for the year	euro million	**330**	3,134
Balance Sheet			
Non-current assets	euro million	**62,416**	56,619
Current assets	euro million	**38,670**	32,378
Equity	euro million	**20,273**	21,744
Equity ratio Group	%	**20.1**	24.4
Non-current provisions and liabilities	euro million	**41,526**	33,469
Current provisions and liabilities	euro million	**39,287**	33,784
Balance sheet total	euro million	**101,086**	88,997
Cash Flow Statement			
Cash and cash equivalents at balance sheet date	euro million	**7,454**	2,393
Operating cash flow[7]	euro million	**4,471**	6,246
Capital expenditure	euro million	**4,204**	4,267
Capital expenditure ratio (capital expenditure/revenues)	%	**7.9**	7.6
Personnel			
Workforce at the end of year[8]		**100,041**	107,539
Personnel cost per employee	euro	**75,612**	76,704
Dividend			
Dividend total	euro million	**197**	694
Dividend per share of common stock/preferred stock	euro	**0.30/0.32**	1.06/1.08

[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 and Land Rover up to 30 June 2000
[4] excluding C1, sales volume to 2003: 32,859 units, excluding Husqvarna Motorcycles (13,511 motorcycles)
[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./excluding C1 production by Bertone, production volume C1 up to 2002: 33,489 units, excluding Husqvarna Motorcycles (14,232 motorcycles)
[6] The net profit before exceptional items amounted to euro 663 million.
[7] Figures (available since 2000) are reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automobiles segment.
[8] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[9] adjustment to dividend due to buy-back of treasury shares

148 — Other Information
148 BMW AG Principal Subsidiaries
150 — BMW Group Ten-year Comparison
152 BMW Group Locations
154 Glossary
156 Index
158 Index of graphs
159 Financial Calendar
160 Contacts

2006 IASs/IFRSs	2005 IASs/IFRSs	2004 IASs/IFRSs, adjusted[1]	2003 IASs/IFRSs	2002 IASs/IFRSs, adjusted[2]	2001 IASs/IFRSs	2000 IASs/IFRSs	2000 HGB	1999 HGB
1,373,970	1,327,992	1,208,732	1,104,916	1,057,344	905,657	1,011,874	1,011,874	1,180,429
100,064	97,474	92,266	92,962	92,599	84,713	74,614	74,614	65,168
1,366,838	1,323,119	1,250,345	1,118,940	1,090,258	946,730	1,026,775	1,026,775	1,147,420
103,759	92,012	93,836	89,745	93,010	90,478	74,397	74,397	69,157
2,270,528	2,087,368	1,843,399	1,623,425	1,443,236	1,297,702	1,317,150	970,747	1,010,839
44,010	40,428	32,556	28,647	26,505	25,306	24,958	17,578	16,859
48,999	46,656	44,335	41,525	42,411	38,463	37,226	35,356	34,402
23.1	22.9	23.2	22.7	22.8	25.3	22.8	18.1	16.4
4,050	3,793	3,774	3,353	3,505	3,356	2,065	1,578	931
4,124	3,287	3,583	3,205	3,297	3,242	2,032	1,663	1,111
8.4	7.0	8.1	7.7	7.8	8.4	5.5	4.7	3.2
1,250	1,048	1,341	1,258	1,277	1,376	823	637	448
30.3	31.9	37.4	39.3	38.7	42.4	40.5	38.3	40.3
2,874	2,239	2,242	1,947	2,020	1,866	1,209	1,026	–2,487[6]
50,514	47,556	40,822	36,921	34,667	31,282	30,079	20,056	19,857
28,543	27,010	26,812	24,554	20,844	19,977	19,261	15,819	17,650
19,130	16,973	16,534	16,150	13,871	10,770	9,432	4,896	3,932
24.2	22.8	24.4	26.3	25.0	21.0	19.1	13.6	10.5
31,372	29,509	26,517	22,090	20,028	19,223	17,386	13,457	14,785
28,555	28,084	24,583	23,235	21,612	21,266	22,522	17,522	18,790
79,057	74,566	67,634	61,475	55,511	51,259	49,340	35,875	37,507
1,336	1,621	2,128	1,659	2,333	2,437	2,927	2,879	2,055
5,373	6,184	6,157	4,970	4,553	4,304	3,966	–	–
4,313	3,993	4,347	4,245	4,042	3,516	2,781	2,138	2,155
8.8	8.6	9.8	10.2	9.5	9.1	7.5	6.0	6.3
106,575	105,798	105,972	104,342	101,395	97,275	93,624	93,624	114,952
76,621	75,238	73,241	73,499	69,560	66,711	63,548	62,307	55,710
458	419[9]	419	392	351	350	310	310	269
0.70/0.72	0.64/0.66	0.62/0.64	0.58/0.60	0.52/0.54	0.52/0.54	0.46/0.48	0.46/0.48	0.40/0.42

BMW Group Locations

The BMW Group is present in the world markets with 24 production and assembly plants, 41 sales subsidiaries and a research and development network.

— **H** Headquarters

— R Research and Development

BMW Group Research and Innovation Centre (FIZ), Munich
BMW Group Forschung und Technik, Munich
BMW Group Car IT, Munich
BMW Innovations- und Technologiezentrum für Leichtbau, Landshut
BMW Entwicklungszentrum für Dieselmotoren, Steyr, Austria
BMW Group Designworks, Newbury Park, USA
BMW Group Technology Office, Palo Alto, USA
BMW Group Engineering and Emission Test Center, Oxnard, USA
BMW Group Technology Office, Tokyo, Japan
BMW Group Entwicklungsbüro, Beijing, China
BMW Group Entwicklung USA, Woodcliff Lake, USA

148 — Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group Ten-year Comparison
152 — BMW Group Locations
154 Glossary
156 Index
158 Index of graphs
159 Financial Calendar
160 Contacts

— P Production

Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant
Munich plant
Oxford plant, GB
Regensburg plant
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
Wackersdorf plant
Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno, Italy

— C Contract production

Magna Steyr Fahrzeugtechnik, Austria

— A Assembly plants

CKD production Cairo, Egypt
CKD production Chennai, India
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kulim, Malaysia
CKD production Rayong, Thailand

— S Sales subsidiary markets

Argentina
Australia
Austria
Belgium
Brazil
Bulgaria
China
Canada
Czech Republic
Denmark
Finland
France
Germany
Great Britain
Greece
Hungary
India
Indonesia
Ireland
Italy
Japan
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Philippines
Poland
Portugal
Romania
Russia
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Thailand
USA

Glossary

ACEA
Abbreviation for "Association des Constructeurs Européens d'Automobiles" (European Automobile Manufacturers Association).

Common stock
Stock with voting rights (cf. preferred stock).

Cost of materials
Comprises all expenditure to purchase raw materials and supplies.

DAX
Abbreviation for "Deutscher Aktienindex", 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 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 World
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.

Efficient Dynamics
The aim of Efficient Dynamics is to reduce consumption and emissions whilst simultaneously increasing dynamics and performance. This involves a holistic approach to achieving optimum automobile potential, ranging from efficient engine technologies, lightweight construction and comprehensive energy and heat management inside the vehicle.

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

Free cash flow
Free cash flow corresponds to the cash inflow from operating activities of the Automobiles segment less the cash outflow for investing activities of the Automobiles segment.

Gross margin
Gross profit as a percentage of revenues.

IASs
International Accounting Standards.

IFRSs
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

ISO 14001
An internationally recognised standard for environmental management systems.

Operating cash flow
Cash inflow from the Automobiles segment.

Preferred stock
Stock which receives a higher dividend than common stock, but without voting rights.

148 — Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group Ten-year Comparison
152 BMW Group Locations
154 — Glossary
156 Index
158 Index of graphs
159 Financial Calendar
160 Contacts

Production network
The BMW Group production network consists worldwide of 17 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.

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 sales
Pre-tax: Profit before tax as a percentage of revenues.
Post-tax: Profit as a percentage of revenues.

Risk management
An integral component of all business processes. Following enactment of the Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations, and which could endanger the continued existence of the company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

Subscribed capital
The share capital of a company is computed by multiplying the nominal value of the shares by the number of shares.

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.

Supplier relationship management
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the Group and create efficient sourcing and procurement processes along the whole value added chain.

Sustainability
Sustainability, or sustainable development, gives equal consideration to ecological, social and economic development. In 1987 the United Nations "World Commission on Environment and Development" defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The economic relevance of corporate sustainability to the BMW Group is evident in three areas: resources, reputation and risk.

Index

A

Accounting principles — 58
Annual General Meeting — 11–12, 15, 42, 45–46, 104, 138, 143–144, 159
Application of § 264 (3) and § 264b of the German Commercial Code (HGB) — 128
Apprentices — 29–30, 93

B

Balance sheet structure — 54
Board of Management — 09–13, 15, 42, 46, 55, 62, 80, 104, 126–127, 131–132, 136–143, 147, 155
Bonds — 42–43, 52, 55, 66, 77, 107, 121, 154

C

Capital expenditure — 15, 24, 52–53, 130, 151
Cash and cash equivalents — 52–54, 77, 80, 125
Cash flow — 07, 15, 43, 47, 51–52, 63, 79, 85–86, 116–117, 119–121, 123–125, 133, 151, 154–155
Cash flow statement — 07, 15, 51–52, 76, 79, 125, 133, 151
CO_2 emissions — 18, 32–33, 35–36, 40, 64, 70, 161
Compensation Report — 55, 127, 141–146
Compliance — 10–11, 32, 39, 65–67, 127, 138–141, 146–147
Consolidated companies — 53, 80–82, 104, 126
Consolidation principles — 82, 133
Contingent liabilities — 86, 115
Corporate Governance — 10, 12, 55, 127, 134, 138–139, 141, 143–144, 146–147
Cost of materials — 55–56, 154
Cost of sales — 49–50, 58, 60, 73, 77, 79, 83, 88–89, 96
Current assets — 51, 54, 59, 75, 77, 84–85, 91, 97, 101, 130–131, 151
Current provisions and liabilities — 54, 75, 151
Current taxes — 74, 90, 76–77, 101, 110–111

D

DAX — 11, 42, 154
Dealer organisation — 28, 40–41, 65, 69, 121
Declaration to Corporate Governance Code — 147
Deferred taxes — 53, 77, 86, 91–92, 104, 154
Development — 12, 15, 25, 30, 35–39, 42, 46–47, 49–50, 53, 60, 63–64, 66–67, 70–71, 73, 83–84, 89, 95–96, 101, 106, 132–133, 137, 152, 155
Dividend — 15, 31, 43, 45–46, 52, 77, 83, 92–93, 104, 125, 142, 151, 155
Dow Jones Sustainability Index World — 44, 154

E

Earnings per share — 43, 50, 73, 83, 92–93, 143
Efficient Dynamics — 09, 13, 21, 25, 34–36, 38, 40, 63–64, 70, 154
Employees — 07, 12–13, 24, 29–31, 33, 37, 41–42, 45–46, 55–56, 58, 65–66, 69, 93, 104–106, 138–142, 151
Equity — 43, 46–50, 53–54, 57–59, 73, 75, 77–78, 80–82, 84–86, 90–91, 95, 97, 103–105, 107, 109, 120–121, 130, 133, 148–149, 151, 154
Exchange rates — 16, 50, 52–53, 62, 82, 124
Explanatory notes to the cash flow statements — 125

F

Financial assets — 53, 57, 75, 84–85, 99, 100, 117, 119, 121–122
Financial instruments — 46, 50, 52–53, 55, 58, 62–63, 78, 85–87, 90–91, 103–104, 114, 116, 120–125, 139
Financial liabilities — 47–48, 52–53, 55, 75, 77, 81, 84, 86, 105, 111, 114, 117, 119, 121–122
Financial result — 06–07, 48–50, 60, 73, 86, 90, 107, 129–130, 151, 154
Financial Services — 09, 11, 14, 27–29, 42, 47–49, 51, 53, 57, 63, 65, 70, 73, 75, 77, 79, 81, 125, 129–130, 149, 151
Fleet consumption — 35
Foreign currency translation — 82

G

Group tangible, intangible and investment assets — 94, 96–97

I

Income statement — 49, 60–61, 72, 79, 82, 85–88, 93, 97, 107, 110, 120–121, 133, 151
Income tax assets — 101
Income taxes — 49, 60, 73, 77, 86, 90–91, 151, 154
Income tax liabilities — 110
Intangible assets — 15, 50–51, 53, 57–59, 75, 77, 83–84, 89, 91, 95–96, 130–131
Internal financing — 55
Inventories — 53, 59, 75, 77, 83, 86, 102
Investments — 15–16, 49–50, 52–53, 58–60, 66, 73, 75, 77–78, 80, 82, 84–85, 90–91, 95, 97, 107, 115, 117, 119–120, 124, 129–130
Investments accounted for using the equity method and other investments — 97

K

Key data per share — 43

L

Lease business — 27–28, 63
Leased products — 52–53, 75, 77, 84, 91, 95, 97, 130–131
Locations — 30, 32–34, 37, 41, 152

M

Mandates of members of the Board of Management — 137
Mandates of members of the Supervisory Board — 134–136
Marketable securities — 50, 52–53, 59, 77, 79, 84, 90–91, 95, 97, 99–100, 104, 117, 119–120
Motorcycles — 07, 14, 18, 25–26, 29, 38, 40–41, 47–51, 57–58, 68, 70, 73, 75, 79, 97, 129–131, 151, 153

N

Net profit — 07, 14, 31, 49–51, 60, 73, 77–78, 81, 83, 85, 92, 103–104, 125, 142, 151
New financial reporting rules — 87–88
Non-current assets — 54, 75, 77, 84, 97, 101, 130–131, 151
Non-current provisions and liabilities — 54, 75, 151

O

Other disclosures relating to the income statement — 93
Other financial result — 49–50, 73, 90
Other investments — 53, 75, 80, 84, 95, 97, 117, 119
Other operating expenses — 49, 73, 89, 96
Other operating income — 49–50, 60, 73, 89
Other provisions — 54, 59, 75, 86, 110
Outlook — 68–71, 105

P

Pension provisions — 47–48, 53, 58–59, 75, 86, 105–107, 109, 127, 143
Personnel costs — 89, 93
Prepayments — 59, 101
Principal subsidiaries — 148–149
Production — 07, 10, 15, 23–26, 30–34, 36, 39, 46, 53, 63–64, 69, 83–84, 86, 89, 96, 114, 123, 151–153, 155, 161
Production network — 23–24, 30, 32–33, 64, 69, 155
Profit before financial result — 06–07, 48–50, 73, 129, 151
Profit before tax — 06–07, 14, 48–51, 73, 130, 151, 154–155
Property, plant and equipment — 15, 50–51, 53, 57–59, 75, 77, 83–84, 89, 91, 95–96, 115, 130–131
Purchases — 39–40, 63

R

Rating — 42, 63, 105, 123, 155
Receivables from sales financing — 52–53, 75, 77, 81, 85, 98, 99, 117, 119, 122
Related party relationships — 126
Report of the Supervisory Board — 09, 11, 13
Research — 27, 37–38, 49–50, 60, 70, 73, 83, 89, 96, 152, 155
Research and development costs — 49–50, 60, 73, 77, 89–90, 96
Result from equity accounted investments — 50, 130
Return on sales — 31, 50, 57, 70–71, 142, 151, 155
Revenue reserves — 59, 75, 104
Risk management — 09, 11, 62, 65, 123, 155

S

Sales and administrative costs — 49–50, 73, 89
Sales volume — 14, 20–23, 25–26, 51, 66, 69–70, 151
Segment information — 79, 87–88, 129–131
Shareholdings of members of the Board of Management and the Supervisory Board — 127
Stock — 15, 42–43, 45–46, 50, 58, 73, 83, 92–93, 104, 127, 138–139, 142, 144, 147, 151, 154–155
Subscribed capital — 59, 75, 154–155
Subsidiaries — 53, 58–59, 78, 80–82, 84, 90–91, 93, 95–97, 101, 104–105, 113, 115, 117, 119, 121, 126, 140, 148–149, 152, 155
Supervisory Board — 08–13, 15, 46, 62, 126–127, 134, 138–147
Suppliers — 39, 43, 64
Sustainability — 39, 43–44, 139, 154–155

T

Tangible, intangible and investment assets — 59, 77, 94, 96–97, 130–131
Trade payables — 48, 55, 59, 75, 114, 117, 119, 122
Trade receivables — 53, 59, 75, 101–103, 117, 119

W

Workforce — 07, 14, 29–31, 50, 56, 58, 66, 69, 89, 93, 151

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

Index of graphs

Finances
Profit before financial result — 06
Profit before tax — 06
Revenues — 06
BMW Group Capital expenditure and operating cash flow — 15
BMW Group Revenues by region — 15
Exchange rates compared to the Euro — 16
Oil price trend — 17
Precious metals price trend — 17
Steel price trend — 17
Contract portfolio of BMW Group Financial Services 2008 — 27
Contract portfolio retail customer financing of BMW Group Financial Services 2008 — 28
Regional mix of BMW Group purchase volumes 2008 — 39
Change in cash and cash equivalents — 52
Balance sheet structure – Automobiles segment — 54
Balance sheet structure Group — 54
BMW Group Value added 2008 — 55

Production and sales volume
Deliveries of automobiles — 06
BMW Group Deliveries of automobiles by region and market — 20
BMW Group – key automobile markets 2008 — 20
Deliveries of BMW diesel automobiles — 22
Automobile production of the BMW Group by plant in 2008 — 23
MINI brand cars in 2008 – analysis by model variant — 23
BMW motorcycles delivered — 25
BMW Group – key motorcycle markets 2008 — 26
BMW motorcycles in 2008 – analysis by series — 26

Workforce
BMW Group Apprentices at 31 December — 29
Employee fluctuation ratio BMW AG — 30
Compliance Committee — 140

Environment
CO_2 emissions per automobile produced — 32
Energy consumed per automobile produced — 32
Process wastewater per automobile produced — 33
Water consumption per automobile produced — 33
Roadmap of the BMW Group for sustainable mobility — 34
Volatile organic compounds (VOC) per automobile produced — 34
Waste for removal per automobile produced — 34
Development of CO_2 emissions of BMW Group cars in Europe (EU-15) — 35

Stock
Development of BMW stock compared to stock exchange indices — 42

Financial Calendar

Annual Accounts Press Conference	18 March 2009
Financial Analysts' Meeting	19 March 2009
Quarterly Report to 31 March 2009	6 May 2009
Annual General Meeting	14 May 2009
Quarterly Report to 30 June 2009	4 August 2009
Quarterly Report to 30 September 2009	3 November 2009

Annual Report 2009	17 March 2010
Annual Accounts Press Conference	17 March 2010
Financial Analysts' Meeting	18 March 2010
Quarterly Report to 31 March 2010	5 May 2010
Annual General Meeting	18 May 2010
Quarterly Report to 30 June 2010	3 August 2010
Quarterly Report to 30 September 2010	3 November 2010

Contacts

Business Press

Telephone	+49 89 382-2 33 62
	+49 89 382-2 41 18
Fax	+49 89 382-1 08 81
E-mail	presse@bmwgroup.com

Investor Relations

Telephone	+49 89 382-2 42 72
	+49 89 382-2 53 87
Fax	+49 89 382-1 46 61
E-mail	ir@bmwgroup.com

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

148 — Other Information
148 BMW AG Principal Subsidiaries
150 BMW Group Ten-year Comparison
152 BMW Group Locations
154 Glossary
156 Index
158 Index of graphs
159 Financial Calendar
160 — Contacts

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SW-COC-002207
© 1996 Forest Stewardship Council

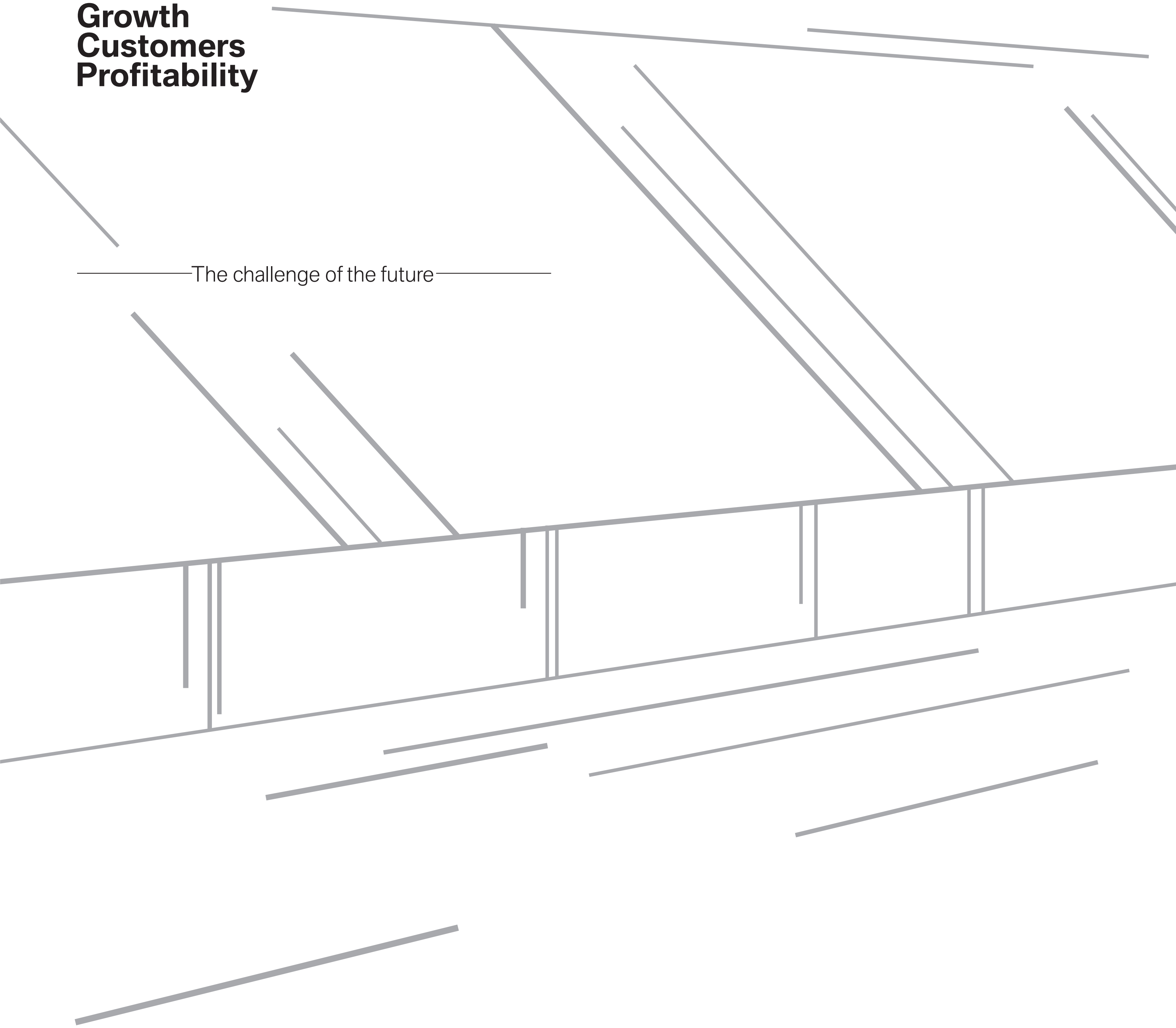
The manufacture of, and the paper used for, the BMW Group's Annual Report 2008, have been certified in accordance with the criteria of the Forest Stewardship Council (FSC). The FSC prescribes stringent standards for forest management, thus helping to avoid uncontrolled deforestation, human rights infringements and damage to the environment. Since products bearing the FSC label are handled by various enterprises along the processing and trading chain, the FSC chain of custody certification rules are also applied to enterprises which process paper e.g. printing companies.

Print CO_2 compensated

The CO_2 emissions generated through the production of paper for this report, as well as through print and production, were neutralized by the BMW Group. To this end, the corresponding amount of emission allowances was erased, with the transaction identification DE75016 on 3 March 2009.

Number ONE

Future
Growth
Customers
Profitability



The challenge of the future

Future
Growth
Customers
Profitability

The time has come not only to define mobility in the 21st century, but to realise it. Only the best ideas and concepts will succeed: concepts which align our own needs with those of our customers and with the challenges society faces – and in doing so create a new state of balance that will benefit us all.

The challenge of the future

Norbert Reithofer — Chairman of the Board of Management

Ladies and Gentlemen,

2008 has not been an easy year for any of us – and that applies equally to the BMW Group. Who would have thought, at the start of the year, that we would see so much turmoil in the international finance markets within a matter of months? That within a few short weeks a whole series of reputable banking institutions would vanish from the market? Or that entire countries would find themselves in financial difficulties?

During the course of the year, developments in the financial markets began to affect the real economy. More than that, they shook the very framework and the mechanisms of the global economic and financial system. Within the space of weeks, much valuable trust was lost. Consumers are naturally concerned – and their lack of confidence is reflected in sales of automobiles.

Although most markets saw a major drop in sales from the previous year, the BMW Group brands BMW, MINI and Rolls-Royce performed comparatively well under the circumstances. Our company's global automotive sales were 4.3 % lower than the previous year, but despite this decrease we were still able to achieve the second-best sales figures in our company's history. In fact, MINI was one of the few automotive brands that reported growth in 2008. Our motorcycle business also performed well and almost matched the previous year's high level, with sales of 101,685 BMW motorcycles.

Nevertheless, the situation remains challenging and there is currently no improvement in sight. The BMW Group will be confronted by economic developments no less than other automobile manufacturers. Consumers' reluctance to buy new vehicles; the poor state of the pre-owned vehicle market and the resulting residual value problems; and, not least, much higher refinancing costs – are all factors which have affected our business and had a negative impact on earnings. However, although we revised our forecasts for 2008, we were still able to close the year with positive earnings.

At the same time, we also achieved a great deal during 2008: We made great strides in implementing Strategy Number ONE, which gives us a significant competitive edge and provides a clearly formulated vision. We took decisive action early on – which has proved to be the right course in the current challenging circumstances. You will find many examples of this in our annual report. Strategy Number ONE is our compass out of this crisis and we will be stronger than before. And we will follow this strategic path consistently.

We have continued to invest in Efficient Dynamics and other technologies – and thus in our future. That future can be seen in the many new models which we introduced in 2008.

We presented a new version of the BMW brand's flagship 7 Series. From the positive response it received in the media and particularly among our customers, it looks like we truly hit the mark. We were also able to offer our customers exciting new products in other segments: including the BMW 1 Series Convertible; revised models of the BMW 3 Series Sedan and Touring; the BMW X6 and the BMW M3; through to the Rolls-Royce Phantom Coupé.

We also remain the world's most sustainable automotive company. For the fourth consecutive year we headed the Dow Jones Sustainability Index for our industry. At the BMW Group, sustainability is deeply anchored within the company. This can be seen most clearly in our products. For instance, by the end of 2008 we could already boast claim to 27 models with emissions of less than 140 grams of CO_2 per kilometre. Many of our vehicles are already "best-in-class" when it comes to fuel economy.

Our Clean Production philosophy makes sustainability an integral part of vehicle production. Our aim is for the BMW Group to use resources more efficiently than any other company in the industry. Because we know that companies who practice corporate sustainability shape their own future. And we want our future to be a successful one!

We have substantially increased productivity in manufacturing our vehicles. In the process we also cooperated with the BMW Group Works Council in the reduction of our workforce. We took important steps in this direction at an early stage, and – what is particularly important to me – by mutual agreement with employee representatives. Rest assured that the Board of Management and I do not take such decisions lightly, and that we are well aware of what it means for the people concerned. But today, more than ever, we can see that this was an important and necessary step towards securing the future of our plants and of the company as a whole.

We were also able to make substantial cost reductions and leverage potential efficiencies in other key areas. And so, we start 2009 with a whole range of competitive advantages, exciting products and sound liquidity. One thing is clear: This will be a challenging year for our entire industry. It will be a year of transition in which every automobile manufacturer will be put to the test.

But it should also be clear that, despite all the challenges it faces, the BMW Group is still a company that delivers a strong operating performance. The foundation of that strength lies in the passion and dedication of all our employees. And so I would like to take this opportunity to express my sincerest gratitude to all our employees for their commitment over the past year. I know that we will continue to work extremely hard this year and to use every means available to emerge as a winner from the crisis in our industry. There is no denying that the crisis has filtered into people's minds, but we at the BMW Group like to think differently: We will look to the future, and that will assure our position as a leader in our industry.

Yours

Norbert Reithofer — Chairman of the Board of Management

Everything we do, we do with conviction. We firmly believe that the future of mobility demands a new equilibrium.

A balance between individual demands and ecological necessities; between familiar approaches and new ideas; between success and responsibility.

All of our future decisions will be measured against these standards – that is how we will create the mobility of tomorrow.

An age is dawning in which sustainability will shape our values.

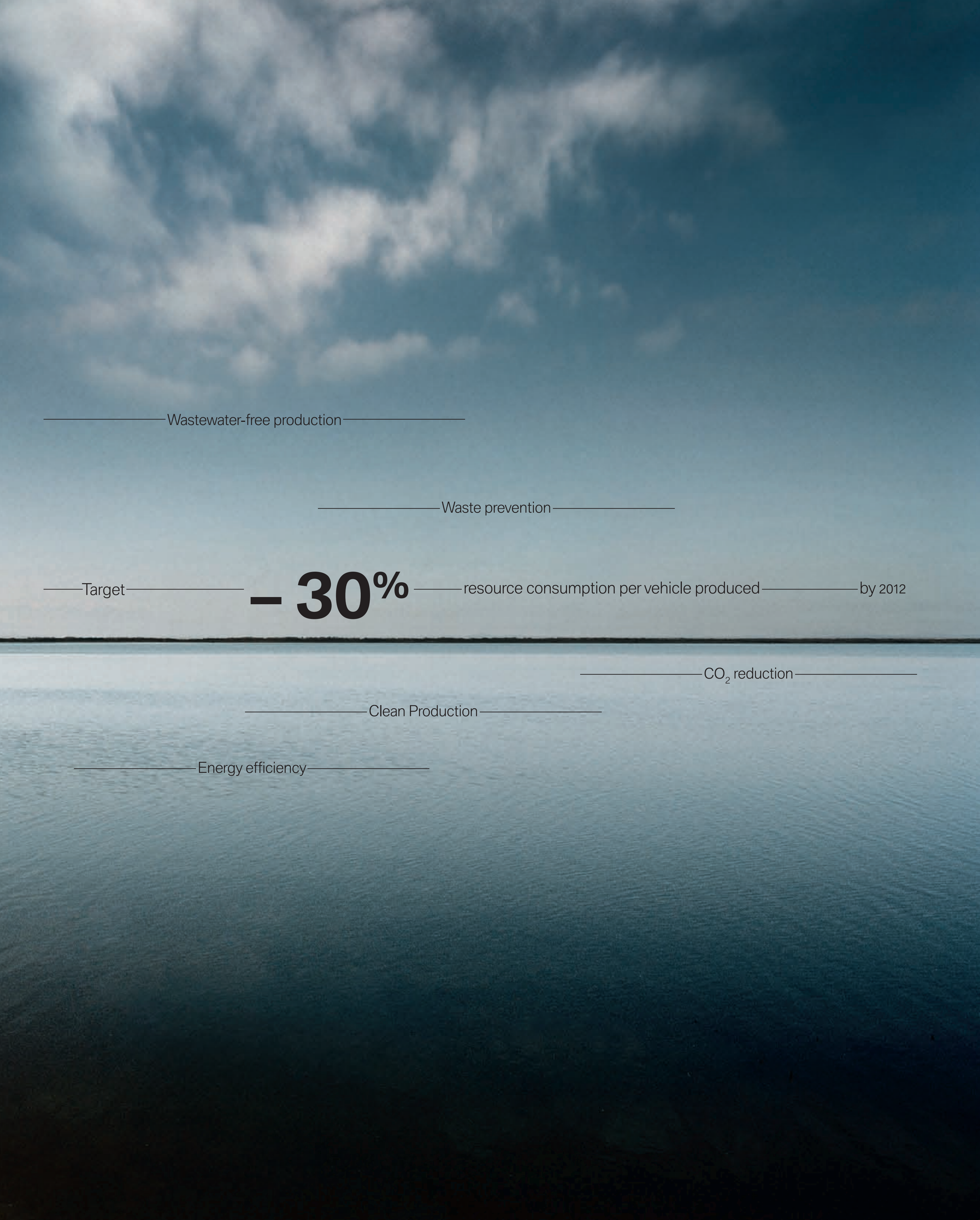
In which a paradigm shift will redefine the future of individual mobility.

Our goals are clear. And we will consistently realise them.


Strategy Number ONE
MINI E
Target
Shaping future mobility
project i
Focussing on solutions
Challenges: Megacities


More than 3,000 dealers worldwide
Innovative service products
Target 20% increase from after-sales business by 2014
Service that spans a vehicle's lifetime
Potential: over 14 million BMW Group vehicles on the road


Active safety systems
Integrated safety: so that accidents don’t have to happen
Driver assistance systems
Passive safety systems


Wastewater-free production
Waste prevention
Target
– 30%
resource consumption per vehicle produced
by 2012
CO_2 reduction
Clean Production
Energy efficiency

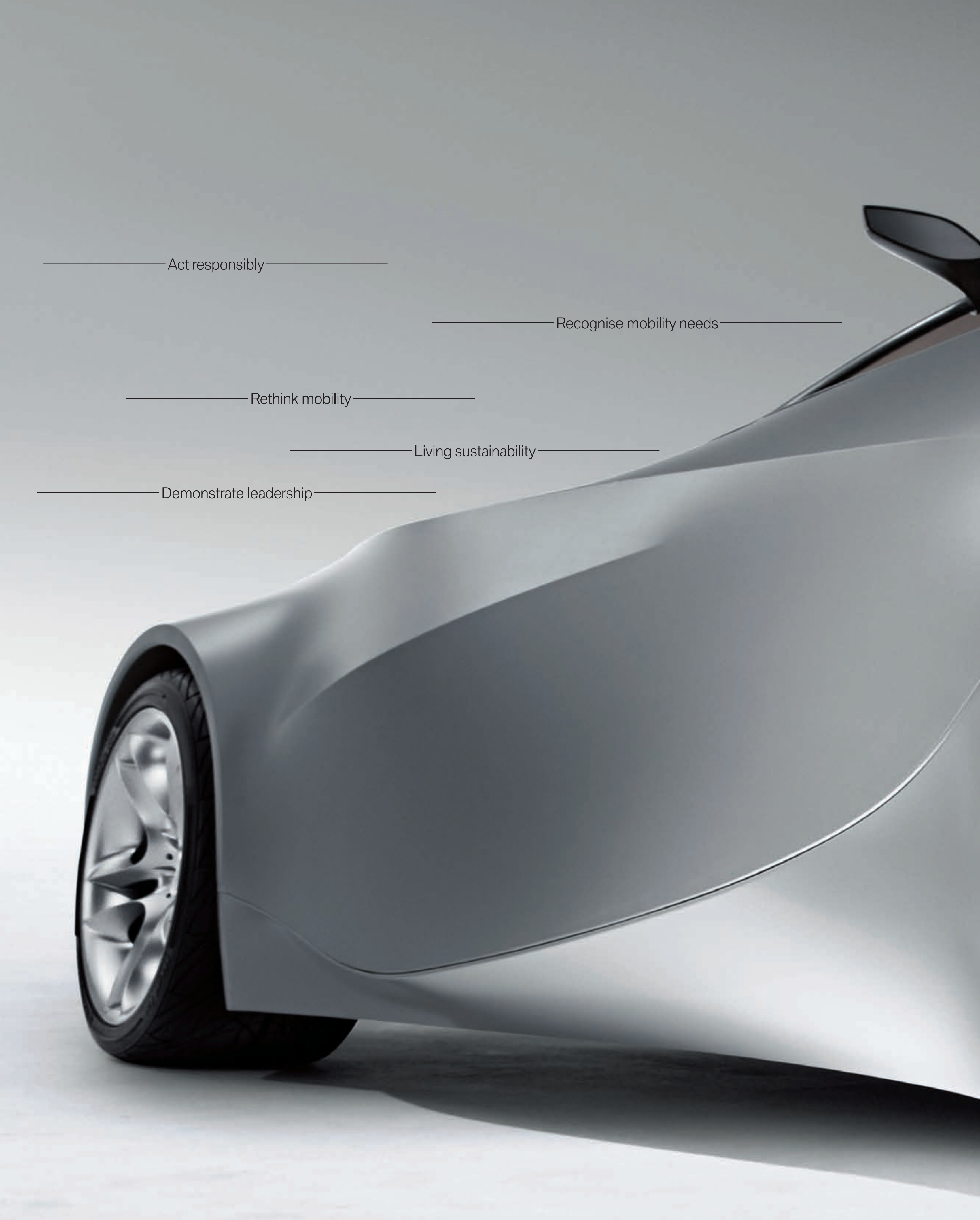
Re-evaluating past ideas.

One thing is certain: Premium will always be premium. And yet still reinvent itself.

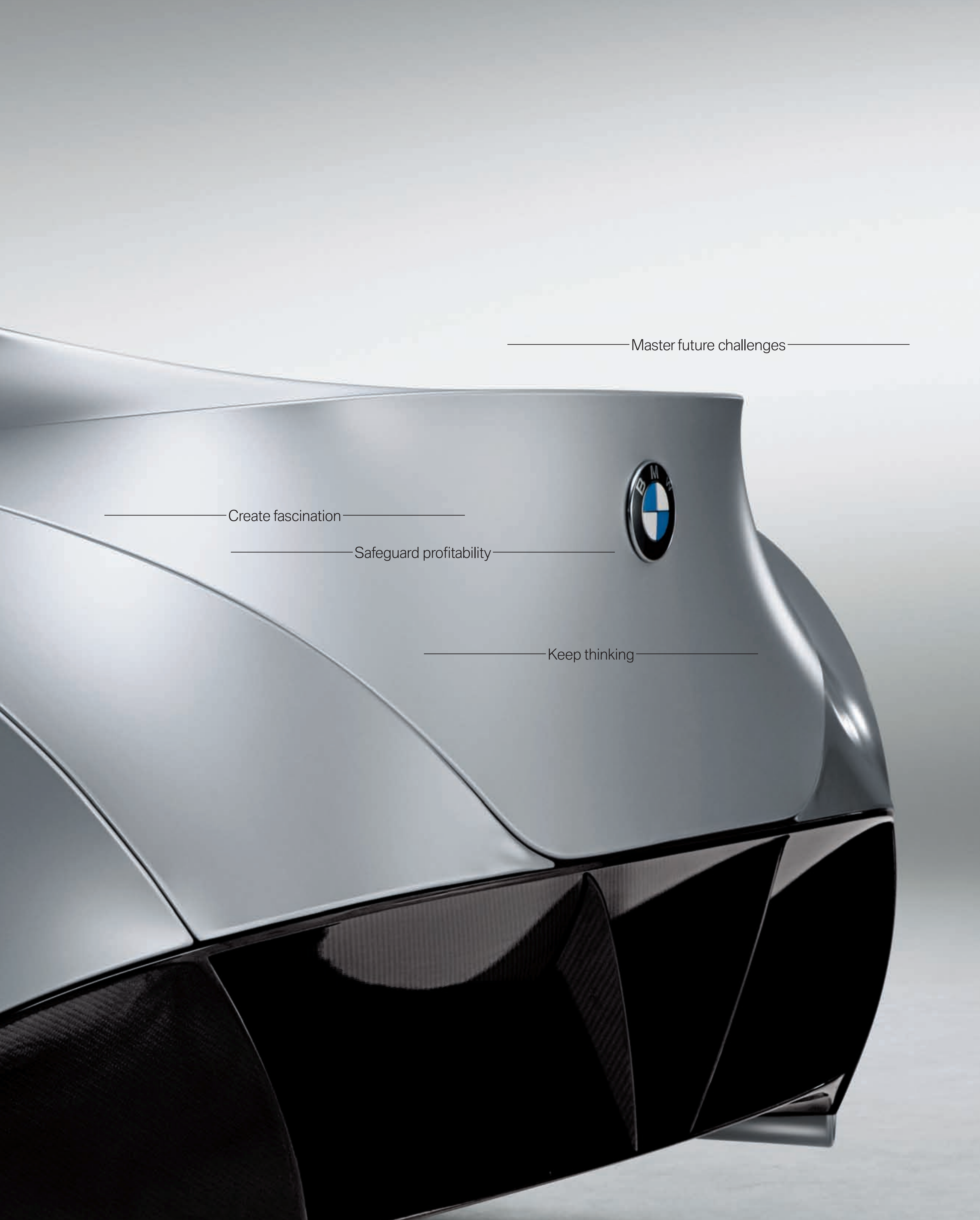
This is how we create vehicles that redefine the premium concept.

Based on technological innovation – and the efficient and responsible use of resources.


Redefining premium
Visionary thinking
Focussing on individuals
Making efficiency key
Going our own way
Promoting creativity


Act responsibly
Recognise mobility needs
Rethink mobility
Living sustainability
Demonstrate leadership


275/35 R20
BMW


Master future challenges
Create fascination
Safeguard profitability
Keep thinking

Our vision: to be the leading supplier of premium products and premium services for individual mobility.

The challenge of the future

Contents

Preface — **Norbert Reithofer** — **04**

Introduction — **The challenge of the future** — **09**

Topic — one — Future

project i – reinventing urban mobility — **24**

Topic — two — Growth

Service that spans a vehicle's lifetime — **32**

Topic — three — Customers

Integrated safety — **46**

Topic — four — Profitability

Clean Production — **56**

Topic — five

New products — **68**

Topic — six

The year 2008 — **80**

Ensuring individual mobility in the major cities of tomorrow requires setting totally new solutions in motion today. It means developing not only fuel-saving drive technologies, but also new vehicles and mobility services. It means being prepared to question everything, even our own way of thinking. Welcome to project i.

Reinventing urban mobility. — project i.

Autumn—2007
Strategy Number ONE adopted

Example: Bangkok. Traffic researchers have found that drivers in Thailand's capital city now travel at no more than 15 kilometres an hour during rush hour. Traffic jams are so common in this city of seven million that its traffic police recently had to be trained in basic obstetrics – because more and more women were giving birth in their cars. On the streets of Mexico City, on the other hand, one of 30 megacities around the world with more than ten million inhabitants, today's 4.2 million vehicles create their own microclimate. 99 percent of the carbon monoxide and 80 percent of the nitrogen oxides in the city's air come from the exhausts of cars, buses and motorcycles. The roads are just as congested in Los Angeles. This city currently has the world's highest density of cars. The average commute to and from work takes two hours – which means commuters spend about three weeks out of every year stuck in traffic.

In major conurbations the original concept of mobility – easily getting from A to B within a certain amount of time – is rapidly becoming a dream. At the same time more and more people are flooding into the mega-metropolises. Over 280 million city dwellers already live in mega-cities. And people keep on coming. The influx is growing. Space is getting scarcer. There is less and less room to move around.

December—2007 Launch of project i

But what is the point of individual mobility if you are moving no faster than a well-trained jogger? Or, to put it another way: What kind of future urban mobility would enable people to reach their destination reliably and without hassle once again? Which vehicles would be needed, with which climate-neutral drive technologies – and how could we find new ways of integrating them with other means of transport? How many wheels should the ideal urban mobility concept have? And which factors that nobody has even thought of should planning take into account?

All these questions have been the subject of a radically open discussion taking place in a plain factory building at the heart of the BMW plant in Munich that began in spring 2008. From the outside one would never guess that a revolution is being planned right here. A grey-painted stairway leads through a restricted access area to a buzzing open-plan office. The walls are covered with city maps, charts, flow diagrams and hand-drawn sketches. Telephones ring non-stop; engineers dash from one desk to another. Standing right next to the doorway is a prototype of a BMW electric bicycle with a sign reading “E-Parking Only” hanging over it.

March—2008 Megacity analysis completed

All this brings to mind the excitement of the days when start-ups were springing up all over the place; and, at first glance, the project does indeed appear to have a lot in common with a start-up. Set up as a largely autonomous company within the company, project i is probably the most far-reaching future project launched as part of the Group’s corporate strategy Number ONE. Its mission is nothing less than to completely rethink mobility for people who live in the world’s metropolitan areas – and that includes everything from vehicle concepts to production structures through to branding and service strategies. The “i” in the project name ambitiously stands for intelligent, innovative and international. “We have tremendous freedom,” says Inga Jürgens (40), a graduate in management information systems who joined project i from the BMW Group’s strategy department. “Not just for the sake of it,” she adds, “but because we strongly believe that the premium mobility of the future cannot be developed from the concepts of the past.”

Challenge: London——Inhabitants: 7.5 million——Inhabitants per square kilometre: 4,800
City centre toll: 8 pounds / day——Vehicles in the toll zone: 130,000 / day

April—2008
First prototype of the
MINI E

Inga Jürgens
Head of Planning
and Control
project i——
Munich

Challenge: Los Angeles — Inhabitants LA metropolitan area: 13 million — Inhabitants per square kilometre: 3,330
Average commute: 60 minutes — Percentage of commuter traffic comprised by cars: 90 %

July—2008 Announcement of field trial in the USA 2009

For the 30-strong core team nothing is off-limits – apart from conventional thinking, that is. They welcome ideas that would be tossed out as impractical anywhere else and relish questions that challenge conventional wisdom. They discuss unexpected approaches that open up new possibilities. According to Jürgens, the biggest surprise has been “how remarkably open the BMW Group has been about taking risks. Not to mention the unusual way we are allowed to work – and the speed with which our unconventional ideas are turned into solutions for the future.”

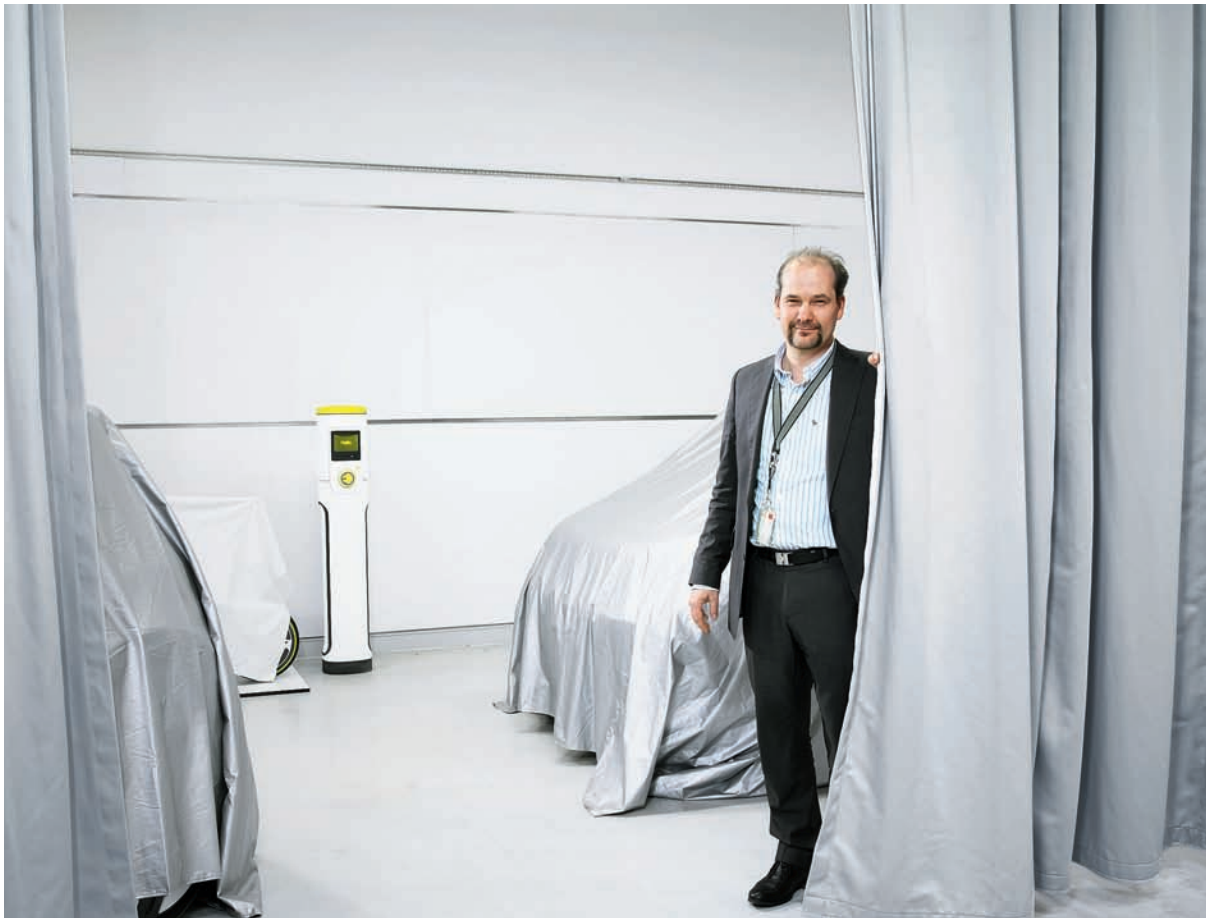
Because, unlike a regular start-up, the project i team has access to the combined know-how, resources and cutting-edge technologies of a global company. And so it can also deliver highly sophisticated answers to some extremely complex challenges within a very short space of time. In less than eight months project leader Ulrich Kranz’s team developed a comprehensive vision of future mobility that is as remarkable as it is persuasive. The team conducted interviews with mobility researchers, urban planners and architects from around the world. They also negotiated with battery manufacturers and energy providers, because any city vehicle of the future would be sure to incorporate at least an electric motor. “Not only is an electric-powered vehicle climate-neutral to drive,” explains Joachim Kolling (44), the project i team’s design head, “when you drive right into the city centre, it also produces zero emissions. And, in the future, that will be increasingly necessary to enter mega-cities at all.”

November—2008 MINI E debuts at Los Angeles Motorshow

Kolling has spent the past few months fleshing out the details of a climate-neutral vehicle of this kind together with partners from the BMW Group’s global design network. The first full-sized models are already parked in the project i team’s office. “We are thinking about launching a whole range of models in the first half of the next decade,” confides Kolling. “Some with two wheels, some with four. Obviously, a densely-built city like Barcelona needs completely different vehicles than the greater Los Angeles area with its eight-lane highways and extensive network of sprawling suburbs.”

The prototypes are still under wraps and can only be accessed by team members. But out on the roads electric mobility in its current form is already a reality.

Challenge: Mexico City — Inhabitants in the metropolitan area: 20 million — Inhabitants per square kilometre: 5,800 — Annual growth in inhabitants: up to 1 million — Minibus traffic: 55 % Average age of vehicles: 15 years — CO_2 emissions from road traffic: 99 %



Dr. Joachim Kolling Head of Design and Creative Processes project i — Munich

Challenge: New York——Inhabitants: 8.1 million——Inhabitants NY metropolitan area: 21.2 million
Inhabitants per square kilometre: 9,600——Parking costs per day: 20–40 US-$

Spring—2009 Delivery of 500 MINI E test vehicles

Just last December test drivers were out on the roads all over Bavaria in a remodelled version of the MINI Cooper, testing its performance in winter conditions. The MINI E, as it is known, was developed exclusively as a test vehicle. It was built at the MINI plant in Oxford and fitted with an electric drive in Munich. It features a 204-hp electric motor, a top speed of 152 km/h and has a high-performance lithium-ion battery where the rear seat would be. The energy storage unit allows the car to drive a distance of up to 250 kilometres (156 miles). It recharges within 2.5 hours and runs perfectly when put to the test in snow at minus 12 degrees Celsius. Anyone who spotted the zero-emission car driving around Bavaria would hardly have noticed anything different from the regular MINI. In fact, the only visible difference is that there is no exhaust pipe – and, of course, no engine noise either.

Once road trials have been completed, around 500 of these 100-percent emission-free MINI cars will be delivered to customers in New York, Los Angeles and Berlin for testing. This makes the BMW Group the first manufacturer worldwide to put a vehicle with lithium-ion technology on the roads in large numbers. The excitement the test vehicles generated in the market surprised even the enthusiastic project i members. Several thousand Americans applied to drive a MINI E despite the relatively high lease rate of 850 dollars a month.

The MINI E is an extremely valuable “trial balloon on four wheels” for the project i team. “We hope this project will provide us with important insight as to how customers use an electric car,” explains Jürgens. “And, of course, tell us what we need to improve.”

For this purpose MINI E drivers will be monitored by market researchers during the twelve-month field trial and regularly surveyed about their driving experience. Also in Berlin, where more MINI E cars will take to the roads in the spring as part of a cooperative venture with the energy provider Vattenfall Europe, researchers from the universities of Chemnitz and Berlin will provide the pilot project with scientific support. The goal here is also to find out more about electric car drivers’ habits. The MINI E will also help researchers explore electric cars’ potential for energy storage. Many energy providers experience major difficulties with fluctuations in the availability of energy from regenerative sources depending on the weather: For instance, if it is windy at night, the CO_2-free energy produced is rarely needed at that time. On the other hand, wind power is

Challenge: Shanghai——Inhabitants in the urban area: 9.7 million
Inhabitants per square kilometre: 12,946——Inhabitants by 2015: 13.25 million

Spring—2010 Evaluation of MINI E field trial

not always available at peak times. But if, in the future, you could hook up a large number of electric cars to battery-charging stations for recharging at night, the fleet of E-vehicles would work as a kind of gigantic, networked battery. Electric vehicles would store the green energy as soon as it was generated – helping to solve one of the central problems of regenerative power generation and meeting the challenges of urban mobility at the same time.

For now, those remain visions of the future. “But we are making such tremendous progress on completely new concepts for vehicles with electric drives within such a short space of time,” Kolling points out, “that we don’t even know what else is possible yet!” A lot of questions still need to be answered – but that is precisely what project i is all about.

But what does such a vehicle need to be able to do? What could it potentially do without? What does mobility mean for people in megacities? These are the questions project i market researchers put to dozens of traffic planners, architects, environmentalists and creative types from all over the world at the very outset of the project. They travelled round the globe twice to interview people in London and Paris, Los Angeles, Mexico City and Shanghai. “Many of them,” Kolling recalls, “were totally surprised how openly we listened to what they had to say. And they are now very keen to see what kind of solutions we will be able to offer them.”

However, the key question is one the project team has asked itself again and again, in every phase of the project. And it is still heard every day in the office at the heart of the BMW plant in Munich. The question is: “Which of our customers’ problems does this solve?”

Every aspect of project i developments is measured against this pivotal question. “Need-Offer-Fit” is what designer Kolling calls this approach. It simply means that every product and the services that go with it have to be developed in ongoing dialogue with future users. This approach substantially improves its chances of success. “We want this discussion to be as long and as intensive as possible,” says Kolling, “because our future customers’ needs are changing just as dramatically as the cities themselves: We will keep on adjusting and improving our vehicle concepts right up until production starts.”

The first project i vehicles will roll off the assembly line before the middle of the next decade. Until then, there is plenty of time for all those questions. And plenty of scope for unconventional answers: answers which are sure to get – and keep – tomorrow’s urbanites on the move.

There are more than 14 million BMW Group vehicles on the roads today – which means there are more than 14 million potential service customers. For this reason the company is launching a global initiative which will systematically exploit the huge sales potential of the service and parts business – and at the same time reach out to entirely new customer groups.

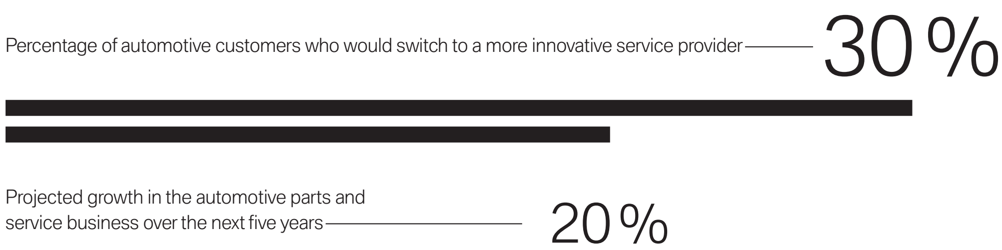
Customer service

=

Growth driver

Closing the driver's door behind you for the first time; starting the engine; slipping it into gear. For a BMW Group customer, driving away in a new car is always a very special moment. It is also the beginning of a relationship between customer and manufacturer that often lasts for years. There are more than 14 million BMW Group vehicles on the roads today – that means there are 14 million potential service customers out there, all looking for the best available long-term care.

Quality of service is one of the main criteria customers take into account when buying a new vehicle. According to industry reports, one in three automotive customers would be prepared to switch providers to experience a more innovative approach to service. From the BMW Group's point of view, after-sales service not only means satisfied customers, but also translates directly into sales and profitability, since parts, accessories and services have such tremendous growth potential. To make better use of this potential, the BMW Group has launched a global initiative to expand its after-sales offering.



The aim is to provide BMW Group customers with a comprehensive range of services throughout the entire life of their vehicle – improving customer loyalty and winning new customers in the process. That is why one of the steps currently being taken is to set up highly modernised "Dealer Metro Distribution Centres" in 43 major cities around the world, where dealers in that region will be able to access the 10,000 to 15,000 most essential BMW and MINI parts within a few hours. They offer customers fast and comprehensive service – including owners of older vehicles, many of whom currently use independent garages they believe to be cheaper.

Percentage of after-sales customers who would be prepared to switch service providers — 40 %

Some people are loyal to one brand of car their whole life. Meet some of our long-time BMW and MINI drivers with their vehicles in everyday situations on the following pages.

At the same time, the range of products offered – as well as the positioning and advertising of the parts and services business – will be systematically expanded. The goal is to generate at least 20 percent more sales over the next five years. In this way, the BMW Group will also strengthen the profitability and stability of its extensive dealer network: For the 3,000-plus BMW Group dealerships worldwide, the service and parts business represents a reliable source of revenue which is immune to economic fluctuations. Customers, on the other hand, benefit from receiving the best possible on-site service – from that first special moment to the end of their vehicle's lifetime.

Vehicle———BMW 3 Series Touring
Purchased———2008
Total distance travelled————1,750 km
Longest route——BMW Welt Munich–Walldorf

Percentage of automotive customers who already changed their brand of car because of poor service — 15 %

Dr. Lutz Bergau — Aviation doctor — Alaska fan
Dr. Maren Rehfeld-Bergau — Paediatrician — Alaska fan
BMW drivers since — 1977
First BMW — BMW 2002

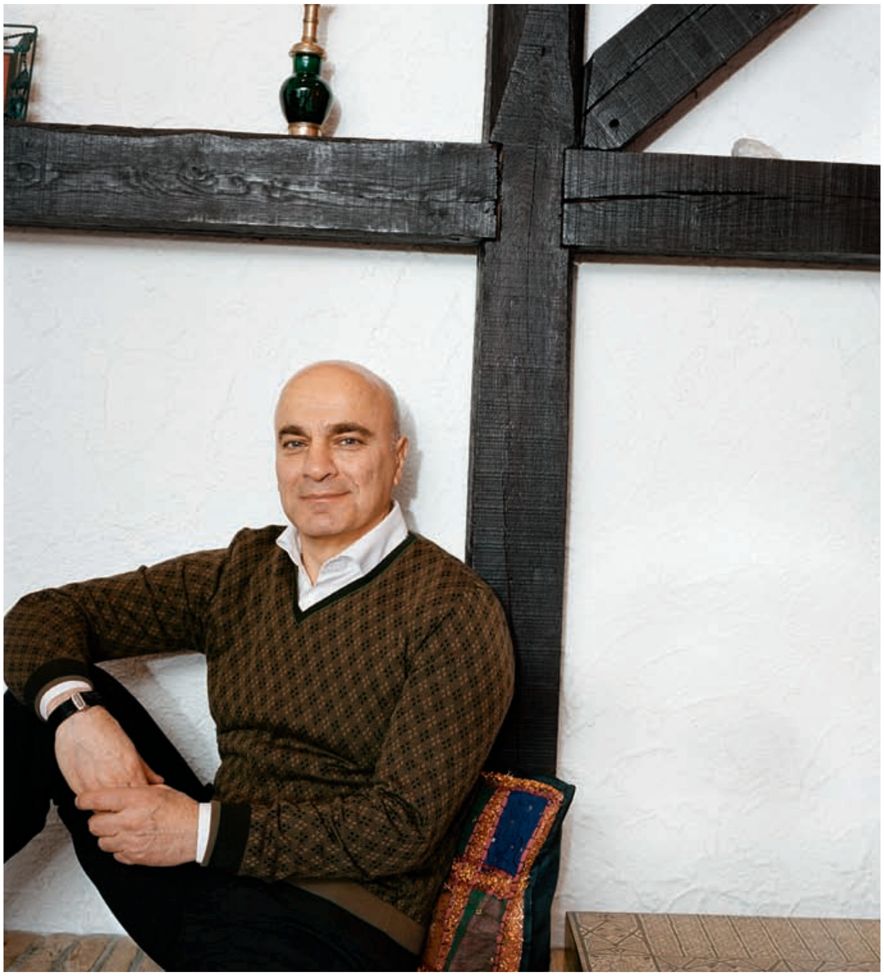
Jan Hendrik Schönfeld——Real estate agent
MINI driver since————2001
First MINI—————MINI Cooper

Vehicle——MINI Cooper S Convertible
Purchased————2007
Total distance travelled————43,000 km
Longest route——Hanover–Milan–Hanover

Vehicle——————BMW 3 Series
Purchased———2008
Total distance travelled——9,000 km
Longest route——Muelheim–Tuscany–Muelheim

Percentage of sales generated by after-sales business in the German automotive industry — 50 %

Ghias Al-Tinawi — Internist
BMW driver since — 1983
First BMW — BMW 316



Alice Fiedler———Marketing
MINI driver since———2001
First MINI————MINI Cooper

Vehicle——MINI Cooper S
Passenger——Pina
Purchased——2007
Total distance travelled——22,000 km
Longest route——Frankfurt–Meran–Frankfurt

Vehicle———BMW X5
Purchased———2008
Total distance travelled————12,000 km
Longest route———Bremen–Gibraltar

Percentage of sales generated by after-sales business in the German automotive industry————23 %

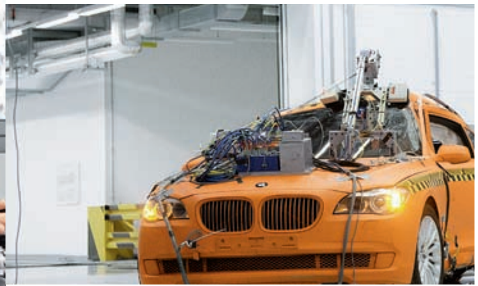
Thomas Greppmair——Currency trader
BMW driver since——1977
First BMW of 14——BMW 316
Overall distance travelled——1 million kilometres

Intelligent brakes. Adaptive headlights. Systems that can see in the dark. Vehicles that can detect a collision before it happens: Active safety systems in BMW Group vehicles open up a whole new dimension in automotive safety.

A new concept of safety. Smart prevention. Saving lives. —Active and passive safety.

a

b



Image—**a**——Klaus Kompaß——Head of vehicle safety at the BMW Group.
—**b**——After the crash——The new BMW 7 Series after a side impact at more than 56 km/h.

14 million passenger cars in Germany——1970

46 million passenger cars in Germany——2007

Image—**a**———Preparations———A dummy is lifted into the vehicle by a crane. The dummy weighs more than 80 kilograms.
—**b**———Proper seating———The dummy's exact seating position is crucial to readings. A dummy can record 10,000 measurements per second.

201 billion kilometres driven by cars in Germany — 1970

692 billion kilometres driven by cars in Germany

a

b

2007

Off to a spectacular start. The shriek of a siren warns of an imminent impact. Almost immediately the building is rocked by an ominous thud, and then – silence. The vehicle's tail-end has been severely crushed by the impact – under glaring spotlights, with high-speed cameras capturing every thousandth of a second of the crash.

Just another day at the largest of the BMW Group's three crash test facilities. The elongated cement-encased building on the grounds of the Research and Innovation Centre (FIZ) in Munich is sort of like an ultramodern scrapping plant – only for research purposes. Every day the technicians here send brand new automobiles fitted with dozens of test sensors hurtling into a concrete block. Or they have them rammed by a high-speed barrier. Or else they find some other way to deliberately deform them. And they do it all in the name of maximum and precision safety.

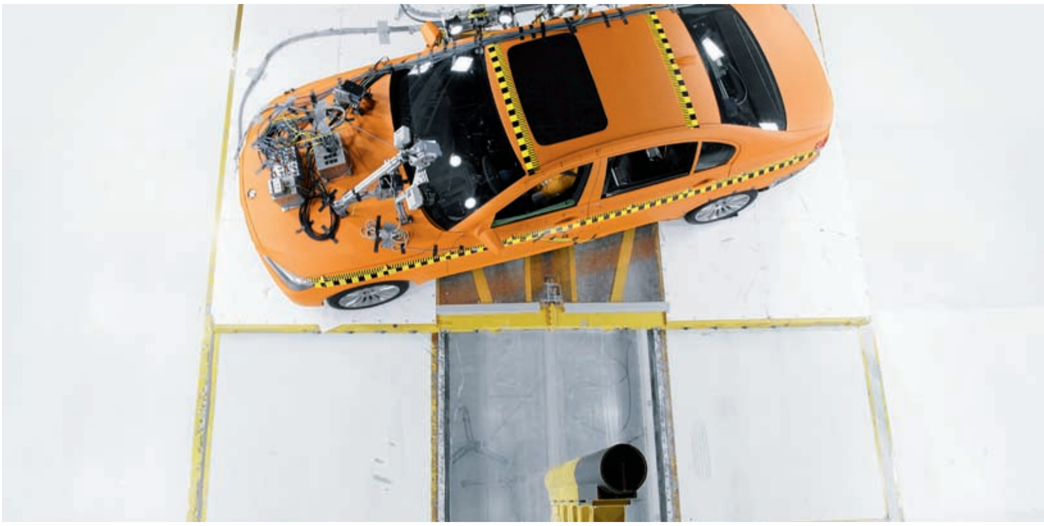
Before an automobile can be sold worldwide it has to pass at least 30 different crash tests. Then there are additional tests to make sure it meets the BMW Group's own high safety standards. The company has been researching the causes of accidents and the most effective ways of dealing with them for more than 30 years. Developers have endowed the Group's vehicles with energy-absorbing deformation zones, reinforced passenger compartments, restraint systems, airbags and many other "passive safety systems" which save lives and protect drivers from injury on a daily basis. The side head airbag alone, which the BMW Group was the first automobile manufacturer worldwide to offer as a standard feature back in 1997, has drastically reduced the number and severity of head injuries in the event of a side impact. The combined effectiveness of these and other safety technologies is reflected in accident statistics: Although the total number of kilometres driven on German roads more than tripled between 1970 and 2007, the number of road casualties fell by around 77 percent over the same period. Ironically, that has become something of a problem.

It has now become virtually impossible to make drivers and their passengers any safer – even with the most sophisticated passive safety systems. "Of course we could add even more airbags to our vehicles or make the body even more rigid," says Klaus Kompaß, head of vehicle safety at the BMW Group, "but these days we have pretty much exhausted the potential of passive systems." That is why for some time now Kompaß and his colleagues have been focussing their attention more on active safety, where the primary goal is not to mitigate accidents and their consequences but to avoid them altogether. This requires developers to take a much broader view – and to look beyond the vehicle to the surroundings in which it is driving.

Image—**a**———Lights on———One-and-a-half times brighter than the desert at noon – 14 high-speed cameras need plenty of light.
—**b**———On your marks———Measuring acceleration over a 130-metre track (longer than a football pitch).
—**c / d**——Test in progress———Heading straight for the "tree" at 56 km/h – the standards for passive safety are extremely high.

b

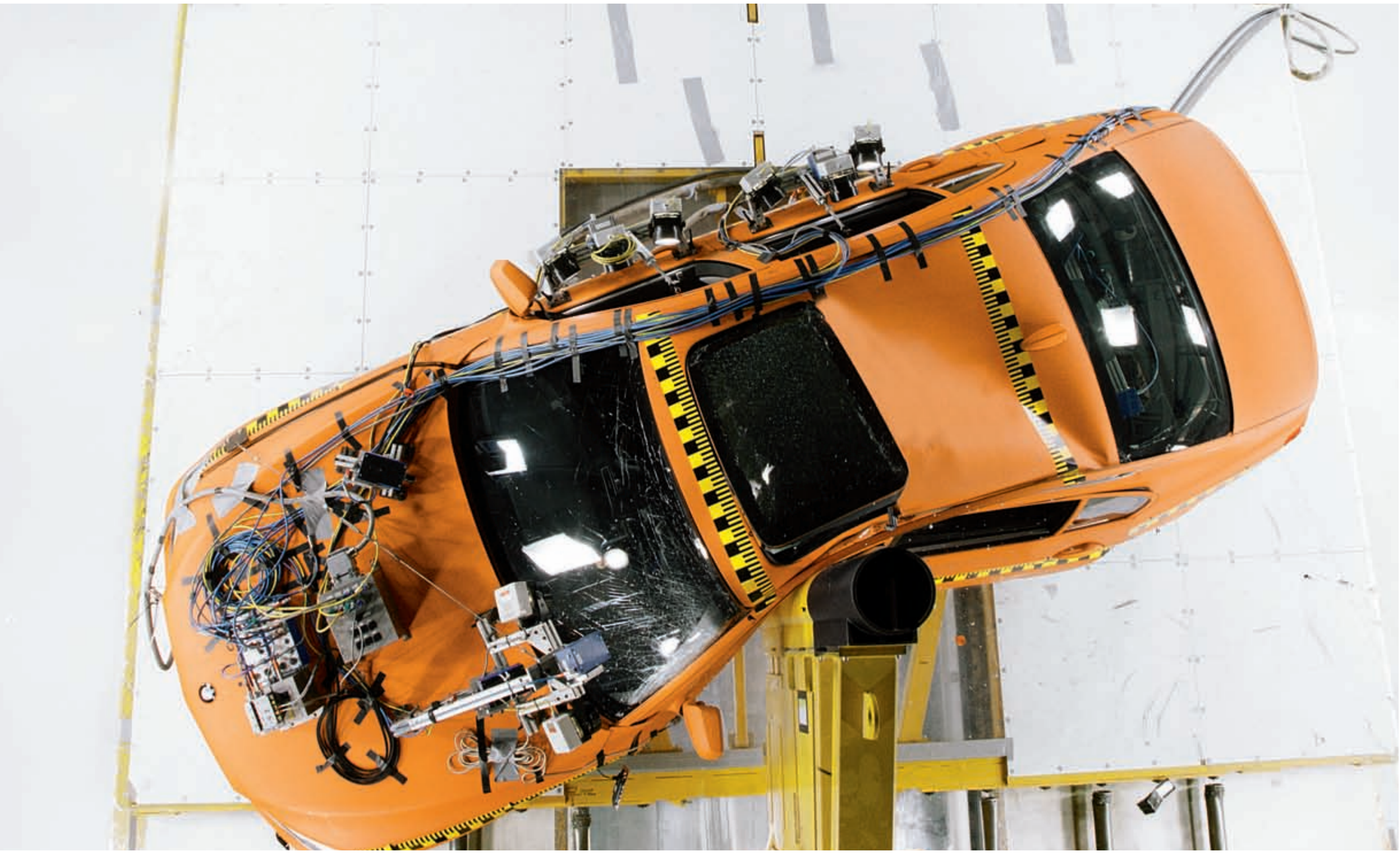
a



c

11.7 minutes average rescue time outside of town — with BMW ConnectedDrive

21.2 minutes average rescue time outside of town — without BMW ConnectedDrive



d

91

percent of all road fatalities fall into one of four categories. For all four types of accidents the BMW Group already has effective driver assistance systems on the market or in development.

Accident type 1:

41 percent = driving accidents.

Standard features:
– lane departure warning
– high beam assistant
– adaptive cornering lights
– active steering

In research or development phase:
– curve info

In this they are assisted by engineers from the BMW Group's accident research team who analyse real-life accidents and reconstruct the entire course of events using computer models. For this purpose they evaluate their own accident data as well as data from the German Federal Statistical Office, the German In-Depth Accident Study project GIDAS and the renowned William Lehman Injury Research Center in Miami in the United States which works closely with BMW safety experts. By meticulously sifting through all the data, accident researchers discover more about what happens on the roads and how dangerous situations arise. For instance, they established that in 41 percent of all fatal road accidents the driver loses control of the vehicle on a straight road. This is followed in second place by accidents in longitudinal traffic – that is, collisions with oncoming traffic or vehicles ahead. Collisions while turning or crossing traffic account for 18 percent of all road fatalities, and those involving pedestrians crossing the road make up 10 percent.

The details are even more revealing: 30 percent of accidents in longitudinal traffic are rear-end collisions, often as a result of lack of concentration, driving too closely or a combination of both. We know today that in 42 percent of collisions at intersections the driver responsible for causing the accident made no attempt to brake before the impact and 60 percent did not attempt a steering manoeuvre. According to official German statistics only about two percent of accidents can be traced to technical defects – and those are largely the result of poor vehicle maintenance. That means accidents are nearly always due to drivers failing to see things, driving inappropriately or misjudging the situation.

These are shocking figures. But they reveal to engineers like Klaus Kompaß where the remaining potential for prevention lies. According to the BMW safety chief, "The person driving the car is the decisive factor. Humans have definite strengths when it comes to driving, and there are lots of things they do better than any technology. But there are also areas where technology is superior to human beings and where we can use it to help the driver either avoid accidents – or at least mitigate the consequences."

Sophisticated driver assistance systems installed in BMW Group vehicles today already monitor the driver's surroundings and provide the information needed to make fast and responsible decisions. The active cruise control system and the lane departure warning help the driver manoeuvre safely. Intervention systems such as integral active steering and the Dynamic Drive active stabiliser system steady the car in dangerous situations and help drivers perform their intended manoeuvres in the best way possible. Intelligent navigation systems and the speed-limit display supply the driver with relevant data on traffic conditions and the maximum speed allowed.

a

b

Image—**a**——Always on track——with lane departure warning.
—**b**——Safety begins in normal driving——Intelligent suspension control functions help avoid accidents.

Accident type 2:

22 percent = accidents in longitudinal traffic.

Standard features:
- lane change warning
- lane departure warning
- adaptive brake assistant
- Night Vision
- high beam assistant
- ACC
- 2-phase brake light
- brake assistant
- ABS, DSC, ASC

In research or development phase:
- signal warning driver of motorists heading in the wrong direction on highways

But none of these systems will ever take the steering wheel out of the driver's hands. "Drivers will always have to make the final call," says Kompaß. "We can only enable them to make the best possible decision." Many safety systems within the vehicle are efficiently networked for that purpose: A camera in the rear view mirror of the new BMW 7 Series provides data needed to display the applicable speed limit as well as for the lane departure warning and the high beam assistant. The 7 Series' integrated chassis management also interfaces with the transmission shift characteristics, power-steering assist, integral active steering, accelerator pedal response and dynamic damping control as well as the DSC and Dynamic Drive response. Highly complex applications such as these, which encompass the entire vehicle architecture, require quite different development capabilities – and these cannot be fully realised by external suppliers. "Our development work gives the BMW Group access to future technologies in-house and also from our suppliers," explains Kompaß.

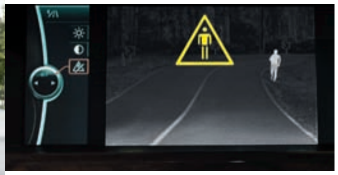
That work is also economically advantageous. Innovations such as active steering, lane departure warning, Dynamic Drive and adaptive cornering lights have all been patented. The fact that more and more people are opting for safety features shows that customers increasingly consider road safety a crucial part of their driving experience.

"What is typical about the BMW Group," adds Kompaß, "is our integrated approach to the topic. We analyse the entire process chain – from accident prevention through to what happens after the impact. That is how we ensure maximum safety."

For instance, BMW Group engineers know, from their study of accidents, that more than half of all fatal pedestrian accidents take place at dusk or during the night – in other words, in poor visibility. And although only around 20 percent of all driving is done at night, about 40 percent of all road fatalities occur in the dark. In response to this challenge BMW safety experts developed a uniquely intelligent infrared system to warn the driver of pedestrians or animals on the road in the dark. "Night Vision," as the technology is called, uses an infrared camera to transmit moving video images of the surroundings. The difference in temperature allows its sensor to detect people and animals up to 300 metres away, even in complete darkness beyond the range of the headlights. If Night Vision identifies a person or animal moving along the roadside, the image is shown on the control display; if there is any immediate danger the driver is also given a warning signal.

a

b



Image—**a**———Preventive safety for pedestrians and cyclists———Looking around the corner with Side View.
—**b**———The new BMW Night Vision detects pedestrians.
—**c**———Research for the future———The crossroads assistant uses vehicle-to-vehicle communications.

Accident type 3:

18 percent = crossing accidents.

Standard features:
– Side View
– bending light
– ABS, brake assistant

In research or development phase:
– cross traffic assistant
– traffic light info

BMW developers are always looking ahead in their own work, too. That is how they find answers today to challenges which won't fully emerge until farther down the road. One such example is the expected increase in the number of crossing accidents. Studies confirm that accidents that occur when turning or crossing traffic are often caused by obstructed visibility – for instance, when a driver is unable to see approaching cross traffic due to parked cars.

That is why BMW developers are already working on the ultimate in assistance systems: vehicle-to-vehicle communication. Intelligent communication between vehicles could, for instance, allow a car to alert traffic behind it to patches of black ice. A vehicle approaching an intersection could warn cross traffic of its approach, even though it might still be concealed by a building. "Vehicle-to-vehicle communication is still a long way off; and then, it would only work if all brands could communicate with each other," explains Kompaß. "At the end of the day a system like this can only be effective if as many vehicles as possible have communications systems of this kind." Nonetheless, last summer the EU reserved standardised radio frequencies for all member countries for Car2Car communications. A research project sponsored by the German federal government will soon explore the potential for this type of communications between vehicles made by different manufacturers: The BMW Group has had concepts ready for technical implementation for a long time.

C

Accident type 4:

10 percent = accidents involving pedestrians.

Standard features:
– pedestrian detection
– Night Vision
– ABS, brake assistant

In research or development phase:
– active emergency braking

Of course, even the most visionary safety systems will never be able to prevent all accidents. That is why the BMW Group's integrated safety concept includes not only normal driving situations, but also the phase before, during and after a collision. Just milliseconds before a crash, the impact warning apparatus positions the brake pads and primes the braking system. Then as soon as the driver touches the brake, the brake action is optimised according to the distance and relative speed data provided by the ACC. Even before the impact occurs, an electric motor reels in the seat belt to tighten it. After the crash the warning lights automatically switch on to warn other road users. At the same time the vehicle control system activates the interior lights and unlocks the central locking to allow rescue services to get in. In parallel the BMW ConnectedDrive communications network automatically alerts the local emergency dispatch centre and provides essential information about the accident within seconds.

This unique system was jointly developed with traumatologists from the William Lehman Injury Research Center at the University of Miami. At the core of the system is an intelligent algorithm that calculates the likelihood of sustaining severe injuries using accident and vehicle data. It is based on biomechanical accident analyses conducted by doctors at the Lehman Center to establish connections between different types of accidents and the probability of serious or life-threatening injuries. The instant one of the 600,000 vehicles fitted with the emergency call system is involved in an accident the system calculates the risk of injury to the passengers from parameters such as type, severity and direction of the impact and relays the data to the dispatch centre, along with the vehicle's exact GPS position. At the same time the extended emergency call system establishes a phone connection that allows the BMW Call Centre and the emergency services to make contact with the driver. This is the only system of its kind in the world.

In this way the BMW emergency call system has ensured a fast response to more than 30,000 incidents. Just recently Klaus Kompaß read a report about a BMW driver who had crashed his vehicle through the guardrail on a remote US highway and rolled over. "The man was lying severely injured off the side of the highway where he couldn't be seen," explains Kompaß. "Under normal circumstances it could have been hours or even days before anyone found him there." But the car's BMW ConnectedDrive system alerted the dispatch centre and an ambulance was rushed directly to the scene of the accident. The man survived.

Before all these safety features become standard equipment they undergo extensive and rigorous testing at the BMW Group's crash facilities. All this involves a tremendous amount of time, effort, and also money. But it gives the BMW Group access to future technologies which will directly benefit the Group's customers. And even though it is heartbreaking to see all those new vehicles knocked out of shape at the crash facility, every crash under test conditions helps prevent real injuries on the roads.

The BMW Group is systematically improving resource efficiency throughout its global production network: year after year, plant by plant. From 2006 to 2012 water, energy, CO_2 emissions, waste and solvent emissions will all be reduced by no less than 30 percent – with tangible benefits for the environment as well as for the company's earnings.

Reduce costs. Save resources. —Clean Production.

Target: minus 30 % until 2012

Continually improve the environmental performance — **5 % per annum** — starting in 2006

More performance. Less consumption. Since the BMW Group became the first automobile manufacturer to appoint an environmental officer back in the early seventies, it has continually improved its environmental performance. Its progress has also been reflected in its ranking in the Dow Jones Sustainability Index World: The BMW Group is the only automobile manufacturer to have been highly rated in this definitive global sustainability index from the very start. In fact, over the past four years the company has consistently ranked number one in its sector. This makes the BMW Group the world's most sustainable automobile manufacturer. The innovations implemented as part of the Efficient Dynamics programme combine lower CO_2 emissions with optimised driving dynamics throughout the model range. The BMW Group has also established a systematic approach across its entire worldwide production network which controls resource consumption and emissions just as rigorously as, say, the use of financial resources. From the start of the project in 2006 through to 2012, this will reduce energy and water consumption, solvent and carbon dioxide emissions as well as waste and wastewater by an impressive 30 percent.

What is particularly attractive about this approach is that the key to continuous improvement lies within the production network itself. Because each plant constantly scrutinises the efficiency of its production processes, there are always certain locations which lead the way with their ideas, technologies and processes. Thanks to the ongoing exchange of information and experience the plants systematically benefit from what others have already achieved.

For instance, American production engineers in the body shop at the Spartanburg plant developed an adhesive that works without the previously necessary 120-degree Celsius heat drying process. Hence Spartanburg was able to avoid not only investing in a body shop dryer but also made huge energy savings in its manufacturing operations. Following the example of Regensburg, the plants in Leipzig, Munich and Rosslyn in South Africa are now switching to this resource and cost-saving technology. One-time investment costs: around 400,000 euros. Savings: 1.5 million euros in energy costs and around 8,150 tons fewer CO_2 emissions per year.

Moreover, at the Landshut plant's light-metal foundry production experts have been replacing the previously used synthetic resin binders with odourless, low-emission mineral binders since late 2006. The new mineral binder will be used in the manufacture of new products in the future. This will reduce the percentage of organic components in the exhaust air by an impressive 98 percent. The whole foundry is slated to switch to this inorganic binder system by 2010.

"It is often possible to make extensive improvements just by completely rethinking established processes," says Herbert Höltschl, the BMW Group's corporate officer for sustainability and environmental protection and one of the originators of the project. "Sometimes you even have to invest less to save more: We profit from doing less."

The automotive industry's body pressing plants traditionally use tensile oil to make sheet metal easier to process. This procedure inevitably releases tiny oil particles into the air, making elaborate filtering necessary. However, production planners at the Leipzig plant found a way to dispense with tensile oils altogether by using better tools and press panels. This not only cut investments in ventilation systems by more than half, it also reduced running expenses for ventilation and heating by no less than 70 percent.

To identify potential efficiencies of this kind in the early stages, and avoid often costly modifications later on, the BMW Group's environmental officers are consulted on all investment decisions near the outset. Plant managers have also made a binding commitment to reduce resource consumption by an average of five percent per year. A global benchmarking system allows all plant managers to see how well they are managing resources at any time compared with other BMW Group sites. Most importantly, they can call upon the experience and expertise of the best-performing location to help optimise their own plant. In this way the BMW Group's production network practically has its own built-in

Savings from lower resource consumption over the previous year — **more than euro 36 million** — in 2008

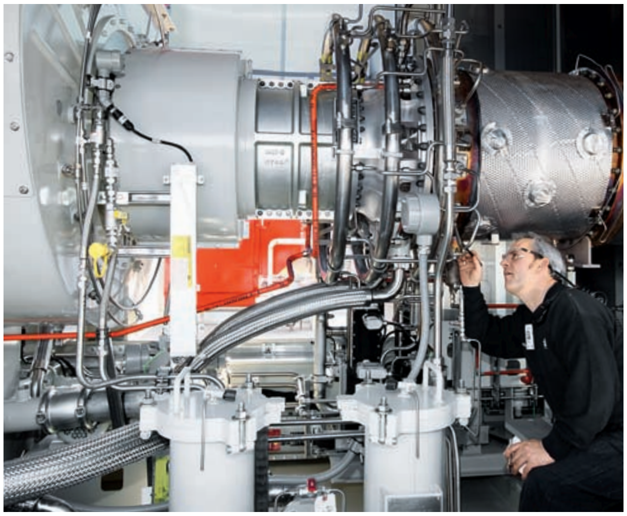
"turbocharger" to drive improvements and constantly provide fresh momentum – thus pre-empting predictable but inevitable price increases for resources and emissions.

Once you have a turbocharger like that up and running, there is no turning it off. And even though the project's goal of "minus 30 percent" is initially for a six-year period, its ambitions stretch much further. "As a company we have set ourselves the goal of one day building emission-free vehicles," says Höltschl, "so of course we are also thinking about how we can build those same vehicles emission-free."

From that point of view, things are off to an ambitious start with a five percent optimisation per year. But that is also just the beginning.

Image—**a**———Turbines installed on the grounds of the BMW plant in Spartanburg use methane gas to produce electricity and hot water.
—**b**———A pipeline more than 15 km long supplies the BMW plant in Spartanburg with methane gas.
—**c**———The power supply centre constantly monitors whether all systems are generating energy properly.
—**d**———Waste materials at the Palmetto landfill decompose to produce the methane gas needed to generate energy.

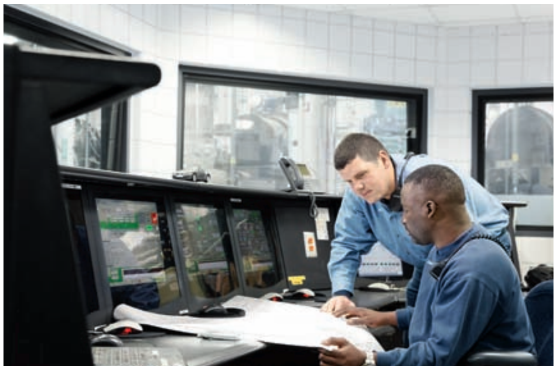
a



b

Example 01
Topic: Energy and CO_2
Location: Spartanburg, USA
Energy provided by methane gas: 63 %
CO_2 emissions: 59,000 tons less per year

c



d

Reduction in the BMW Group's energy consumption — **more than 650,000 MWh** — in 2008

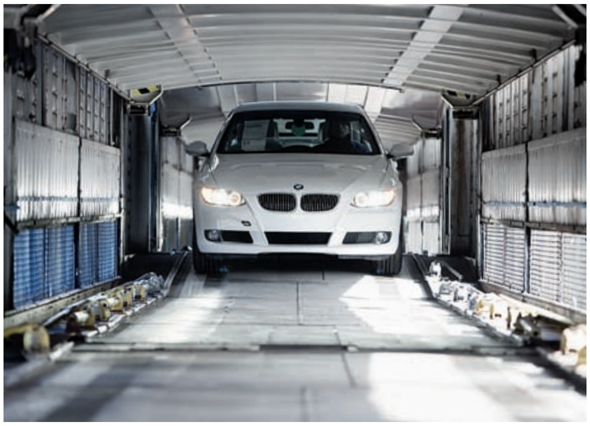
Energy for next to nothing in Spartanburg in the U.S. That is, as long as you have the smart technology to take advantage of it. Since 2003 the BMW plant in Spartanburg has been using methane gas from a nearby landfill to supply its paint shop with power. Today the plant uses methane to meet around 63 percent of its energy requirements, cutting CO_2 emissions by an amount equal to the energy needed to heat and cool about 15,000 American households over a year. The BMW Group's European plants are just as resourceful, albeit using a completely different technology: So-called heat wheels built into the ventilation systems recover heat from the exhaust air. This free energy source meets up to 70 percent of heat energy requirements. At the Research and Innovation Centre (FIZ) in Munich surface groundwater is used to cool buildings in a way that conserves resources. Thanks to clever innovations like these, today's energy consumption is 18 percent lower than ten years ago at 2.80 MWh per vehicle produced.

Image—**a**———Up until a few months ago equipment used to protect the surface of new vehicles stood here.
—**b**———The vehicles are delivered to their new owners worldwide in closed freight cars.
—**c**———Today more than half of all the BMW Group's new vehicles leave the plant by rail.

a

Example 02
Topic: Surface protection
Plant: Regensburg, Germany
Solvent emissions: 70 tons less in 2008

b



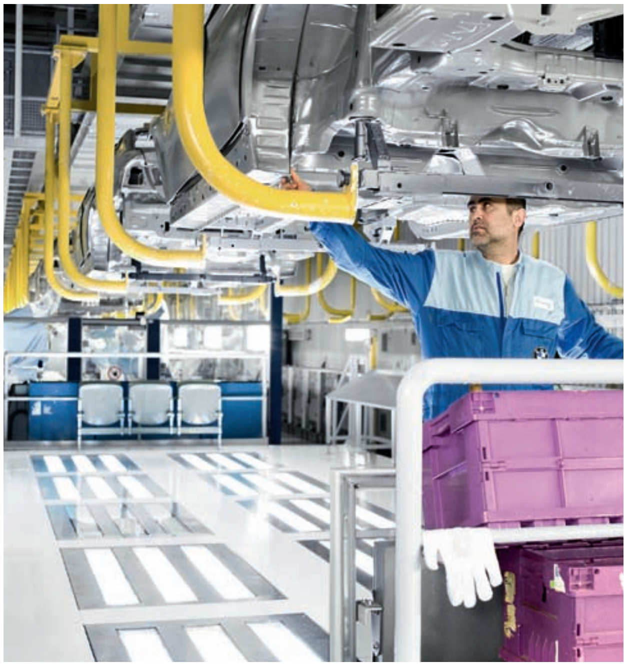
c

Reduction in solvent emissions used in the BMW Group — **more than 800 tons** — in 2008

Paint is as much a part of car building as sheet steel and engines. Many paints contain solvents that pose health and environmental concerns. That is why the BMW Group uses water-based paints with low solvent content or completely solvent-free powder-based paint technology at all company sites. The company has now largely done away with the common methods of surface protection used to protect new cars from the elements during transport, such as wax, protective films and covers. After a BMW Group study showed that new vehicles could be transported in closed freight cars or cleaned after transport without compromising quality, the last remaining surface protection systems to use wax were switched off in 2008. In this way the plants in Regensburg, Dingolfing, Munich and Rosslyn in South Africa not only use five grams less solvent per vehicle, but also cut material, energy and labour costs. In 2008 alone solvent emissions were reduced by more than 800 tons company-wide. Overall the BMW Group reduced its solvent emissions by almost half between 1999 and 2008, to less than two kilograms per vehicle.

Image—**a**———Certain body seams have to be sealed off using PVC before painting. In the past up to 70 masking plugs – plastic parts used only once – protected the body from getting an unwanted coat of PVC.
—**b**———Superfine nozzles apply the PVC in such a precise, fine coating that only a single masking plug is needed.
—**c**———Every single part is perfectly packed – and the same packaging can be used over and over again.
—**d**———13,5 million reusable containers are in circulation between the BMW Group and its suppliers.

a



b

Example 03
Topic: PVC waste
Plant: Munich, Germany
PVC waste: minus 80 %
Waste for disposal: 100 tons less in 2008

c

d

Reduction in the total volume of waste produced in the BMW Group — **more than 60,000 tons** — in 2008

Reduce. Reuse. Recycle. When it comes to waste, the BMW Group follows a consistent, three-phase strategy. Waste is avoided or reused as a resource wherever possible. Only what cannot be reused without compromising quality is ultimately recycled. Finally, if recycling is not an option, it is then disposed of as waste. The proportion of “waste for disposal” fell from more than 16 kg per vehicle to 14.8 kg per vehicle between 2007 and 2008 alone. In the Munich plant’s paint shop, for instance, the pre-treatment process for bodies awaiting painting has been optimised to eliminate 80 % of the PVC waste from the underbody coating process. But even residual waste can perform a useful function: As fuel for heat and power plants it helps conserve fossil energy resources.

Image—**a**———As drilling emulsion, cooling fluid for milling and lathing, for washing and rinsing – water is indispensable for machining cylinder heads, crankcases, crankshafts and connecting rods.
—**b**———The BMW engine plant in Steyr, Austria builds around 60 percent of all BMW engines.
—**c**———Using a completely new combination of different membrane technologies all of the plant's process wastewater is processed and fed back into production.

a

b

Example 04
Topic: Water and wastewater
Plant: Steyr, Austria
Wastewater: zero litres
Savings: up to 30 million litres per year

C

Reduction in the water consumption of the BMW Group — **more than 335,000 m³** — in 2008

Wastewater as an inexhaustible source of water. Wherever possible the BMW Group taps into the most sustainable source of water there is: its own wastewater. For instance, the BMW engine plant in Steyr, Austria has a closed water cycle for mechanical production that uses a series of filters to purify drain water until it becomes fresh water again. Since the outlet to the local sewer system was closed off in late 2006, the plant has only drawn fresh water to compensate evaporation losses. It means the plant uses up to 30 million litres less water annually – about the same amount a small town of about 750 people uses. Across the BMW Group the quantity of process wastewater per vehicle has fallen by more than a quarter since 2004.

The BMW Group's three brands, BMW, MINI and Rolls-Royce, are among the automotive industry's strongest premium brands. A wide range of new models released in 2008 once again illustrates the innovative power and performance of the BMW Group.

Setting milestones. Creating fascination. —New products in 2008.

BMW 1 Series Convertible

The BMW 1 Series Convertible combines the pleasure of open-top driving with unbeatable fuel efficiency. To take an example: The 118d Convertible has an average fuel consumption of 4.9 litres per 100 kilometres in the EU Test Cycle and CO_2 emissions of 129 grams per kilometre.

BMW M3 Convertible

The BMW M3 Convertible combines outstanding driving dynamics with aesthetic looks to offer a unique driving experience – in a car that is ideally suited to everyday driving. This fourth generation of the M3 Convertible made its world debut at the Geneva Motor Show in March 2008.

BMW — 3 Series Touring

The BMW 3 Series is the epitome of sportiness in its class and has occupied the top slot as the world's bestselling premium vehicle for years. The BMW 3 Series is set to increase its lead with revised versions of the Sedan and Touring.

BMW 7 Series

Redefining the benchmark: The fifth generation of the BMW 7 Series luxury sedan shows how to combine driving pleasure with spacious opulence. The new BMW 7 Series is the product of stylish design and exceptional engineering in drive train, chassis, safety, driver assistance systems and comfort functions.

BMW X6

The BMW X6, the world’s first Sports Activity Coupé, draws its fascination from characteristics and abilities no other vehicle offers in a format of this kind. Its design unites the sporty elegance of a large BMW Coupé with the strength and presence of the BMW X models.


California
MZV3579

BMW

F 800 R

The new F 800 R is the first BMW in the high-volume segment for medium-category roadsters. It boasts a sporty, dynamic design and an overall concept consistently geared towards riding pleasure.

K 1300 S

The new K 1300 S is currently the fastest, most powerful BMW series-production motorcycle available. It combines top performance with outstanding allround characteristics and active safety features such as BMW Integral ABS, Anti-Slip Control (ASC) and ESA II Electronic Suspension Adjustment as standard.

MINI John Cooper Works

A big name backed by a long tradition, excellent performance data and an unforgettable driving experience: The MINI John Cooper Works is sporty to the extreme and takes the passion for motor sports beyond the racetrack.

Rolls-Royce

Phantom Coupé

The Rolls-Royce Phantom Coupé is the fourth and most recent addition to the Rolls-Royce Motor Cars product range. A particularly light and extremely rigid aluminium chassis guarantees optimum safety, while the tried-and-tested 6.5-litre V12 engine supplies its high-performance drive train.


M EX 4354

In review. The pulsation of the BMW Group. —The year 2008.

Five is a charm – five million BMW 5 Series over five generations —— On January 29, 2008 the five-millionth BMW 5 Series rolls off the assembly line at the Dingolfing plant: a carbon black metallic 530d Sedan. It all started back in 1972, when the very first generation of the BMW 5 Series made its debut at the International Motor Show in Frankfurt. The early vehicles were initially built at the company's first plant in Munich, before production moved to the newly opened BMW plant in Dingolfing in the autumn of 1973. New generations came along in 1981, 1988 and 1995, and in 2003 the current generation was born.

JAN — 29, 2008

Top German Design Award for the BMW Group —— The BMW Group receives the Federal Republic of Germany's Design Award for its G 650 Xcountry. The one-cylinder motorcycle earned a gold award for its sporty and lightweight design. The Design Award of the Federal Republic of Germany has been presented by the German Design Council on behalf of the Federal Ministry of Economics every year since 1969.

FEB — 08, 2008

BMW 118d voted "World Green Car of the Year" —— The BMW 118d is named "World Green Car of the Year" at the opening of the New York International Auto Show 2008. The title, which is awarded by a jury of 47 automotive journalists from 24 countries, recognises vehicles and technologies that are specially designed to reduce emissions, and reflect their manufacturers' exceptional environmental awareness.

MAR — 20, 2008

BMW M1 Hommage at the Concorso d'Eleganza —— To mark the 30th anniversary of the BMW M1 super sports car, the BMW Group unveils a design study that pays tribute to this legendary model at the Concorso d'Eleganza Villa d'Este 2008. The BMW M1 was a superlative car, and a highly emotive vehicle that was uncompromisingly primed for the race track. This development originated from the BMW Turbo, a concept car which boasted a host of technical innovations in addition to its groundbreaking functional design.

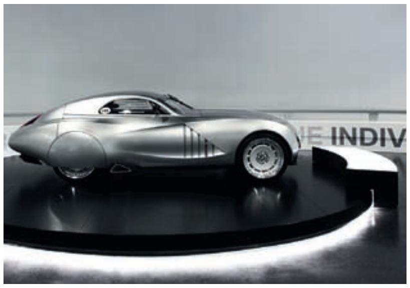
APR — 25, 2008

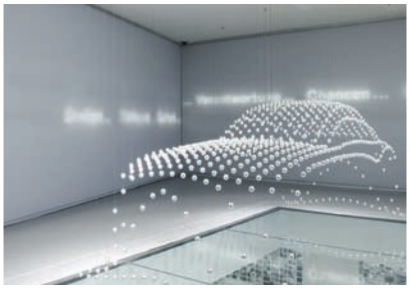
Premiere of 16th BMW Art Car by Olafur Eliasson —— The 16th BMW Art Car premieres at the Pinakothek der Moderne in Munich, making artist Olafur Eliasson's exhibit the newest addition to the long-standing BMW Art Car Collection. Eliasson's work, titled "Your mobile expectations – BMW H2R project" replaced the outer shell of the hydrogen-powered H2R prototype with an equally complex and fragile skin made of two reflective layers of superimposed metal. These form a mesh over the chassis which is then covered with multiple layers of ice.

MAY — 27, 2008

One-two finish for BMW F1 Sauber Team in Canada —— The BMW Sauber Formula 1 team scores the first win in its short career at the Canadian Grand Prix. In the one-two victory in Montreal, Robert Kubica finishes ahead of teammate Nick Heidfeld. Kubica takes the lead in the drivers' championship, with the BMW Sauber F1 team in second place in the constructors' championship. The season ended with the team placed third in the constructors' championship; Robert Kubica came in fourth and Nick Heidfeld finished sixth in the drivers' competition.

JUNE — 08, 2008





BMW Museum reopens after remodelling —— The BMW Museum reopens in June after two and a half years of construction. The completely redesigned 5,000-square-metre exhibition area houses 120 exhibits for visitors to explore. The rotunda located next door to the BMW Group headquarters remains the museum's hallmark. A single-storey building directly adjacent to the "Bowl", as the building has been known since it opened in 1973, adds further exhibition space.

The new museum is true to the original concept of bringing the road inside the building. "Roads" and ramps connect seven separate exhibition "houses", each focussing on a specific theme. The museum is designed not only to showcase exceptional automobiles and motorcycles from past decades, but also to reflect the dynamism and innovative power of the BMW brand and the company. Between the museum's reopening and the end of the year the BMW Group welcomed no less than 230,000 visitors.

19, 2008

“Let’s MINI 2008” – more than 3,000 MINI fans in Hildesheim —— On the first weekend in July more than 3,000 MINI fans flock to Hildesheim Airport to experience the MINI brand. One of the event’s highlights was a rather unequal race that pitted the Classic Mini, driven by rally legend Rauno Aaltonen, against the MINI John Cooper Works CHALLENGE.

JULY — 04, 2008

State Opera for All in Berlin ——
What began in Munich in 1996 with the Bavarian State Opera is now taking Berlin by storm: In 2007, the “Staatsoper Unter den Linden” opera house and the BMW branch in Berlin created a groundbreaking cultural format to allow the general public to enjoy free open-air opera and concerts under the motto “State Opera for All”. This year a live broadcast of Ludwig van Beethoven’s opera “Fidelio” and his ninth symphony conducted by Daniel Barenboim opens the new season to an appreciative audience of 45,000.

AUG — 30, 2008

BMW Group still number one for sustainability ——
The SAM Group publishes its latest evaluation for the Dow Jones Sustainability Indexes (DJSI). For the fourth consecutive year the BMW Group leads its sector, and, as such, is the world’s most sustainable automobile manufacturer. The BMW Group is the only company in its industry to have been listed in this important collection of corporate sustainability indexes every year since they were established in 1999. The SAM Group analyses the economic, environmental and social performance of approximately 2,500 companies and selects the best in each sector for the Dow Jones Sustainability Indexes. General sustainability criteria are considered as well as industry-specific challenges.

SEPT — 04, 2008

Paris: BMW Group unveils three concept cars —— The BMW Group presents no fewer than three concept vehicles at the Paris Motor Show: the BMW Concept X1, the BMW Concept 7 Series ActiveHybrid and the MINI Crossover Concept. The BMW Concept X1 combines the functionality of a Sports Activity Vehicle and the advantages of the premium compact class in a vehicle that is both modern and innovative. The BMW Concept 7 Series ActiveHybrid is a further step in the implementation of Efficient Dynamics. This vehicle combines a highly-efficient V8 cylinder petrol engine with an electric drive in this mild-hybrid concept. The MINI Crossover Concept brings an entirely new vehicle concept to the MINI model range, offering more space and versatility as well as a four-wheel drive.

OCT — 04, 2008

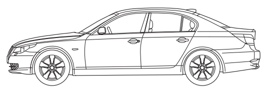
MINI E – the BMW Group's first electric car for a customer —— The BMW Group introduces a fully electric-powered vehicle, the MINI E. Already in 2009, 500 MINI E cars will be driving on the roads in everyday traffic situations. Anyone living in the metropolitan areas of California or New York interested in driving a MINI E was able to apply online. Feedback from the field trial will be incorporated in series development projects at a later stage.

NOV — 18, 2008

The BMW Group's 140-gram fleet —— By the end of 2008 the BMW Group's product range includes 27 models that produce 140 grams of CO_2 per kilometre or less. This corresponds to a fuel consumption of less than 5.1 litres diesel or 5.8 litres petrol over 100 kilometres. The BMW Group will continue to work tirelessly to develop innovative drive solutions in the future.

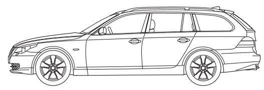
You will find an overview about the product range on the next pages.

DEC — 31, 2008



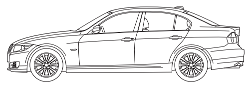
BMW 520d Sedan

Fuel consumption 5.1 l
CO_2 emissions 136 g



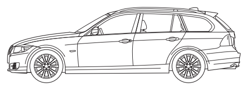
BMW 520d Touring

Fuel consumption 5.3 l
CO_2 emissions 140 g



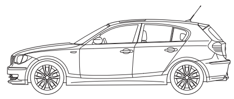
BMW 320d Sedan

Fuel consumption 4.8 l
CO_2 emissions 128 g



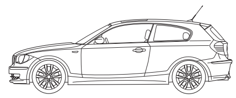
BMW 318d Touring

Fuel consumption 4.8 l
CO_2 emissions 125 g



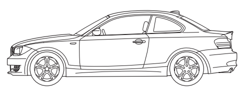
BMW 123d 5-door

Fuel consumption 5.2 l
CO_2 emissions 138 g



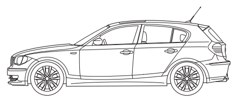
BMW 123d 3-door

Fuel consumption 5.2 l
CO_2 emissions 138 g



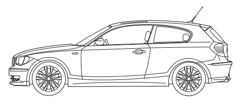
BMW 120d Coupé

Fuel consumption 4.8 l
CO_2 emissions 128 g



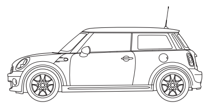
BMW 118d 5-door

Fuel consumption 4.5 l
CO_2 emissions 119 g



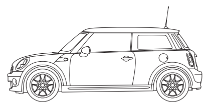
BMW 118d 3-door

Fuel consumption 4.5 l
CO_2 emissions 119 g



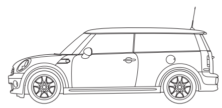
MINI Cooper

Fuel consumption 5.4 l
CO_2 emissions 129 g



MINI Cooper D

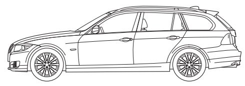
Fuel consumption 3.9 l
CO_2 emissions 104 g



MINI One Clubman

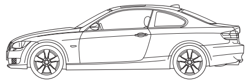
Fuel consumption 5.4 l
CO_2 emissions 130 g

Consumption and emission data **The 140-gram fleet** for the BMW Group



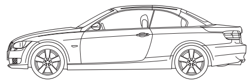
BMW 320d Touring

Fuel consumption 4.9 l
CO_2 emissions 130 g



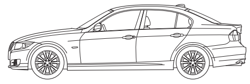
BMW 320d Coupé

Fuel consumption 4.8 l
CO_2 emissions 128 g



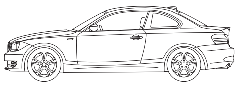
BMW 320d Convertible

Fuel consumption 5.3 l
CO_2 emissions 140 g



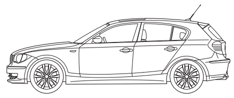
BMW 318d Sedan

Fuel consumption 4.7 l
CO_2 emissions 123 g



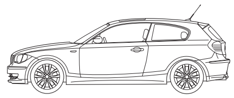
BMW 123d Coupé

Fuel consumption 5.2 l
CO_2 emissions 138 g



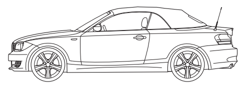
BMW 120d 5-door

Fuel consumption 4.8 l
CO_2 emissions 128 g



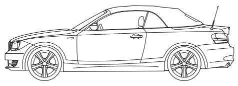
BMW 120d 3-door

Fuel consumption 4.8 l
CO_2 emissions 128 g



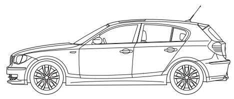
BMW 120d Convertible

Fuel consumption 5.1 l
CO_2 emissions 134 g



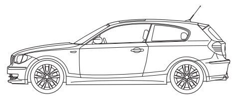
BMW 118d Convertible

Fuel consumption 4.9 l
CO_2 emissions 129 g



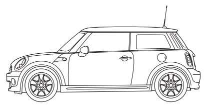
BMW 116d 5-door

Fuel consumption 4.4 l
CO_2 emissions 118 g



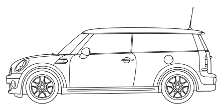
BMW 116d 3-door

Fuel consumption 4.4 l
CO_2 emissions 118 g



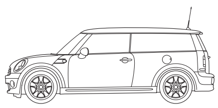
MINI One

Fuel consumption 5.3 l
CO_2 emissions 128 g



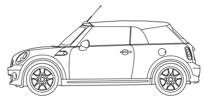
MINI Cooper D Clubman

Fuel consumption 4.1 l
CO_2 emissions 109 g



MINI Cooper Clubman

Fuel consumption 5.5 l
CO_2 emissions 132 g



MINI Cooper Convertible

Fuel consumption 5.7 l
CO_2 emissions 137 g

Consumption data in litres / 100 km in the EU test cycle, CO_2 emissions in g / km

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW				
116i 3-door[6]	7.5 (8.3)	4.8 (5.3)	5.8 (6.4)	139 (152)
118i 3-door[6]	7.9 (8.2)	4.7 (5.0)	5.9 (6.2)	140 (148)
120i 3-door[6]	8.7 (8.4)	5.1 (5.1)	6.4 (6.3)	152 (150)
130i 3-door	12.2 (12.3)	6.0 (6.0)	8.3 (8.3)	197 (198)
116d 3-door[1]	5.3	3.9	4.4	118
118d 3-door[4,7]	5.4 (7.0)	4.0 (4.6)	4.5 (5.5)	119 (146)
120d 3-door[4,7]	6.1 (7.3)	4.1 (4.5)	4.8 (5.5)	128 (146)
123d 3-door[4]	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
116i 5-door[6]	7.5 (8.3)	4.8 (5.3)	5.8 (6.4)	139 (152)
118i 5-door[6]	7.9 (8.2)	4.7 (5.0)	5.9 (6.2)	140 (148)
120i 5-door[6]	8.7 (8.4)	5.1 (5.1)	6.4 (6.3)	152 (150)
130i 5-door	12.2 (12.3)	6.0 (6.0)	8.3 (8.3)	197 (198)
116d 5-door[1]	5.3	3.9	4.4	118
118d 5-door[4,7]	5.4 (7.0)	4.0 (4.6)	4.5 (5.5)	119 (146)
120d 5-door[4,7]	6.1 (7.3)	4.1 (4.5)	4.8 (5.5)	128 (146)
123d 5-door[4]	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
125i Coupé	11.4 (11.4)	5.9 (5.9)	7.9 (7.9)	190 (190)
135i Coupé	13.0 (13.2)	7.0 (6.9)	9.2 (9.2)	220 (221)
120d Coupé[4,7]	6.1 (7.3)	4.1 (4.5)	4.8 (5.5)	128 (146)
123d Coupé[4]	6.5 (7.3)	4.4 (4.6)	5.2 (5.6)	138 (148)
118i Convertible[6]	8.5 (8.9)	5.0 (5.6)	6.3 (6.8)	149 (161)
120i Convertible[6]	8.9 (9.1)	5.2 (5.5)	6.6 (6.8)	158 (163)
125i Convertible	11.7 (11.6)	6.0 (6.1)	8.1 (8.1)	195 (195)
135i Convertible	13.3 (13.5)	7.1 (7.0)	9.4 (9.4)	224 (225)
118d Convertible[4,7]	5.8 (7.3)	4.4 (4.9)	4.9 (5.8)	129 (152)
120d Convertible[4,7]	6.4 (7.6)	4.3 (4.7)	5.1 (5.8)	134 (152)
123d Convertible[4]	6.7 (7.6)	4.6 (4.9)	5.4 (5.9)	144 (154)
316i Sedan	7.7 (8.5)	4.9 (5.2)	5.9 (6.4)	142 (154)
318i Sedan[6]	7.9 (8.5)	4.8 (5.2)	5.9 (6.4)	142 (152)
320i Sedan[6]	8.4 (8.9)	4.8 (5.1)	6.1 (6.5)	146 (156)
325i Sedan	9.8 (9.7)	5.5 (5.6)	7.1 (7.1)	170 (170)
325i xDrive Sedan	10.9 (10.8)	6.1 (6.2)	7.9 (7.9)	189 (189)
330i Sedan	9.9 (9.9)	5.6 (5.6)	7.2 (7.2)	173 (173)
330i xDrive Sedan	11.0 (11.0)	6.2 (6.2)	8.0 (8.0)	193 (193)
335i Sedan	13.2 (13.1)	6.7 (6.9)	9.1 (9.2)	218 (221)
335i xDrive Sedan	14.1 (13.8)	7.1 (7.3)	9.7 (9.7)	232 (232)
318d Sedan[4,7]	5.7 (7.3)	4.1 (4.6)	4.7 (5.6)	123 (148)
320d Sedan[4,7]	6.0 (7.3)	4.1 (4.6)	4.8 (5.6)	128 (148)
320d xDrive Sedan	6.7 (7.9)	4.6 (4.8)	5.4 (5.9)	143 (156)
325d Sedan	7.6 (8.1)	4.6 (5.1)	5.7 (6.2)	153 (164)
330d Sedan[4]	7.3 (8.0)	4.8 (5.2)	5.7 (6.2)	152 (164)
330d xDrive Sedan[4]	8.3 (8.8)	5.5 (5.7)	6.5 (6.8)	171 (178)
335d Sedan[2]	9.1	5.3	6.7	177
M3 Sedan[3]	17.9 (17.0)	9.2 (9.0)	12.4 (11.9)	295 (285)
316i Touring[1]	7.9	5.1	6.1	146
318i Touring[6]	8.0 (8.6)	4.9 (5.3)	6.0 (6.5)	144 (156)

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW				
320i Touring[6]	8.5 (9.1)	4.9 (5.3)	6.2 (6.7)	148 (160)
325i Touring	9.9 (9.8)	5.6 (5.7)	7.2 (7.2)	173 (173)
325i xDrive Touring	11.0 (10.9)	6.2 (6.3)	8.0 (8.0)	193 (191)
330i Touring	10.0 (10.1)	5.7 (5.8)	7.3 (7.4)	175 (178)
330i xDrive Touring	11.1 (11.1)	6.3 (6.3)	8.1 (8.1)	194 (194)
335i Touring	13.4 (13.2)	6.9 (7.0)	9.3 (9.3)	222 (223)
335i xDrive Touring	14.2 (13.9)	7.2 (7.4)	9.8 (9.8)	235 (235)
318d Touring[4,7]	5.8 (7.5)	4.2 (4.8)	4.8 (5.8)	125 (150)
320d Touring[4,7]	6.1 (7.5)	4.2 (4.8)	4.9 (5.8)	130 (150)
320d xDrive Touring	6.9 (8.0)	4.8 (4.9)	5.6 (6.0)	146 (159)
325d Touring	7.8 (8.2)	4.8 (5.2)	5.9 (6.3)	155 (165)
330d Touring[4]	7.5 (8.1)	5.0 (5.3)	5.9 (6.3)	155 (165)
330d xDrive Touring[4]	8.4 (8.9)	5.6 (5.8)	6.6 (6.9)	174 (181)
335d Touring[2]	9.2	5.4	6.8	178
316i Coupé[1]	7.7	4.9	5.9	142
320i Coupé[6]	8.7 (8.9)	4.9 (5.1)	6.3 (6.5)	151 (156)
325i Coupé	9.8 (9.7)	5.5 (5.6)	7.1 (7.1)	170 (170)
325i xDrive Coupé	10.9 (10.8)	6.1 (6.2)	7.9 (7.9)	189 (189)
330i Coupé	9.9 (9.9)	5.6 (5.6)	7.2 (7.2)	173 (173)
330i xDrive Coupé	11.0 (11.0)	6.2 (6.2)	8.0 (8.0)	193 (193)
335i Coupé	13.2 (12.5)	6.7 (6.7)	9.1 (8.8)	218 (210)
335i xDrive Coupé	14.1 (13.8)	7.1 (7.3)	9.7 (9.7)	232 (232)
320d Coupé[4,7]	6.0 (7.4)	4.1 (4.7)	4.8 (5.7)	128 (149)
320d xDrive Coupé	6.7 (7.9)	4.6 (4.8)	5.4 (5.9)	143 (156)
325d Coupé	7.6 (8.1)	4.6 (5.1)	5.7 (6.2)	153 (164)
330d Coupé[4]	7.3 (8.0)	4.8 (5.2)	5.7 (6.2)	152 (164)
330d xDrive Coupé[4]	8.3 (8.8)	5.5 (5.7)	6.5 (6.8)	171 (178)
335d Coupé[2]	9.1	5.3	6.7	177
M3 Coupé[3]	17.9 (17.0)	9.2 (9.0)	12.4 (11.9)	295 (285)
320i Convertible[6]	9.0 (9.4)	5.2 (5.4)	6.6 (6.9)	157 (165)
325i Convertible	10.4 (10.6)	5.9 (6.1)	7.6 (7.8)	181 (187)
330i Convertible	10.5 (10.6)	6.0 (6.1)	7.7 (7.8)	185 (187)
335i Convertible	13.6 (12.8)	7.1 (7.0)	9.5 (9.1)	226 (217)
320d Convertible[4,7]	6.9 (7.7)	4.3 (5.0)	5.3 (6.0)	140 (157)
325d Convertible	8.0 (8.3)	5.0 (5.3)	6.1 (6.4)	162 (170)
330d Convertible[4]	7.7 (8.2)	5.2 (5.4)	6.1 (6.4)	162 (170)
M3 Convertible[3]	18.7 (17.3)	9.6 (9.4)	12.9 (12.3)	309 (293)
520i Sedan	9.2 (9.4)	5.4 (5.4)	6.7 (6.9)	162 (164)
523i Sedan	10.1 (10.3)	5.7 (5.9)	7.3 (7.5)	174 (178)
525i Sedan	10.3 (10.4)	5.7 (5.8)	7.4 (7.5)	176 (178)
525i xDrive Sedan	11.3 (11.2)	6.2 (6.3)	8.1 (8.1)	193 (193)
530i Sedan	10.9 (10.8)	5.8 (5.6)	7.7 (7.5)	182 (178)
530i xDrive Sedan	11.5 (11.6)	6.2 (6.0)	8.2 (8.1)	194 (193)
540i Sedan	15.8 (14.4)	7.4 (6.9)	10.5 (9.7)	250 (232)
550i Sedan	16.6 (15.5)	7.6 (7.2)	10.9 (10.3)	260 (246)
520d Sedan[5]	6.5 (7.5)	4.3 (4.6)	5.1 (5.6)	136 (149)
525d Sedan	8.2 (8.5)	5.0 (5.3)	6.2 (6.5)	165 (172)
525d xDrive Sedan	8.8 (9.1)	5.4 (5.6)	6.7 (6.9)	179 (183)

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW				
530d Sedan	8.6 (9.1)	5.1 (5.2)	6.4 (6.6)	170 (176)
530d xDrive Sedan	9.2 (9.6)	5.5 (5.5)	6.9 (7.0)	183 (186)
535d Sedan[2]	9.0	5.4	6.7	178
M5 Sedan[3]	21.7	10.2	14.4	344
520i Touring	9.4 (9.5)	5.6 (5.5)	6.9 (7.0)	166 (167)
523i Touring	10.6 (10.6)	6.0 (6.0)	7.7 (7.7)	183 (184)
525i Touring	10.8 (10.7)	5.9 (6.0)	7.7 (7.7)	183 (184)
525i xDrive Touring	11.8 (11.7)	6.4 (6.5)	8.4 (8.4)	201 (201)
530i Touring	11.1 (11.0)	6.0 (5.8)	7.9 (7.7)	187 (184)
530i xDrive Touring	12.0 (12.1)	6.4 (6.3)	8.5 (8.4)	203 (201)
550i Touring	17.0 (16.1)	7.8 (7.5)	11.2 (10.7)	267 (254)
520d Touring[5]	6.7 (7.7)	4.5 (4.7)	5.3 (5.8)	140 (154)
525d Touring	8.4 (8.6)	5.2 (5.4)	6.4 (6.6)	171 (176)
525d xDrive Touring	9.1 (9.2)	5.6 (5.7)	6.9 (7.0)	184 (187)
530d Touring	8.8 (9.3)	5.3 (5.3)	6.6 (6.8)	176 (180)
530d xDrive Touring	9.6 (9.9)	5.8 (5.6)	7.2 (7.2)	192 (192)
535d Touring[2]	9.2	5.6	6.9	182
M5 Touring[3]	21.7	10.5	14.6	348
630i Coupé	11.2 (11.0)	6.0 (5.8)	7.9 (7.7)	188 (184)
650i Coupé	17.8 (15.9)	8.1 (7.4)	11.7 (10.5)	279 (249)
635d Coupé[2]	9.2	5.6	6.9	183
630i Convertible	11.8 (11.6)	6.3 (6.0)	8.3 (8.1)	198 (192)
650i Convertible	19.2 (16.5)	8.8 (7.7)	12.6 (10.9)	299 (258)
635d Convertible[2]	9.6	5.8	7.2	190
M6 Coupé[3]	21.4	10.2	14.3	342
M6 Convertible[3]	22.0	10.6	14.7	352
740i[2,4]	13.8	7.6	9.9	232
740Li[2,4]	14.0	7.7	10.0	235
750i[2,4]	16.4	8.5	11.4	266
750Li[2,4]	16.4	8.5	11.4	266
730d[2,4]	9.5	5.9	7.2	192
730Ld[2,4]	9.6	6.0	7.3	194
X3 xDrive20i[1]	12.6	6.9	9.0	215
X3 xDrive25i	12.8 (13.1)	7.3 (7.4)	9.3 (9.5)	224 (228)
X3 xDrive30i	13.4 (13.3)	7.3 (7.6)	9.5 (9.7)	229 (233)
X3 xDrive20d[4]	8.2 (8.3)	5.5 (5.8)	6.5 (6.7)	172 (178)
X3 xDrive30d	9.7 (9.9)	6.0 (6.4)	7.4 (7.7)	196 (206)
X3 xDrive35d[2]	9.7	6.7	7.8	208
X5 xDrive30si[2]	13.8	8.3	10.3	247
X5 xDrive48i[2]	17.0	9.3	12.1	289
X5 xDrive30d[2]	10.4	7.0	8.2	217
X5 xDrive35d[2]	10.5	7.1	8.3	220
X6 xDrive35i[2,4]	14.9	8.9	11.1	259
X6 xDrive50i[2,4]	17.7	9.9	12.8	299
X6 xDrive30d[2]	10.4	7.0	8.2	217

Model	Urban (l/100 km)	Extraurban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW				
X6 xDrive35d[2]	10.5	7.1	8.3	220
Z4 sDrive23i[4]	12.4 (11.8)	6.2 (6.1)	8.5 (8.2)	199 (192)
Z4 sDrive30i[4]	12.4 (11.9)	6.2 (6.2)	8.5 (8.3)	199 (195)
Z4 sDrive35i[4]	13.5 (12.6)	7.0 (6.9)	9.4 (9.0)	219 (210)
MINI				
MINI One	6.8 (9.0)	4.4 (5.0)	5.3 (6.5)	128 (155)
MINI Cooper	6.9 (9.1)	4.5 (5.0)	5.4 (6.5)	129 (156)
MINI Cooper D	4.7 (6.5)	3.5 (4.2)	3.9 (5.0)	104 (134)
MINI Cooper S	7.9 (9.7)	5.2 (5.3)	6.2 (6.9)	149 (165)
MINI John Cooper Works[1]	9.2	5.6	6.9	165
MINI Cooper Convertible	7.4 (9.3)	4.7 (5.2)	5.7 (6.7)	137 (161)
MINI Cooper S Convertible	8.1 (9.9)	5.4 (5.4)	6.4 (7.1)	153 (170)
MINI John Cooper Works Convertible[1]	9.3	5.8	7.1	169
MINI One Clubman	6.9 (9.1)	4.5 (5.1)	5.4 (6.6)	130 (158)
MINI Cooper Clubman	7.1 (9.2)	4.5 (5.1)	5.5 (6.6)	132 (159)
MINI Cooper D Clubman	4.9 (6.6)	3.6 (4.2)	4.1 (5.1)	109 (136)
MINI Cooper S Clubman	8.0 (9.8)	5.3 (5.4)	6.3 (7.0)	150 (168)
MINI John Cooper Works Clubman[1]	9.3	5.7	7.0	167
Rolls-Royce				
Rolls-Royce Phantom[2]	23.2	11.3	15.7	377
Rolls-Royce Phantom extended Wheelbase[2]	23.3	11.4	15.8	380
Rolls-Royce Phantom Drophead Coupé[2]	23.2	11.3	15.7	377
Rolls-Royce Phantom Coupé[2]	23.2	11.3	15.7	377

Figures in brackets only valid for automatic transmissions.
[1] only available with manual transmission
[2] only available with automatic transmission
[3] only available with SMG Drivelogic, 7-gear M transmission
[4] EU5 comes as standard
[5] EU5 comes as standard for left-hand drive vehicles
[6] also available as EU5 in selected markets from April 2009
[7] Consumption figures for automatic transmission on right-hand drive vehicles vary.

Further information and constantly updated data for the vehicles is available on the Internet at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.

as of March 2009

Values measured in accordance with the New European Drive Cycle (EU Directive: 80/1268/EEC in the relevant applicable version). Valid for vehicles with a European country specification.

FSC Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SW-COC-002207
© 1996 Forest Stewardship Council

The manufacture of, and the paper used for, the BMW Group's Annual Report 2008, have been certified in accordance with the criteria of the Forest Stewardship Council (FSC). The FSC prescribes stringent standards for forest management, thus helping to avoid uncontrolled deforestation, human rights infringements and damage to the environment. Since products bearing the FSC label are handled by various enterprises along the processing and trading chain, the FSC chain of custody certification rules are also applied to enterprises which process paper e.g. printing companies.

Print CO_2 compensated

The CO_2 emissions generated through the production of paper for this report, as well as through print and production, were neutralized by the BMW Group. To this end, the corresponding amount of emission allowances was erased, with the transaction identification DE75016 on 3 March 2009.