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1 Sustainability as part of corporate strategy

Companies assume responsibility for their economic success as well as for the environment and society. For only companies that take account of the interests of people and the needs of the environment, i. e. that operate sustainably, can achieve long-term economic success. For the BMW Group, sustainability management means using resources efficiently and sparingly, recognising and minimising risks, acting in a socially responsible way and thus enhancing the Company's reputation. In doing so, both the management and employees constantly strive to improve on their achievements. Since sustainable actions provide the basis for viable development, the BMW Group takes this responsibility.

The BMW Group in portrait

Success in the premium segment

The BMW Group, like no other automobile company, focuses with its three brands BMW, MINI and Rolls-Royce exclusively on the premium segments of the international automobile markets. With its ongoing product and market initiative, the Company consistently opens up new market segments, constantly develops new sales opportunities worldwide and has thus moved into a new dimension over the last few years. Today, the BMW Group has the most comprehensive range of products in the Company's history and addresses all the premium segments of the international automobile markets of current relevance to the Company.

In the motorcycle business, the BMW Group also pursues this strategy and is highly successful worldwide. As a result, the number of BMW motorcycles delivered to customers has risen by more than 80 percent in the last ten years.

A wide choice of Financial Services completes the range of BMW Group products and services. In this field, the Company has grown steadily for years and thus benefits even more intensively from the automobile value added chain.

Three brands – one claim

Premium: All three brands of the BMW Group stand for this claim – with different facets, for different market segments, but always authentic.

With meanwhile eight model series, the BMW brand embodies the proverbial Sheer Driving Pleasure which is newly interpreted in every model, but is nevertheless common to all BMW automobiles. With the MINI, the BMW Group has repositioned a classic car and thus established the term "premium" in the small car segment. And finally, Rolls-Royce motor cars have been synonymous with timeless, lasting perfection for more than one hundred years.

It is the BMW Group's consistent orientation to the premium claim that makes its vehicles so attractive. This strategy, responsible action and a dedication to success, which is shared by all the employees, characterise the Company and are the main driving forces for the BMW Group's success.

www.bmw.com

www.mini.com

www.rolls-roycemotorcars.com

www.bmw-motorrad.com

www.bmw-financialservices.com

Investments in the future

With 22 production locations, the international research and development network, 34 sales subsidiaries as well as a network of independent dealerships, the BMW Group is represented in more than 150 countries worldwide.

Germany still accounts for about half the volume of purchases. It is followed by the other countries of Western Europe with 19 percent, the member states of NAFTA (North American Free Trade Agreement) with 13 percent, the countries of Central and Eastern Europe with eight percent, the African nations with three percent and the countries of Asia and South America with two percent each.

A high level of capital expenditure ensures the BMW Group's efficient performance. In the last five years, for example, the Company has invested a total of almost euro 19 billion. This was used mainly for the expansion of the production network and the sales network, as well as for research and development.

In line with the motto "Production follows the market", the BMW Group invests in the development of new, highly promising markets. After all, capital expenditure that benefits the Company also brings economic progress to the regions near the respective locations.

The most recent example is the BMW Group's new Leipzig plant, which was opened officially in May 2005. The BMW Group is investing around euro 1.3 billion in the new location which will provide employment for some 5,500 people on the grounds

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The BMW Group's headquarters in Munich with the BMW Museum

when the plant works at full capacity. In addition to the new jobs in the plant, about the same number again will be created in the surrounding region.

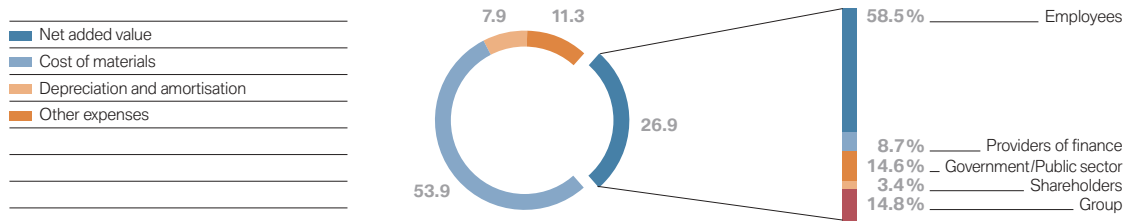
The BMW plant in Spartanburg, South Carolina, USA, is another example of a location's successful development. During the first ten years of production, the region surrounding the plant, which opened in 1994, developed very positively: capital expenditure of US dollar 400 million, which the BMW Group originally planned, has increased more than five-fold in the last ten years. Today, some 4,600 employees work in the BMW plant in Spartanburg. The multiplier effect of the investment in the plant worked wonders for growth and the creation of employment in the region.

The business year 2004

The year 2004 was the most successful business year in the BMW Group's history. More than 1.2 million automobiles and around 92,300 BMW motorcycles were delivered to customers in 2004. In balance sheet terms, the business volume of the Financial Services segment rose by 13.6 percent to euro 32,556 million. With the strong growth in retail, the revenues of the BMW Group also increased significantly to achieve a new record of euro 44,335 million. The Company generated pre-tax earnings of euro 3,554 million; net profit amounted to euro 2,222 million, another new record. Shareholders benefited from this development with a four cent increase in dividend to euro 0.62 per share of common stock and euro 0.64 per share of preferred stock. Not only shareholders, but also other stakeholders benefit from the BMW Group's business success. The value added statement shows the value of work performed less the value of work bought in by the BMW Group. In 2004 the net value added increased by 4.5 percent to euro 12,220 million. The government/public sector participated in this in the form of tax payments amounting to euro 1,785 million (14.6 percent). However, by far the largest share (58.5 percent), amounting to euro 7,154 million, benefited the employees. At the end of 2004, the

BMW Group value added 2004

in %



Company had a workforce of 105,972 employees. Thus, in 2004 the BMW Group created 1,722 new jobs, three-quarters of which were in Germany. From the end of 2000 to the end of 2004, more than 12,000 additional jobs were generated in the BMW Group, 11,000 of which were in Germany.

areas of the BMW Group and includes the most important competitive factor of any company: the employees. For example, the BMW Group is working on long-term human resources development strategies to cope successfully with demographic change. It also promotes its employees' health with a large variety of programmes and measures.

Our understanding of sustainability

Sustainability as management task

The BMW Group is committed to applying the concept of sustainability in practice and integrating it into daily business procedures. Therefore, the BMW Group's decisions and processes are based not only on economic but also on social and ecological criteria. The objectives are clearly defined: The resources required by the Company must be used efficiently and sparingly, risks must be recognised, opportunities taken and the Company's reputation enhanced by responsible actions towards employees and society. These aims are of decisive importance for the Company's future viability. Against this background it becomes clear why sustainability and business success belong together in the BMW Group.

Using resources responsibly

Using production materials, water, energy and capital sustainably means handling resources sparingly, efficiently and thus responsibly. This applies to all

Recognising and minimising risks

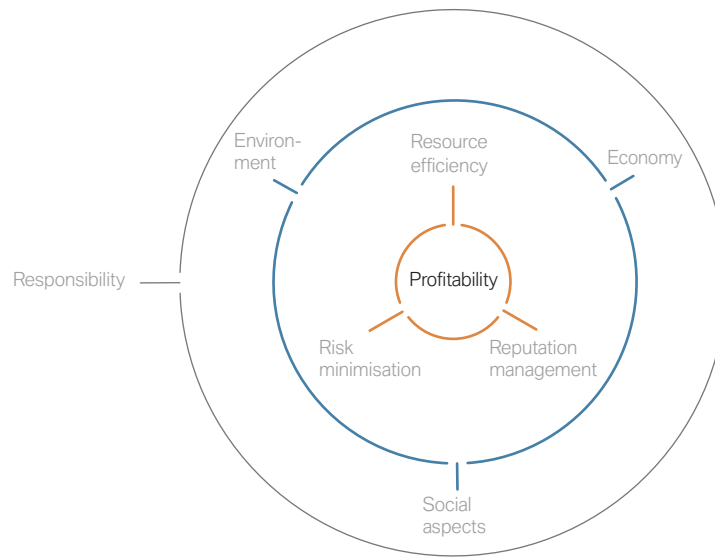
As a company with worldwide operations, the BMW Group is exposed to numerous ecological and social risks, which could have considerable social and economic impacts. The general public often contacts companies about issues of this kind and expresses its expectations. Companies that take account of stakeholders' concerns and try to balance interests not only reduce risk potential, but also develop opportunities. In order to achieve a global task such as climate protection, measures must be taken, for example, to reduce fleet consumption and CO₂ emissions at plants. At the same time, this aim triggers the development of new, resource-saving production and propulsion technologies. These processes result in future markets such as will develop for hydrogen drive.

Building up and enhancing reputation

Dialogue with the Company's stakeholders forms the core of reputation management. In concrete terms, this means a constructive exchange of views with investors, employees, customers, social organisations, political institutions and business partners. The BMW Group approaches its stakeholders and

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The BMW Group's understanding of sustainability



creates transparency by informing them about its actions and the principles on which they are based. The Company's commitment to social responsibility is demonstrated by concrete action: as corporate citizen, the BMW Group promotes a large number of projects worldwide. In doing so, the Company contributes to social development, while at the same time increasing the credibility and social acceptance of the Company and its products.

Measuring sustainability

Only measurable sustainability progress can be managed efficiently. That is why the BMW Group examines different methods of assessing sustainability quantitatively. In a dialogue and in cooperation with scientists outside the Company, a model for measuring sustainability was refined and adapted for corporate practice in the BMW Group. The Sustainable Value approach can be used to measure the contribution to value achieved by using the Company's economic, ecological and social resources (see also pages 16 and 17).

Putting sustainability into practice

Guidelines for social and ecological responsibility

As part of its objective to promote sustainable economic activity worldwide, the BMW Group supports international initiatives and the further development of voluntary standards and guidelines. As early as 2001 the BMW Group joined the Global Compact of the United Nations and firmly anchored its principles in the Company. In the Global Compact companies are committed to

- promoting and respecting human rights within their sphere of influence,
- making sure they are not complicit in human rights abuses,
- upholding the freedom of association and the effective recognition of the right to collective bargaining,
- eliminating all forms of forced and compulsory labour,
- abolishing child labour,

- eliminating discrimination in respect of employment and occupation,
- supporting a precautionary approach to environmental challenges,
- undertaking initiatives to promote greater environmental responsibility,
- encouraging the development and diffusion of environmentally friendly technologies
- and working against all forms of corruption, including extortion and bribery.

www.unglobalcompact.org

The ten principles in practice

The BMW Group ensures that these ten principles are put into practice with its internal human resources and environmental guidelines, its social commitment to its employees and society, which is far more comprehensive than that prescribed by law, and its dialogue with interest groups. In addition, the BMW Group observes the standards of the International Labour Organisation (ILO), the Guidelines for Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD), the Business Charter for Sustainable Development of the International Chamber of Commerce (ICC) and the International Declaration on Cleaner Production of the United Nations Environment Programme (UNEP). Since 2003, the BMW Group has also included its partner companies and suppliers in the application of these initiatives and guidelines, and since then environmental and social criteria have been integrated into its international purchasing guidelines.

www.ilo.org

www.oecd.org

www.iccwbo.org

www.unep.org

In the spring of 2005, the Board of Management of BMW AG, together with the employees' representatives and the International Metalworkers' Federation (IMF) signed a binding declaration on human rights and labour conditions in the BMW Group, which applies worldwide. The declaration specifies the human rights and labour principles of the Global Compact. The provisions of the declaration are based on the principles of the International Labour Organisation (ILO) as well as on legislation in various countries. The Company is committed wholeheartedly to equal opportunities and equal treatment, the prohibition of forced and child labour, as well as the freedom of

association. The agreement also sets standards for health and safety, remuneration and work-time arrangements. The complete wording of the declaration can be called up on the Internet at:

www.bmwgroup.com/responsibility

The anti-corruption principle, the tenth principle which was only added to the Global Compact in 2004, is observed consistently in the BMW Group: rules of behaviour, which, for example, promote responsible action among employees, are defined in the associate and leadership model as well as in the guidelines of the long-term human resources policy. These are based on the BMW Group's corporate culture, which is characterised by trust in the responsible action of its employees. Organisational measures, such as the separation of functions between the ordering party and Purchasing Division, as well as the involvement of that person's superior (four eyes principle), provide the basis for a workable, internal control system. This helps to reduce the risk of corruption. In addition, all areas of purchasing have been sensitised to the risk of corruption. The Group's audit department makes spot checks on the effectiveness of the internal control systems in place and, if necessary, encourages improvements. These spot checks are risk-oriented, i.e. processes and units in countries that are more exposed to the risk of corruption are checked more frequently.

Climate protection as corporate objective

The international community of states has set itself important environmental objectives with the Kyoto climate targets. Germany, for example, has undertaken to reduce its CO₂ emissions by 21 percent by 2012 compared with the reference year 1990. The BMW Group supports the Kyoto targets. With the help of energy-efficient production processes, the BMW Group is reducing emissions from vehicle production. In the last ten years, the plants of the BMW Group have reduced their CO₂ emissions by around 30 percent per unit produced. The fuel consumption of the automobile fleet decreased steadily as a result of numerous measures in vehicle development. Thus, the BMW Group is acting in line with an agreement between ACEA (European Automobile Manufacturers Association) and the EU Commission, according to which CO₂ emissions in the automobile fleets of all European manufacturers are to be reduced in the period from 1995 to 2008 to an average of 140 grams per kilometre.

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Hydrogen, the fuel of the future: a BMW CleanEnergy vehicle in London traffic

The BMW Group's energy strategy

Vehicle development in the BMW Group follows the concept of efficient dynamics. The BMW Group considers requirements for environmental compatibility and consumption in the context of statutory requirements and the customers' wishes in terms of comfort, safety and dynamic performance. The BMW Group's energy strategy to permanently safeguard individual mobility is designed to:

- reduce greenhouse gases,
- conserve finite fossil fuels and
- secure a long-term energy supply.

In the short and medium term, the BMW Group aims to further reduce the fuel consumption of its fleet by continuing to optimise existing engine systems and combining them with innovative lightweight automotive engineering concepts. The BMW Group is also examining the vehicle's entire energy chain in order to utilise energy potentials which have remained unused so far, such as braking energy, and is developing innovative engine technologies. For example, the Company is working on technical solutions for an automobile powered by both an internal combustion engine and an electric motor. This so-called hybrid system reduces consumption and environmental impacts. The BMW Group aims to develop an energy management system that offers advantages at all times, not just in the city. The BMW Group engineers are working on drive solutions whose power can be called up at any time and which provide more spontaneity for less consumption.

In the long term, however, the BMW Group sees a bright future for hydrogen as fuel. Therefore, it is promoting the use of liquid hydrogen as fuel of the future in its BMW CleanEnergy Initiative. In 2004, the H₂R Research Car demonstrated the efficiency of hydrogen combustion engines by setting nine international records for hydrogen-powered vehicles. The sixth generation of hydrogen vehicles has been tested in the current BMW 7 Series and is in the process of series development. Within the next three years vehicles will be handed over to customers in order to test and optimise the concept in daily use.

However, hydrogen-powered vehicles cannot go into operation in large numbers until a hydrogen infrastructure has been developed. Therefore, the BMW Group is working with numerous partners from science, politics and industry to create the necessary conditions for a hydrogen infrastructure.



above -- Discussion on corporate commitment to sustainability during the BMW Group's Dialogue Forum
below -- Visitors in the BMW Group's Earth Lounge



Sustainability in dialogue

As the example of the CleanEnergy strategy shows, many sustainability objectives can only be achieved with partners from politics, society, science and industry. The BMW Group regularly offers and finds events that promote the continuous and systematic exchange of views with relevant stakeholders. In doing so, the Company understands the dialogue with stakeholders as a constant learning process as regards its own ability to enter into a dialogue and the possibilities of finding joint solutions. The BMW Group's attitude is characterised by problem awareness, impartiality and recognition of the stakeholder groups' commitment. After participation in the World Summit on Sustainable Development in Johannesburg, South Africa, the BMW Group organised a second Dialogue Forum in order to exchange views with a wide range of interest groups. Upon the Company's invitation, more than 6,300 guests came to 43 events at the Dialogue Forum in Munich between mid-April and mid-May 2004. The events addressed employees and investors, as well as partners from politics, industry, social organisations, science, culture, the media and education. Discussions focused on numerous aspects of sustainable action in industry, society and politics. Sustainable development is the result of many decisions and measures, which frequently have very little news value in the conventional sense. That is why representatives of the media were approached selectively in a new open form of dialogue, which differs from classic media relations. During the Dialogue Forum, Dr. Norbert Reithofer, Board Member for Production at BMW AG, and those in the Company responsible for environment, transport, human resources and finance, discussed with journalists the extent to which sustainability can be achieved and how this can be done efficiently.

www.bmwgroup.com/responsibility

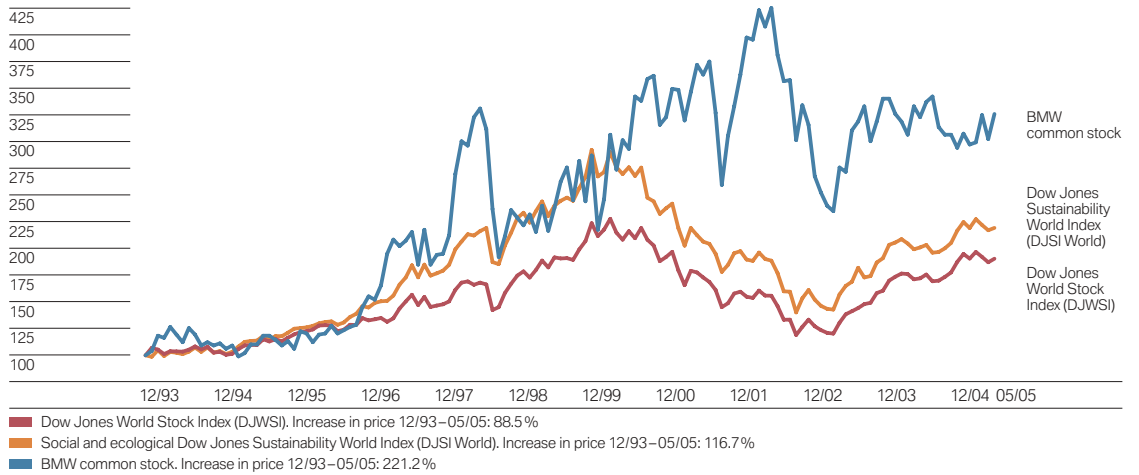
www.econsense.de

The Dialogue Forum was accompanied by an exhibition, which was open to anyone interested. Here the BMW Group presented examples of its commitment to Clean Production, BMW CleanEnergy, Mobility Management, Sustainable Service and Recycling as

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Development of the DJSI World, the DJWSI and BMW common stock, December 1993 to May 2005

(Index: December 1993 = 100)



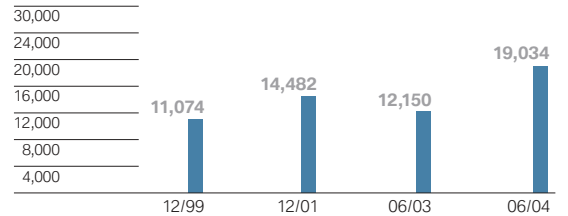
well as Social Responsibility towards employees and society.

Financial markets: sustainability criteria gain in importance

One of the major themes discussed at the Dialogue Forum was the impact of sustainability on the capital and financial markets. Investors increasingly take account of ethical and sustainable principles in their investment decisions. Therefore, experts now consider responsible action a competitive factor that has to be taken seriously as it contributes to the increase in a company's value.

A growing number and increasing acceptance of the financial indexes specialised in sustainability reflect the financial markets' great interest in companies that act sustainably. The BMW Group with its above-average performance in the field of sustainable operations is listed in the most important family of sustainability indexes, the Dow Jones Sustainability World Indexes (DJSI World) and Dow Jones STOXX Sustainability Indexes (DJSI STOXX). In the Corporate Responsibility Rating 2003 by oekom research, the BMW Group holds the leading position within the automobile industry. Using 200 different

Investment volume of European sustainability funds
in euro million



Source: Avanzi SRI Research/SiRi Company (2004)

criteria, the Rating analyses companies' awareness of responsibility in the cultural and social field as well as the environmental compatibility of their economic activity. The BMW Group is also represented in various FTSE4Good indexes, for example as the only automobile company in the FTSE4Good Europe 50 Index. The indexes consider criteria on environment-related sustainability, the development of positive relations with interest groups, as well as the observation and promotion of human rights.
www.oekom-research.de
www.ftse4good.com
www.sam-group.com