Annual Report 2005

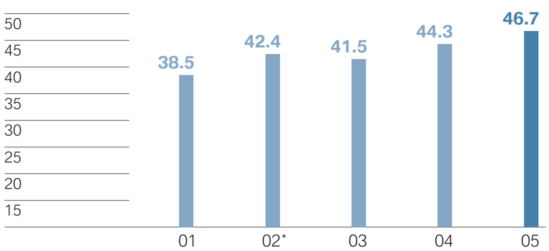
Driving performance.

Rolls-Royce
Motor Cars Limited

BMW Group

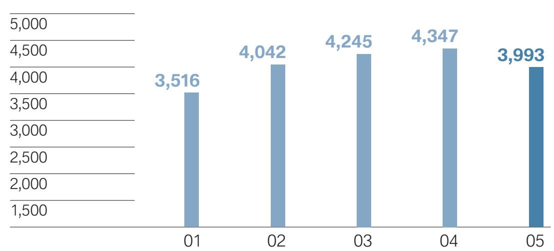
Facts and figures 2005

BMW Group Revenues
in euro billion

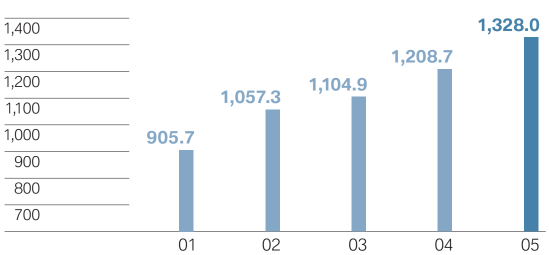


*reclassified after harmonisation of internal and external reporting systems

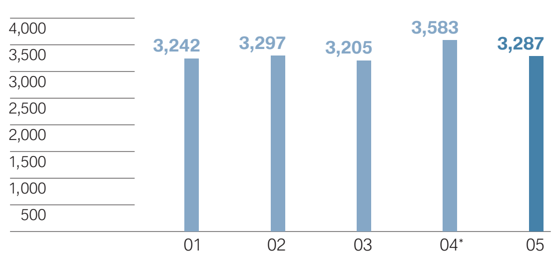
BMW Group Capital expenditure
in euro million



BMW Group Deliveries of automobiles
in thousand



BMW Group Profit before tax
in euro million



*adjusted for new accounting treatment of pension obligations

A portrait of the Company

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

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

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

BMW Group in figures

	2001	2002	2003	2004	2005	Change in %
Vehicle production						
BMW	904,335	930,221	944,072	1,059,978	1,122,308	5.9
MINI	42,395	160,037	174,366	189,492	200,119	5.6
Rolls-Royce	–	–	502	875	692	– 20.9
Motorcycles [1]	90,478	93,010	89,745	93,836	92,012	– 1.9
Deliveries to customers						
BMW	880,677	913,225	928,151	1,023,583	1,126,768	10.1
MINI	24,980	144,119	176,465	184,357	200,428	8.7
Rolls-Royce	–	–	300	792	796	0.5
Motorcycles [2]	84,713	92,599	92,962	92,266	97,474	5.6
Workforce at end of year [3]	97,275	101,395	104,342	105,972 [4]	105,798	– 0.2

in euro million	2001	2002	2003	2004	2005	Change in %
Revenues	38,463	42,411 [5]	41,525	44,335	46,656	5.2
Capital expenditure	3,516	4,042	4,245	4,347	3,993	– 8.1
Depreciation and amortisation	2,159	2,143	2,370	2,672	3,025	13.2
Cash flow [7]	4,202	4,374	4,490	5,187 [6]	5,602	8.0
Operating cash flow [7]	4,304	4,553	4,970	6,157	6,184	0.4
Profit before tax	3,242	3,297	3,205	3,583 [6]	3,287	– 8.3
Net profit	1,866	2,020	1,947	2,242 [6]	2,239	– 0.1

1] excluding C1, total production of the C1 to 2002: 33,489 units
2] excluding C1, sales volume to 2003: 32,859 units
3] Figures exclude suspended contracts of employment, employees in the work and non-work phases of pre-retirement part-time arrangements and low income earners.
4] Including acquired entities, the comparable number of employees was 106,322 employees at 31 December 2004.
5] reclassified after harmonisation of internal and external reporting systems
6] adjusted for new accounting treatment of pension obligations
7] In its financial statements for 2005, the BMW Group has brought the computation of cash flow into line with standards normally applied on the financial markets. In future, the Group will disclose both the figure for the simplified definition of cash flow used to date and operating cash flow; the latter corresponds to the cash flow from industrial operations reported in the cash flow statement. A definition of the two cash flow terms is also provided in the glossary on page 140.

Ladies and Gentlemen,

Throughout the financial year 2005, the Supervisory Board, with the aid of written and oral reports provided by the Board of Management and in ensuing joint discussions, closely followed the progress of the BMW Group, continuously assessing the governance of the Board of Management, both in terms of efficiency and compliance with legal requirements.

The Supervisory Board was almost complete at each of its five meetings. Using the detailed and comprehensive reports prepared by the Board of Management, it discussed and provided advice on a range of issues relating to the BMW Group's business and financial position, personnel situation, corporate strategies, risk profile and management and selected strategic projects. Decisions of particular importance to the enterprise were discussed in-depth with the Board of Management and, where required by law, company statutes or Supervisory Board resolution, approved appropriately. Outside the framework of formal meetings, and ahead of forthcoming meetings, the Board of Management kept the Supervisory Board informed on a regular and timely basis of current developments and significant transactions. The Chairman of the Board of Management also kept the Chairman of the Supervisory Board up to date personally with all significant developments and projects.

Joachim Milberg, Chairman of the Supervisory Board

Once again, the Supervisory Board focused its attention in 2005 on the Board of Management's activities aimed at the premium segments of the automobile markets. Thanks to upfront investments made in previous years and the current sales volume performance, the BMW Group has further strengthened its financial position and market presence. The Supervisory Board fully supports the decision taken by the Board of Management to press on with the product offensive by introducing two new and stand-alone model series, thus enhancing the Group's market position and enabling it to exploit further growth and earnings potential and to increase the value of the business.

The Supervisory Board also followed the introduction of the new BMW 3 Series in 2005 with great interest and concluded that the model change of the bestselling BMW model series had been executed successfully. The Supervisory Board took appreciative note of sales volume figures achieved in 2005 by the new model series introduced in 2004, namely the BMW X3, BMW 1 Series, BMW 6 Series and MINI Cabrio, all of which were available on the markets for their first full year. The success enjoyed by these new models and the sharp increase in unit sales overall by the BMW Group are, in the eyes of the Supervisory Board, clear evidence of the future viability of the strategy pursued by the Board of Management with the BMW, MINI and Rolls-Royce brands.

The Board of Management also reported to the Supervisory Board on the overall positive performance of the Motorcycles segment on the back of its product offensive initiated in 2004.

The Supervisory Board was informed in advance of the plan to develop a hybrid engine jointly with DaimlerChrysler AG and General Motors Corporation.

The two boards also debated the further expansion of the BMW Group's market presence, including, for example, the establishment of a production and sales company in India.

Written and oral reports provided by the Board of Management also enabled the Supervisory Board to keep abreast of competitors' activities in the main markets, the development of raw material prices, the exchange rate of the euro against the US dollar and other major currencies, the currency management strategies applied by the BMW Group and the impact of all of these factors on business development.

The Supervisory Board fully endorsed the proposal put forward to the shareholders at the Annual General Meeting 2005 to authorise the Board of Management to buy back treasury shares and withdraw them from circulation, thus underlining the fact that the enterprise is also geared to shareholder interests.

The Supervisory Board obtained information about the impact of global demographic changes on the BMW Group, in particular in Germany and, together with the Board of Management, deliberated on ways of moving forward with its employee and product-related policies.

One meeting of the Supervisory Board was held at the site of the new BMW plant in Leipzig, where the Supervisory Board was also able to gain an impression of the successful production start-up of the new BMW 3 Series.

At its meeting in December 2005, the Supervisory Board considered at length the BMW Group's long-term business plan and approved it along with the annual budget for the financial year 2006.

Partly as a result of changes to the German Corporate Governance Code in 2005, the Supervisory Board and Board of Management again devoted time to corporate governance issues within the BMW Group. The two boards issued Declarations of Compliance with the German Corporate Governance Code pursuant to §161 of the German Stock Corporation Act to the effect that, apart from a few exceptions (see page 133), the recommendations contained in the German Corporate Governance Code in the version published on 4 July 2003 have been complied with and that the recommendations contained in the new version of the Code issued on 12 July 2005 are being complied with. On a related note, the Supervisory Board also enquired into the ramifications of the changed legal situation for BMW from the beginning of 2006 brought about by the new law, the Management Boards' Compensation Disclosure Act, and the various options open to it. At its meeting in December 2005, the Supervisory Board also questioned the effectiveness of its own work and investigated ways of improving it.

At its constitutive meeting for the financial year 2004, the Supervisory Board had established a total of three new committees in addition to the Presiding Board. The composition of these committees, which remained unchanged in 2005, is shown on page 126. The Chairman reported regularly to the Supervisory Board on the status of committee work.

Meetings of the Presiding Board focused primarily on preparations for Supervisory Board meetings, in particular where complex issues were concerned. The Presiding Board received reports on the implications of the German Corporate Integrity and Modernisation of the Contestation Act and considered the changes to the Germany Corporate Governance Code.

The Audit Committee convened twice during the period under report. As part of the preparations for the Supervisory Board meeting at which the 2004 financial statements were examined, the Audit Committee also obtained a Declaration of Independence from the firm of auditors subsequently elected as group auditors at the 2005 Annual General Meeting. It also determined the areas of audit emphasis to be incorporated into the audit engagement letter, including the first time application of new and revised IFRSs in the financial year 2005. Furthermore, the Audit Committee also considered risk management issues, including the assessment of currency risks.

In its five meetings, the Personnel Committee considered the composition of the Board of Management and specific contractual issues. It also evaluated the appropriateness of the compensation of the Board of Management, including a comparison with other DAX companies. The Personnel Committee also received in-depth reports on human resources management within the BMW Group.

The statutory Mediation Committee (§27 (3) of the Law on Worker Participation) was not required to convene during the financial year 2005.

The Annual and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2005 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion.

In the presence of the external auditors, who reported on the main findings of their audit as well providing additional information, first the Audit Committee (on 24 February 2006) and then the Supervisory Board (on 9 March 2006) examined and considered in detail the above-mentioned statements prepared by the Board of Management. The long-form audit reports of the external auditors were made available to all members of the Supervisory Board.

The Supervisory Board concurred with the results of the external audit and approved the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2005 prepared by the Board of Management. The Company financial statements are therefore adopted.

The Board of Management's proposal to use the unappropriated profit available for distribution was also examined by the Supervisory Board. The Supervisory Board concurs with the proposal submitted by the Board of Management to pay a dividend of euro 0.64 for each share of common stock entitled to receive a dividend and to pay a dividend of euro 0.66 for each share of preferred stock entitled to receive a dividend. In accordance with the conclusion reached on the Supervisory Board's examination, no objections were raised.

The composition of the Supervisory Board, which did not change during the financial year 2005, is shown on pages 126 to 128.

The term of office of Volker Doppelfeld, whose achievements were described and acknowledged both in the previous year's report of the Supervisory Board and on the occasion of the Annual General Meeting on 12 May 2005, comes to an end at the close of this year's Annual General Meeting on 16 May 2006. Having reached the company's age limit, Mr. Doppelfeld is not available for re-election. The Supervisory Board would like to express its gratitude to Mr. Doppelfeld for his staunch cooperation and for his great service to the BMW Group over the years as a member of the Board of Management and as a member and Chairman of the Supervisory Board.

The Supervisory Board would also like to thank the Board of Management and all employees for all their hard-work which has made such a decisive contribution to another successful year for the BMW Group.

Munich, March 2006
The Supervisory Board

Joachim Milberg
Chairman of the Supervisory Board

Group Management Report
A Review of the Financial Year

BMW Group successful despite difficult environment
The BMW Group continued to perform successfully in 2005 despite a difficult environment. It further extended its lead in the premium segments of the international automobile markets by recording a sharp rise in its car sales volume. Particular challenges arose in the year under report as a result of the co-occurrence of adverse currency factors, above-average raw material prices and intense competition on the international car markets. The BMW Group was, however, once again able to prove its operating strength. As a result of the sharp increase in car sales and on-going efficiency improvement measures, the negative impact of these external factors was almost completely offset by the year-end. Profit before tax, at euro 3,287 million, was 8.3% below the record level achieved in the previous year.

The adverse effects have particularly affected the Automobiles segment. Compared to the record result recorded in the previous year, the segment's profit before tax fell by 5.9% to euro 2,976 million.

After the temporary slow-down in the previous year, the Motorcycles segment returned to the growth course set in previous years and recorded a sharp increase in sales volume. Segment profit in 2005 rose by 93.5% to euro 60 million.

Strong growth by the Financial Services segment again provided the basis for a very pleasing improvement in earnings. At euro 605 million, segment profit surpassed the previous year's record result by 17.5%.

In addition to the impact from adverse operating factors, group earnings in 2005 were also affected by fair value gains and losses. The fair value loss on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, resulted in an additional expense of euro 308 million being recorded in 2005 compared to the previous year.

Positive tax factors in 2005 reduced the Group's tax expense. The BMW Group reports a net profit for the year of euro 2,239 million, almost matching the previous year's high level (–0.1%).

Increased dividend proposed
The Board of Management and Supervisory Board propose to the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG, amounting to euro 424 million, to pay a dividend of euro 0.64 for each share of common stock (2004: euro 0.62) and euro 0.66 for each share of preferred stock (2004: euro 0.64), each with a nominal value of euro 1.

Programme to buy back shares of common stock
At the Annual General Meeting of Bayerische Motoren Werke Aktiengesellschaft on 12 May 2005, the shareholders authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10% of the share capital issued at the date of the resolution and to withdraw these shares from circulation without any further resolution by the Annual General Meeting. In conjunction with this authorisation, the Board of Management of BMW AG resolved on 20 September 2005 to put a programme in place to buy back shares via the stock exchange. Up to 20,232,722 shares of common stock (i.e. 3% of share capital) have been acquired under this programme. The shares have been acquired with the purpose of withdrawing them from circulation at a later date and reducing share capital. A total of 13,488,480 shares of common stock had been acquired by the end of 2005, equivalent to 2% of share capital. The average

In order to improve transparency in its financial reporting, the BMW Group has elected to adopt an accounting option recently established by the IASB relating to the accounting treatment of pension obligations. This has resulted in changes in the balance sheet and income statement. The following analysis is based on figures for the previous year adjusted for comparison purposes. The changes are described in detail in Note 8b to the Group financial statements.

price paid was euro 37.49. Including ancillary purchase costs, approximately euro 506 million were used in 2005 to buy back shares.

Revenues at new high level
As a result of strong sales volume growth and another very pleasing performance with financial services activities, group revenues for the 2005 financial year rose by 5.2 % to euro 46,656 million. Currency fluctuations only had a minimal impact on revenues: excluding currency factors, revenues growth would have been only 0.1 percentage points lower.

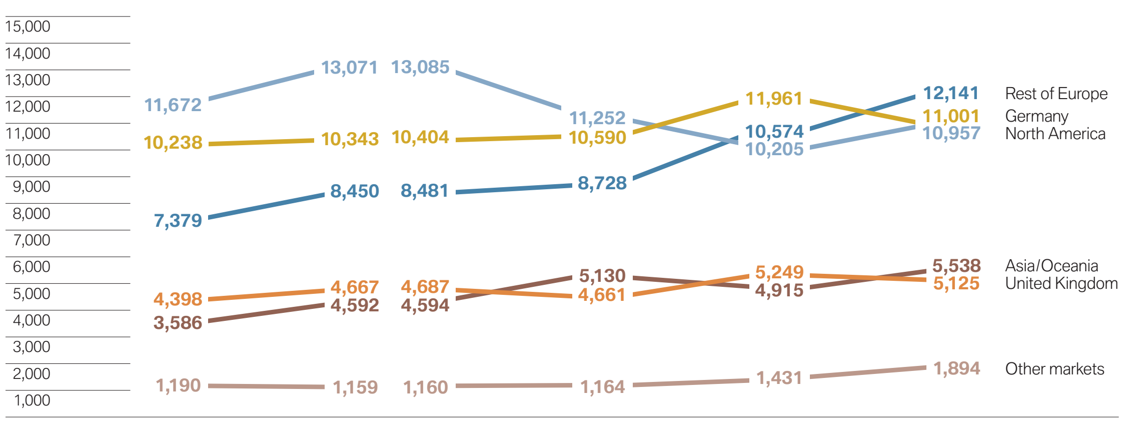
Revenues of the Automobiles segment in 2005 amounted to euro 45,861 million, rising therefore by 7.8 % compared to the previous year.

The product initiative launched in 2004 had a positive impact on reported revenues of the Motorcycles segment; these rose by 18.9 % to euro 1,223 million.

The Financial Services segment recorded revenues of euro 9,408 million, up 14.4 % compared to the previous year.

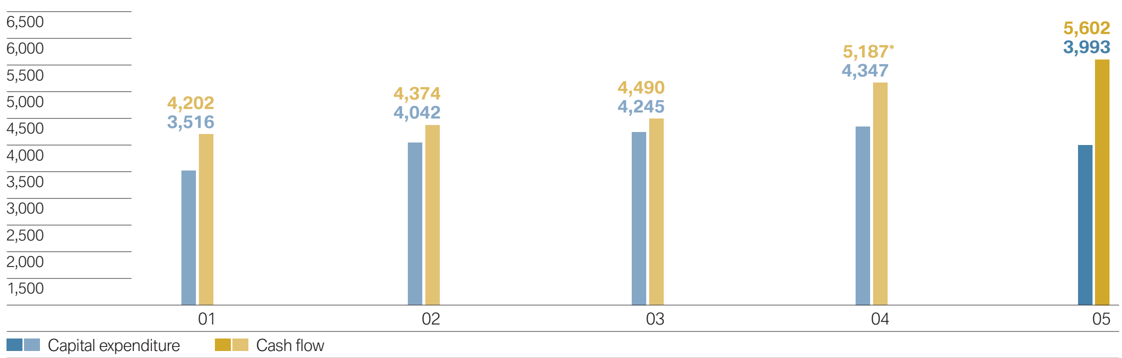
Capital expenditure reduced
Capital expenditure decreased on a year-on-year basis since the bulk of capital expenditure for the new BMW plant in Leipzig was incurred in 2004; the previous year's figure was also above-average because of capital expenditure for the BMW 3 Series model change. In 2005, the BMW Group invested euro 2,597 million in property, plant and equipment and other intangible assets, 19.5 % less than in the previous year. On top of this, development expenditure of euro 1,396 million (2004: euro 1,121 million; +24.5 %) has been recognised as assets in accor-

BMW Group Revenues by region
in euro million



*reclassified after harmonisation of internal and external reporting systems

BMW Group capital expenditure and cash flow
in euro million



*adjusted for new accounting treatment of pension obligations

In its financial statements for 2005, the BMW Group has brought the computation of cash flow for external reporting purposes into line with standards normally applied on the financial markets. In future, the BMW Group will disclose both the figure for the cash flow as defined here and operating cash flow; the latter corresponds to the cash flow from industrial operations reported in the cash flow statement. The figures for simplified cash flow computation as disclosed previously and of operating cash flow are shown in the ten-year comparison summary on pages 136 and 137. An exact definition of the two cash flow terms is also given in the glossary on page 140.

dance with IAS 38, so that total additions in 2005 amounted to euro 3,993 million, equivalent to a decrease of 8.1% compared to the previous year.

The increase in capitalised development costs resulted from the higher volume of series development projects carried out during the year under report. The proportion of development costs recognised as assets in 2005 was 44.8% (2004: 39.8%).

Including capitalised development costs, the capital expenditure ratio in 2005 (i.e. the ratio of capital expenditure to group revenues) was 8.6% (2004: 9.8%).

The main emphasis of capital expenditure in 2005 was, once again, the continued expansion of the BMW Group's worldwide production network and of the sales network. As well as further construction work at the BMW Leipzig plant, extensive measures were taken, and up-front expenditure incurred, to expand capacities for new models going into production at existing plants.

Business environment
Economic developments in 2005

The global economy again grew strongly in 2005, albeit with growth rates slightly lower than in the previous year. This development was primarily attributable to the sharp rise in the price of crude oil and other raw materials which resulted in higher costs for businesses and in a further reduction of buying power on the part of consumers. The dampening effect of these factors was only partially offset by greater demand from countries which export raw materials.

Once again, it was the US economy which assumed the role of economic driving force in 2005. Helped by positive developments on the labour market and a sharp increase in real estate prices, private consumption again generated vigorous impetus for the US economy in 2005. In addition to robust investment activities, there were also the first positive signals in the area of exports. This did not bring about, however, a reduction in the current account deficit. Overall, the gross domestic product of the USA grew by 3.5 % in 2005.

The volume of business in the new EU member countries also continued to grow strongly in 2005, with both export and domestic demand contributing positively to the upturn. This was further stimulated by monetary and fiscal policies in a number of countries.

By contrast, economic momentum remained weak in the euro region. Although the European economy was able to recover from its slow growth phase at the beginning of the year, the rise in oil prices and the continued strong euro against the US dollar held down growth rates during the remainder of the year. In most countries, most of the positive impulses came from exports, whilst the domestic economies continued to perform only modestly. Overall, the euro region economy only grew by approximately 1.5 % in 2005.

Germany's economic recovery remained very sluggish. Just like the rest of Europe, the German economy was able to benefit from the acceleration of the global economy seen at the beginning of 2005; however, the on-going crisis in the construction industry and, above all, the persistent reluctance of consumers to spend, kept growth rates down, so that the German economy grew by less that 1% in 2005 despite the strong momentum generated by exports.

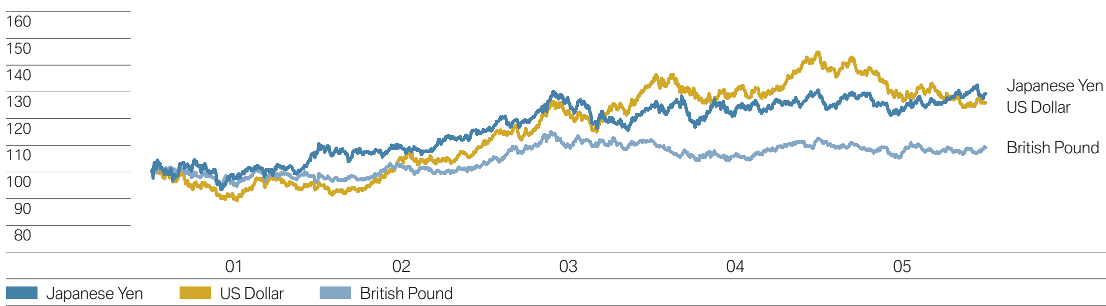
The strongest impulses for the global economy in 2005 came from Asia. As in previous years, China recorded the fastest growth, at more than 9 %; gross domestic product also grew strongly in India, rising by more than 7 %. South East Asian economies registered growth of about 4.5 %.

Japan has now overcome the recession experienced in 2004. Renewed increase in demand for exports and significantly stronger domestic demand both contributed to this development. The fact that the structure of growth is well-balanced suggests that Japan's long weak phase is finally at an end, particularly in conjunction with the fact that deflationary trends are also slowly diminishing. Overall, the Japanese economy grew in 2005 by approximately 2.5 %.

US dollar gains strength over course of year

The US dollar exchange rate developed over the course of 2005 in favour of companies exporting from Europe. The euro fell from its high of US dollar 1.34 to below US dollar 1.17 and stood at US dollar 1.18 at the year-end, some 13 % below the rate at the beginning of the year. In addition to the persisting difference between growth rates in the euro region and the USA, the increasing gap in interest rates also contributed to the weakening of the euro. In the light of these factors, the USA's current account deficit became less of an issue. In the long-term, however, it is likely that this issue will re-emerge, so that there is still a risk that the euro will appreciate in value.

Exchange rates compared to the Euro
(Index: 1 January 2001 = 100)



Source: Reuters

In 2005, the British Pound fluctuated within a very narrow range of between GBP 0.71 and GBP 0.66 to one euro.

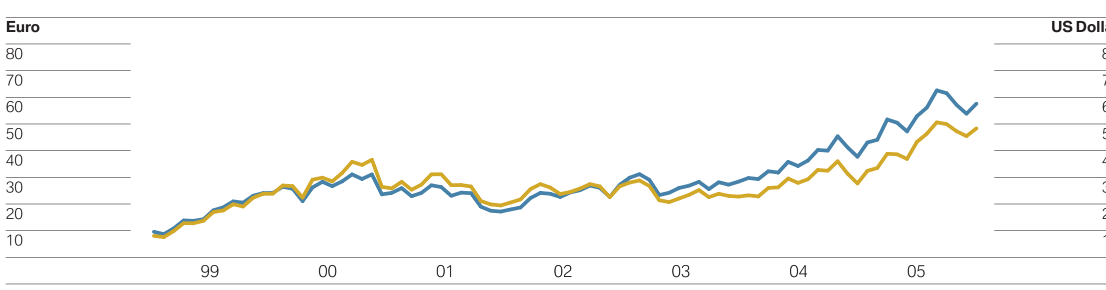
After a phase of gaining in value, the yen lost in value against the euro from the middle of the year onwards. This is at odds with the relevant fundamental data since the Japanese economy has recovered from its recession and promises to deliver more solid growth than the euro region.

Raw material prices: further rise in 2005

Oil prices again rose sharply in 2005, largely due to persisting shortages in oil production and processing capacities, at a time when demand continued to rise steeply. Oil prices were also pushed up by natural catastrophes, which impaired production and processing capacities, and by a higher than usual level of speculation, a factor which always tends to have a greater impact on prices during times of shortage.

The situation on the steel market has eased somewhat since the beginning of 2005. Sharply rising demand in China and emerging Asian markets has been pushing up prices since 2002. Inventory levels were built up enormously towards the end of 2004 out of fear of further price increases; China also increased production volumes sharply and is now even a net exporter of steel. This has resulted in prices falling since the beginning of 2005.

Oil price
Price per barrel of Brent Crude

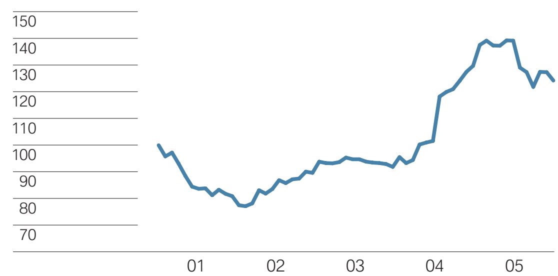


Source: Reuters

However, the price of a roll of cold-rolled steel, at US dollar 550, is still around 20 % higher than in the previous year.

By contrast, the rise in prices of precious metals continued unabated. Here also, increases in demand from the Asian region have helped to drive up prices. A further factor is that raw materials are increasingly being seen as an alternative form of investment at a time of global cash flow surpluses and related low interest rates.

Steel price trend
(Index: January 2001 = 100)



Source: German Federal Statistical Agency

Automobile markets in 2005

Worldwide demand for cars increased moderately in 2005 compared to the previous year. Within this overall development, however, the growth rates of three main traditional markets (Japan, the USA and Western Europe) fell well short of those for South East Asia and Latin America.

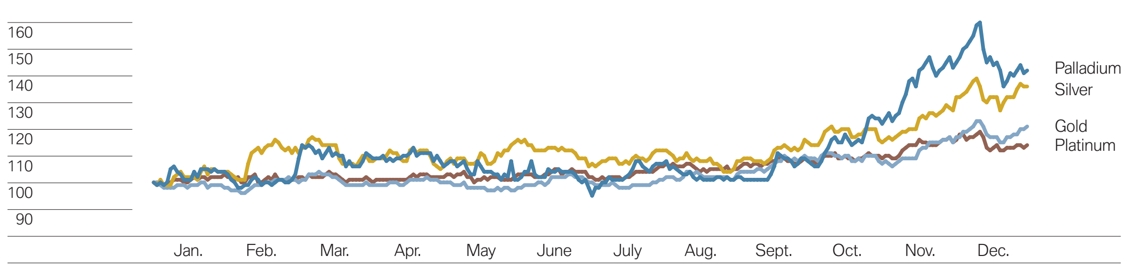
The total number of cars (light vehicles) sold in the USA stagnated in 2005 at 16.9 million units. Although sales in the summer months increased sharply due to massively extended purchase incentives offered by US manufacturers, this was only just sufficient to offset the shortfall in unit sales in the preceding and subsequent months. Despite these measures, the market share held by US manufacturers continued to decline in 2005.

The number of cars sold in Western Europe was static and thus, at approximately 14.5 million, remained almost unchanged from the previous year. Whilst Germany (+ 2.3 %) and France (+ 2.7 %) were able to register somewhat faster growth rates again in 2005, the Spanish market was more modest, growing by just 0.8 %. By contrast, the number of cars sold in Italy fell by 1.3 % and in the United Kingdom the reduction was as much as 5 %.

Since their admission to the EU in May 2004, the car markets in the new member states have had to cope with higher prices and an increased volume of imported used cars. Thereafter, the upturn previously experienced by those markets has come to an end, with some of them even suffering severe declines in 2005.

On the other hand, the Russian car market again experienced robust growth in 2005, registering a growth rate of approximately 10 %.

Precious metals price trend in 2005
(Index: 3 January 2005 = 100)



Source: Reuters

The Asian markets remained dynamic in 2005. The Chinese automobile market quickly passed through the temporary dip in the growth rate seen at the beginning of the year and then returned to robust growth, so that the average annual growth rate was in the region of 25%. The Indian market is now the third largest market in the Asian region after Japan and China; although the Indian market developed somewhat more moderately than in recent years, it was still able to register a growth rate of 6.5%. The South Korean market, which had contracted enormously in recent years, recovered on the back of a modest cyclical upturn in 2005 and even finished the year with an average growth rate of 7.3%. By contrast, the cyclical upturn in Japan did not have any impact on total car sales volumes; compared to the previous year, the number of new registrations stagnated due to a weak performance in the second half of the year.

The growth rates recorded in the Latin American markets were somewhat lower that those seen in the previous year. After doubling in 2004 from a low level, new registrations in Argentina rose again in 2005 by almost 30%. In Brazil, a growth rate of almost 10% was again achieved in 2005.

Motorcycle markets in 2005

The global market for motorcycles grew in 2005 by approximately 7%. The 500 cc plus motorcycles segment relevant for the BMW Group grew worldwide by 4.4%.

The total volume sold in this segment in Germany fell by 7.4% in 2005, the sixth annual decrease in succession; the markets in Italy and the United Kingdom were just about on a level with the previous year. At 37.9%, Spain saw the most pronounced increase in new registrations of motorcycles in the 500 cc plus class.

The corresponding market in the USA grew by 7.2% in 2005, with the largest proportion of this growth registered by the Supersport and Cruiser segments.

Business environment for financial services in 2005

Financial services business in 2005 was influenced, as expected, by the increase in interest rates on the money and capital markets, in particular in the USA and the euro region, and by the tighter monetary policies pursued by the world's main central banks. During 2005, the US Federal Reserve Bank increased key lending rates in several steps from 2.25% to 4.25%. This, in conjunction with the unusually low interest rates at the long end of the US dollar interest rate curve, resulted in a significantly flatter interest rate curve. In the euro region, the first interest rate increase (up to 2.25%) took place in December 2005 after a period of historically low key lending rates. In addition, the market for car-related financial services was characterised by an increasingly intense level of competition.

Volume increases recorded for all BMW Group brands

The BMW Group sold 1,327,992 BMW, MINI and Rolls-Royce cars worldwide in 2005, its highest annual sales volume to date. The increase over the previous year was 9.9 %.

The number of BMW brand cars sold rose by 10.1 % to 1,126,768 units. A total of 200,428 MINI brand cars was sold in the same period, 8.7% more than in the previous year. In addition, 796 Rolls-Royce motorcars (+0.5 %) were handed over to customers in 2005.

Strong sales volume increases on nearly all markets

The number of cars sold by the BMW Group in North America in 2005 went up by 4.1 % to 328,952 units. As in the previous year, the BMW Group remained the most successful European premium manufacturer on the American market.

The sales volume of the BMW Group in the USA surpassed the 300,000 mark for the first time. With 307,395 units sold in 2005, the USA remains the largest market for the BMW Group. The BMW Group recorded a 3.7% increase, whereas the market as a whole grew by only 0.5 %.

The number of cars sold by the BMW Group in Europe in 2005 rose by 10.2 % to 802,891 units.

Germany remains, by far, the BMW Group's largest market in Europe. 295,885 BMW, MINI and Rolls-Royce brand cars were sold here in the period between January and December 2005, 4.3 % more than in 2004.

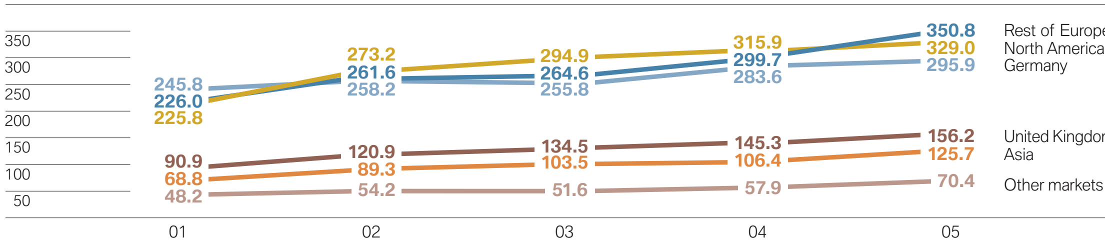
The sales volume of the BMW Group in the United Kingdom increased by 7.5 % in 2005, reaching a total of 156,234 units. This performance was all the more remarkable given that the overall market in the United Kingdom contracted by 5.0 %.

The BMW Group also recorded sharp volume increases in the other European markets. The number of cars sold in Italy rose by 16.9 % to 90,340 units and in Spain, by 29.5 % to 55,998 units. The BMW Group also recorded a sharp volume increase in France in 2005, with 52,927 (+13.2 %) units sold. The increase in Portugal, where the BMW Group opened a sales company at the beginning of 2005, was 51.6 %; 8,695 units were sold on this market during 2005. The fastest growth rate was recorded in Hungary, where the number of cars sold climbed by 61.8 % to 1,514 units.

In Asia, the BMW Group achieved a sales volume of 125,747 units in 2005, an 18.2 % increase over the previous year. Japan remained the largest single market in this region in 2005; 58,811 units were sold here, representing a sharp increase of 13.5 %.

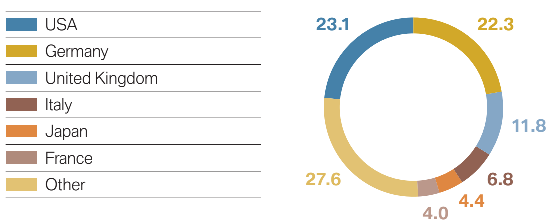
Demand for BMW Group cars on the Chinese markets (China, Hong Kong and Taiwan) increased greatly, with the sales volume rising by 35.9 % to 33,060 units.

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



*including Rolls-Royce from 2003 onwards

BMW Group – key automobile markets 2005
as a percentage of sales volume



The BMW brand – the most successful premium car brand in the world

The BMW brand, of which 1,126,768 units were sold in 2005, thereby achieving a 10.1% increase over the previous year, is the world's most successful premium car brand.

Since September 2004, the BMW Group has, with the BMW 1 Series, been selling a premium car in the compact class otherwise dominated by volume manufacturers. Demand for this model series is developing very positively: a total of 149,493 units was sold in 2005, its first full year on the markets.

Despite the BMW 3 Series Sedan model change, the BMW 3 Series remains the world's best-selling model series in the segment for premium middle class cars; 434,342 units of the BMW 3 Series were delivered to customers in 2005 (–3.4%). The new BMW 3 Series Sedan is the best-selling car of the BMW Group: having sold 229,932 units since its market launch in March 2005, it accounted for 17.3% of the total sales volume of the BMW Group in 2005. Market introduction of the new BMW 3 Series Touring began in September and, by the end of December 2005, a total of 27,049 units had been delivered to customers. 31,841 BMW 3 Series Coupé and 31,679 BMW 3 Series Convertible were also sold.

Like the BMW 3 Series, the BMW 5 Series is also the world's best-selling model range in its segment. With 228,389 units sold during the year under report (–0.5%), it achieved a similar sales volume to the previous year. The BMW 5 Series Sedan, with a sales volume of 177,719 units, accounted for more than three quarters of the total. In the same period, 50,670 units of the 5 Series Touring were also delivered to customers.

A total of 23,340 units of the BMW 6 Series was sold in 2005, 10.9% more than in the previous year. The sales volume of the BMW 6 Series Coupé increased to 12,447 units and that of the BMW 6 Series Convertible to 10,893 units.

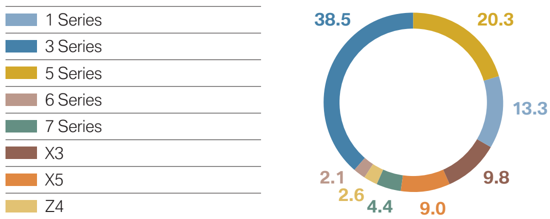
The BMW 7 Series also headed its segment worldwide in 2005. The model revision was well received by the market, with the sales volume increasing by 5.0% in 2005 to 50,062 units.

In the first full year on the markets, the sales volume of the BMW X3, at 110,719 units, surpassed the previous year's level by 20.0%. The success enjoyed by the BMW X3 is testimony to the BMW Group's concept of expanding its product range by introducing a further premium product in the Sports Activity Vehicle (SAV) class. Like the BMW X5, the BMW X3 combines the outstanding agility of a typical BMW with the broad range of uses of an SAV.

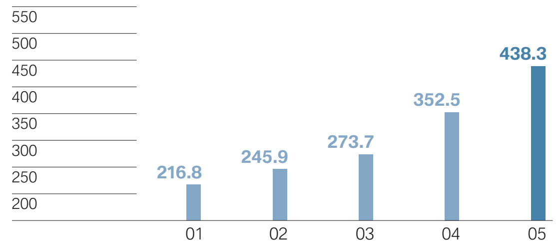
Between December 1999, when it first went on sale and the end of 2005, well over a half million BMW X5 have been delivered to customers. With 101,537 units sold in 2005, the sales volume of the X5, now in its sixth year since market launch, was only slightly lower than the high level recorded in the previous year (–3.3%).

The sales volume of the BMW Z4 Roadster, at 28,808 units, fell short of the previous year's level (–25.1%). The model revision of the BMW Z4 with a refreshed look and, in some cases, equipped with new engines, will take place in spring 2006. The BMW Z4 M Roadster will add an even more powerful and sporty version to this model series. The BMW Z4 Coupé, first presented as a concept study at the 2005 International Motor Show (IAA) in Frankfurt, will be introduced on the markets in

BMW brand cars in 2005 – analysis by series
as a percentage of total BMW brand sales volume



Deliveries of BMW diesel automobiles
in 1,000 units



June 2006. This two-seater sports car has been devised as a car with particularly dynamic driving qualities and its design exudes both elegance and agility.

Proportion of cars with diesel engines continues to rise

The proportion of diesel-powered BMW cars is steadily increasing: 39 % of BMW cars sold worldwide in 2005 were equipped with a diesel engine. The percentages for 2004 and 2003 were 34 % and 29 % respectively. In many European markets, the number of diesel cars sold well exceeds the number of petrol cars sold: the proportion of BMW cars sold with diesel engines in Germany, Spain, and France was 57 %, 79 %, and 86 % respectively. The figure for Italy was as much as 88 %.

Particle filters have been available for all BMW diesel models since autumn 2005 and many older diesel vehicles can be equipped retrospectively with a filter.

More than 200,000 MINI sold

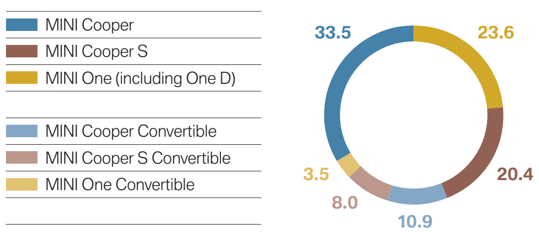
200,428 MINI cars were delivered to customers in 2005, 8.7% more than in the previous year. The annual sales volume of the MINI brand therefore exceeded 200,000 units for the first time. Since market launch in 2001, more than 730,000 MINI cars have been delivered to customers.

The MINI brand product mix (including the MINI Convertible) increased in value again compared to the previous year. Altogether, the MINI and MINI Convertible are available in four engine sizes. The MINI Cooper was the best-selling MINI model, with 89,079 units sold (44.4 % of the total sales volume), followed by the model with the most powerful engine, the MINI Cooper S, of which 56,916 units were sold (28.4 % of the total sales volume) in 2005. In addition, 38,605 units (19.3 % of the total sales volume) of the starter model, the MINI One, and 15,828 (7.9 % of the total sales volume) of the diesel version, the MINI One D, were sold.

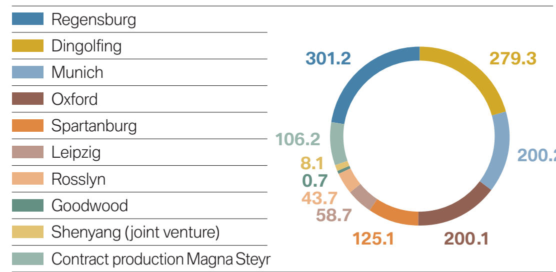
The MINI Convertible, introduced on the markets in mid-2004, achieved a sales volume of 45,121 units in its first full year on the markets. The highest demand was for the MINI Cooper Convertible, with sales of 21,928 units in 2005. The sales volume of the MINI Cooper S Convertible and of the MINI One Convertible reached 16,106 units and 7,087 units respectively.

In 2005, the BMW Group presented a MINI Design Study at each of the motor shows in Frankfurt/Main and Tokyo; the third study in this series was presented at the Detroit Motor Show in January 2006 as the MINI Concept Detroit. This imaginative concept, with its more spacious interior and additional functionality, is the prototype for a new MINI

MINI brand cars in 2005 – analysis by engine and model variant
as a percentage of total MINI brand sales volume



Automobile production of the BMW Group by plant in 2005
in 1,000 units



model which will be added to the MINI family within the next three years.

Rolls-Royce Phantom remains segment leader
796 Rolls-Royce Phantom were handed over to customers during 2005, 0.5% more than in the previous year. The Rolls-Royce Phantom therefore continues to hold the leading position in its segment. An extended wheelbase version was presented in March 2005. The additional space offers even more comfort for passengers sitting in the rear. This stretched model was initially introduced in the Middle East and Asia/Pacific regions and will become available on the American market during the course of 2006. Preparations are currently underway for a Rolls-Royce Convertible, which will add an additional bodywork version to the range of products to be offered in future by Rolls-Royce Motor Cars.

Sharp increase in car production volume
A total of 1,323,119 cars was manufactured in the worldwide production network of the BMW Group in 2005, comprising 1,122,308 BMW brand cars and 200,119 MINI brand cars. In addition, 692 Rolls-Royce Phantom were manufactured at Goodwood, England.

Successful start for the new BMW 3 Series
The new BMW 3 Series generation necessitated production process changes in all of the plants involved. New multi-phase steels used in the BMW 3 Series increase bodywork torsional stiffness without increasing its weight. Shaping these steels, however, demands significantly higher levels of press forces. The heat created in this process requires sophisticated temperature management of the necessary equipment and tools. State-of-the-art joining technologies and flexible robots are also used in the production process to manufacture the BMW 3 Series high-precision bodywork. With the aid of optical systems and advanced adhesive technology, the bodywork can be manufactured in less than eleven hours. Finally, so-called integrated modules (such as cockpits, front-ends and doors) are pre-assembled in the assembly area, and arrive, fully tested, at the main production line to be built into the vehicles. These modules significantly reduce the number of manufacturing processes and variants on the main production line.

Highly efficient worldwide production network
Serial production of the new BMW 3 Series Sedan – the first model variant of the new BMW 3 Series – commenced at the BMW Munich plant at the end

of 2004. Production at the Regensburg, Leipzig and Rosslyn (South Africa) plants began in 2005. With the benefit of experience gained at the BMW Munich plant to fall back on, this phased start-up process achieved a considerably higher start-up volume than previous generations of the BMW 3 Series. Over the course of 2005, production was rolled out at short intervals to the Shenyang plant and to the assembly plants in Egypt, Indonesia, Russia and Thailand.

At the BMW Dingolfing plant production was modified for the revised BMW 7 Series in 2005. New features included five new engines, new external and upholstery colours and optional extras. Thanks to thorough preparation, the changes were implemented seamlessly and without production downtime. In addition to the BMW 7 Series, vehicles of the BMW 5 and 6 Series are manufactured at the BMW Dingolfing plant.

As part of the process of expanding facilities for the BMW 1 Series, the Regensburg site was geared up at an early stage for the production of the new BMW 3 Series. Forward-looking production planning, standardised processes and a highly trained workforce enable the manufacture of various versions of the BMW 3 Series, BMW 1 Series and, since February 2005, the new BMW 3 Series Sedan, to be carried out on one line at the BMW Regensburg plant. The three millionth vehicle was manufactured in March 2005, 18 years after the start of production at the Regensburg site.

New bodywork construction facilities were completed at the BMW Rosslyn plant in South Africa for the new BMW 3 Series and for future models. Various other modifications were implemented for the production of the new vehicle. Total capital expenditure for these measures amounted to euro 164 million. A long-term training programme was put in place to prepare the workforce for the new product. Approximately 40,300 new BMW 3 Series Sedans were assembled in South Africa during the first ten months of production.

The new BMW Leipzig plant was officially opened on 13 May 2005. The BMW Group has invested some euro 1.3 billion in the new Leipzig production site during the period from 2001 to 2005. Serial production of the new BMW 3 Series Sedan started on 1 March 2005. Between then and the end of 2005, more than 55,000 BMW 3 Series cars have been manufactured in Leipzig. The high quality achieved demonstrates the maturity of plant and equipment and processes, and, above all, the excellent skills and motivation of the workforce.

On 16 December 2005, the highly acclaimed German Prize for Architecture 2005 was awarded to the London-based architect, Zaha Hadid, for the central building of the new plant. With this building, the BMW Leipzig plant is carrying on the tradition of functional-aesthetic edifices which started with the BMW Tower in Munich in 1972 and will continue with the new BMW World building in Munich in 2007.

The BMW X5 and BMW Z4 Roadster are manufactured at the BMW Spartanburg plant. The construction of the 500,000th BMW X5 since production started in 1999 was celebrated there towards the middle of 2005. In January 2006, production was adapted for the revised model version of the BMW Z4. At the turn of 2005/2006 the BMW Spartanburg plant converted from a dual to a single-line production system. This measure will improve flexibility of production even further: the X5 and X4 are now manufactured jointly on the same production line. Preparations are already underway in the bodywork construction area for future models.

The plant in Shenyang, North China, which is operated by the distribution and production joint venture, BMW Brilliance Automotive Ltd, manufactures BMW 3 and 5 Series models for the Chinese market. By the year-end, more than 8,000 BMW 3 and 5 Series cars, including the new BMW 3 Series, had been manufactured in China. Following certain economic measures which temporarily held down demand, the production volume has now stabilised and will, in the medium-term, reach a production capacity of 30,000 BMW vehicles per year.

The BMW plant in Rayong, Thailand, assembles BMW 3, 5 and 7 Series cars and, since December 2005, the BMW X3, using imported part sets. The vehicles assembled there are primarily intended for sale in Thailand, but also, in conjunction with the AFTA Free Trade Zone, for export to Malaysia and Indonesia.

By deciding on a location and successfully completing the authorisation process, the BMW Group set the scene in 2005 for building an assembly plant in India. It is planned that, from 2007 onwards, BMW 3 and 5 Series vehicles will be assembled for the Indian market at the assembly plant in Chennai in the Indian Federal State of Tamil Nadu.

The BMW Group's cooperation partner, Magna Steyr Fahrzeugtechnik, Graz, Austria has a separate production line, constructed to BMW Group's standards, for the manufacture of the BMW X3. More than 106,000 BMW X3 vehicles were manufactured there in 2005.

Serial production of the magnesium-aluminium composite crank case for the new BMW straight-six cylinder Otto engine commenced at the new magnesium foundry at the BMW Landshut plant in 2005. Capital expenditure at the Landshut plant in 2005 was focussed on modernising existing plant and equipment. In this context, a total of approximately euro 80 million was invested in 2005 in the Landshut light metal foundry.

Specialists at this foundry made a significant technological contribution to the production of four-cylinder Otto engines developed jointly for MINI brand cars by the BMW Group and PSA Peugeot Citroën. The cylinder head for these new engines will be manufactured by PSA Peugeot Citroën using "lost foam" moulding techniques; expertise in this area has been gathered and expanded since 1997.

The BMW Group's largest engine plant is located in Steyr, Austria. More than 778,600 engines were manufactured there in 2005, of which more than 60% were diesel engines. The conversion to a closed water circulation system as part of the production process represents a further step forward for environmental protection. The Steyr plant can now save 30 million litres of water each year. This two-phase treatment of process water filters out even the slightest contamination. The water is so clean after treatment that it can be re-used in the production process. One section of the system is already operating and the full system will be taken into operation in 2006.

More than 180,000 engines were manufactured at the Hams Hall engine factory in England in 2005 and delivered to the BMW plants Leipzig, Munich, Regensburg, Spartanburg and Rosslyn and to the cooperation partner, Magna Steyr Fahrzeugtechnik. Equipment and processes in Hams Hall were also prepared for the manufacture of a new series of four-cylinder engines, intended for future MINI versions.

MINI production in full swing

In response to high demand, 200,119 units were manufactured at the Oxford plant, the first time that more than 200,000 units have been manufactured there in a single year. This represents a 5.6% increase over the very high production volume achieved in the previous year. More than 750,000 MINI cars have now been manufactured there since the start of serial production in 2001. The original plan was to manufacture up to 100,000 units a year. In the period from 2005 to 2007, the BMW Group will invest over GBP 100 million (approximately euro 145 million) to optimise production capacities and flexibility at the Oxford plant, and at the same time create some 200 new jobs. The bulk of this amount will be invested in modernising the paint shop and in constructing a new building to expand bodywork construction facilities.

More than 2,000 Rolls-Royce Phantom manufactured to date

692 Rolls-Royce Phantom were manufactured at Goodwood, England, in 2005. This means that more than 2,000 vehicles have been manufactured there since production started at the beginning of 2003. Specific customer wishes, such as individualised colours or special types of wood, place special demands on production. Depending on personal preferences, it is possible to integrate wine storage facilities, safes, humidors, computer equipment and many other features. On average, bespoke options are integrated in approximately 70% of all vehicles; in some markets, such as Japan, the proportion is as high as 90%.

BMW Group – the first automobile enterprise to be awarded the Ludwig-Erhard prize

The BMW Group's chassis and powertrain component production facilities, located in Dingolfing (chassis and axle drives), Landshut (cardan shafts) and Berlin (brake disks), were awarded the Ludwig-Erhard prize in 2005. The BMW Group is the first enterprise in the automobile industry to have won this prize; it is the highest award in Germany for comprehensive corporate quality. The prize is presented in recognition of outstanding management achievements relating to the promotion of competitiveness, employee and customer satisfaction, social responsibility and careful use of resources.

The Ludwig-Erhard prize has been awarded since 1997 to enterprises and organisations in Germany which have achieved a leading position internationally. This is not only based on their technical and business achievements, but also, above all, because of a sustainable business strategy, which must have been put into practice for at least three years in succession. One important factor here is consideration of stakeholder interests – whether they be customers, employees, shareholders, business partners or other interested parties. The Ludwig-Erhard prize especially emphasises a particularly customer-friendly approach and a corporate culture based on partnership.

Motorcycle segment back on growth course

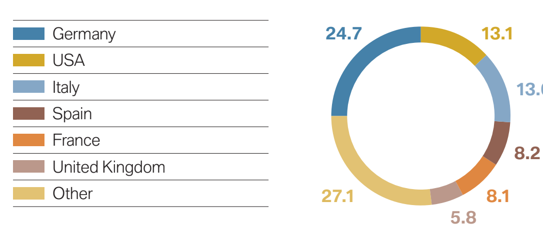
The BMW Group recorded a sharp volume growth in its motorcycle business in 2005, with unit sales increasing by 5.6% to 97,474 motorcycles. The main contributors to the sales volume increase were the R 1200 GS and the models introduced in 2005 as part of the product initiative, namely the R 1200 RT and the K 1200 S.

Inconsistent market development in 2005

The sales volume of BMW motorcycles was up in the majority of markets in Western Europe in 2005. The development was particularly positive in Spain where sales of BMW motorcycles increased by 48.1% to 8,003 units. Also noteworthy are the volume increases in the United Kingdom/Ireland (+21.7% to 5,651 units) and in Italy (+11.4% to 12,700 units).

By contrast, sales figures for Germany, the largest market for BMW motorcycles, declined: 24,064 BMW motorcycles were sold here in the face of a difficult business environment. This was 9.1% lower than in the previous year and reflects the continual contradiction of the market. The BMW Group was able

BMW Group – key motorcycle markets 2005
as a percentage of sales volume



to maintain its market lead in the 500 cc plus class, where BMW motorcycles had a market share of approximately 20%.

Partly as a consequence of model-life cycle factors, the previous year's sales volume levels were not reached in the USA (down 3.9% to 12,803 units) or in Japan (down 12.3% to 2,401 units). In these markets, the new models (R 1200 RT and K 1200 S) were introduced later than in Europe.

Top-selling model R 1200 GS

As in the previous year, the R 1200 GS was again the best-selling BMW motorcycle. This long-distance enduro was purchased in 2005 by 25,705 customers, 35.5% more than in the previous year. The R 1200 GS is therefore one of the bestselling motorcycles in the 500 cc plus class and, at the same time, the most successful motorcycle of the BMW Group to date. This was the highest volume of any of the BMW motorcycle models to be sold in a single year.

Next on the sales volume list for 2005 came the newly introduced R 1200 RT touring bike, with 14,538 units sold and the F 650 GS (including the Dakar version), with 11,949 units sold.

Model initiative continued

The BMW Group continued its product initiative in the Motorcycles segment in 2005 with a range of new products. Shortly after the presentation of the R 1200 RT touring bike, the R 1200 ST Sport Touring bike was presented as the successor model to the R 1150 RS.

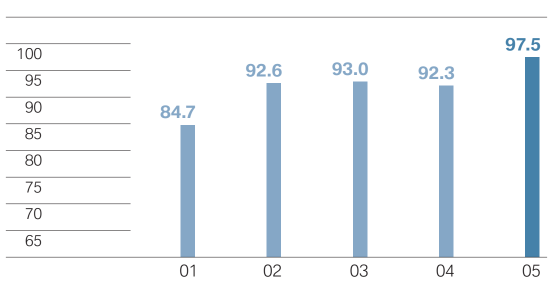
In June 2005, the K 1200 R, the world's most powerful "naked bike", was introduced onto the markets. Since September, the high performance enduro HP2, has also been available to customers. The technology of this new uncompromisingly sporty enduro is based on that of the R 1200 GS and will satisfy the highest demands of off-road enthusiasts.

The sporting Series Boxer, the R 1200 S, was presented in November 2005 and became the successor to the successful R 1100 S. The new F 800 S was also presented to the public at the end of 2005. This motorcycle, which has been developed to make its way into the fiercely competitive middle class, is equipped with a brand new two-line cylinder engine and, from March onwards, will be the fourth model series to come off the assembly lines of the Berlin plant. The new motorcycle will become available to customers from mid-2006 onwards, as will the sport touring bike, the F 800 ST, which has been derived from it.

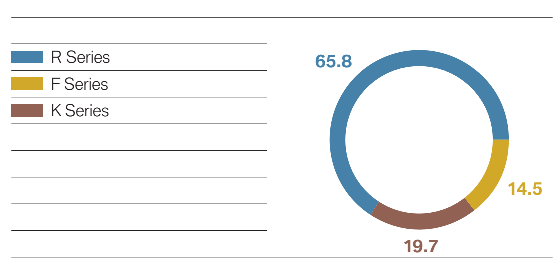
Start-ups keep motorcycle production just below previous year's level

As a result of new start-ups, the production volume of the Berlin plant in 2005 was slightly lower than in

BMW motorcycles delivered
in 1,000 units



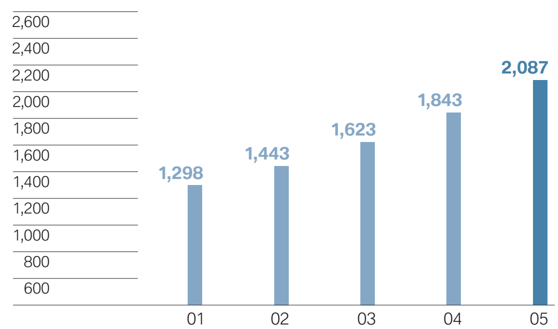
BMW motorcycles in 2005 – analysis by series
as a percentage of sales volume



the previous year. In total, 92,012 BMW motorcycles were manufactured in Berlin, 1.9% fewer than in 2004.

The Berlin plant uses various flexible and demand-orientated working time models which were extended at the beginning of 2005 in order to achieve even more efficient utilisation of production capacities. The new 21-shift model for mechanical processing of engine and bodywork components makes it possible to have operating times of up to 168 hours a week, thus increasing the competitiveness of the Berlin plant.

Contract portfolio of BMW Financial Services
in 1,000 units



Financial Services segment remains on growth course

The Financial Services segment continued to grow in 2005, contributing to the success of the BMW Group with a strong customer-friendly approach and with innovative products. The total business volume of the Financial Services segment as disclosed in the balance sheet at 31 December 2005 increased by 24.2% to euro 40,428 million. For the first time, the total number of lease and financing contracts in place with dealers and retail customers surpassed the two million mark in 2005 and, with 2,087,368 contracts in place, was 13.2% above the total number one year earlier.

At 41.1%, the proportion of new cars of the BMW Group leased or financed by the Financial Services segment was slightly (0.9 percentage points) below the proportion of 42.0% recorded in 2004.

Geographical expansion continued

The business activities of the Financial Services segment were further expanded in the course of 2005 with four new ventures based on cooperation agreements. As a result, the Financial Services segment now looks after customers in more than 50 markets, either with its own companies or in the form of ventures based on cooperation agreements.

As well as expanding geographical coverage, the segment also expanded its range of products in 2005. New customer groups were attracted especially by integrating insurance components into credit and lease contracts. By bundling components in this way, the Financial Services segment is able to satisfy the customer's desire to obtain car-related financial services on a one-stop basis.

Strong growth in retail customer business

Finance and lease business with retail customers, the segment's largest line of business, continued to grow strongly in 2005. In total, new contracts were signed with retail customers with a value of euro 23,507 million, a 13.2% increase over 2004. This corresponds to 866,879 new contracts, 6.0% more than in the previous year. Approximately 62% of these contracts related to new vehicles manufactured by the BMW Group.

With a growth rate of 15.0%, lease business contributed especially to the positive development in the number of new contracts, whereas the number of new credit financing contracts increased only by 1.1%. Overall, 38.4% of all new contracts related to leases, compared to 35.4% in the previous year. The growing trend for private customers away from credit financing towards leasing is most pronounced on the German and American markets.

A similarly noticeable increase (+5.2%) was achieved in the area of used car financing. Most of these contracts related to credit financing for used BMW and MINI brand cars.

The number of retail-customer contracts under management at the year-end, at 1,899,653, was 13.4% higher than one year earlier. The growth was spread across all regions, with Europe showing the fastest growth rate (+15.9%). The growth rates in Germany, America and the Asian region were 13.7%, 11.5% and 12.2% respectively.

In the meantime, credit financing and leasing are being marketed under the brand name "Alphera" in 19 countries, either via multiple-brand dealerships or directly by group companies. One advantage of this is that it takes account of the growing need of dealers to find financing solutions with a single business partner. It also takes into account the growing trend, particularly amongst younger customers, to obtain financing via the Internet. Overall, Alphera's performance was very encouraging, with the number of new contracts up by 13.2% to 51,760.

Higher added-value created by encouraging customer loyalty

BMW and MINI brand customers who also have contracts with the Financial Services segment, are significantly more loyal to their brand than those paying for vehicles outright. Various customer-related processes defined by BMW Group Sales and the Financial Services segment were further developed globally in 2005 with a view to offering more in-depth customer care. Joint customer care centres have also been introduced; so far, they are already in place in the USA, the United Kingdom, Australia and New Zealand.

Continued growth in the area of dealer financing

High growth rates were again achieved in the area of dealer financing, so that the total business volume managed by the segment at the end of 2005 amounted to euro 7,080 million, giving a growth rate of 25.3%. The number of contracts under management at the end of the year rose by 12.0% to 187,715.

The Financial Services segment's in-depth customer care and its diversified product range reinforced its position as the leading financing partner of the BMW Group's dealer organisation.

An example from North America demonstrates the successful cooperation between financing companies and the dealer organisation: the segment's financing companies in Canada and in the USA both achieved first place in respective country-wide and brand-neutral questionnaires relating to dealer satisfaction.

Dynamic growth of fleet business

The BMW Group operates internationally in the area of multi-brand fleet business via the Alphabet group of companies. Customers are now being looked after by Alphabet companies in 13 countries in the areas of financing, full-service lease business and fleet management.

The rapid growth seen in the previous year continued in 2005. The number of contracts managed by Alphabet companies exceeded the 100,000 mark for the first time ever during the first quarter of 2005 and 138,497 contracts were in place at the year-end, 39.8% more than one year earlier. This positive development was helped by focusing consistently on business with international customers; at the year-end, these activities accounted for 21.2% of the total business portfolio.

With an average growth rate for new business over the last five years of 29.1%, Alphabet remains one of the fastest growing full-service providers in this market segment.

Insurance business grows continuously
As an accompaniment to credit financing and leasing contracts, the Financial Services segment also operates as an agent for motor vehicle, residual liability and other vehicle related insurance policies. This service is now offered in 29 markets via co-operation arrangements entered into with local insurance companies. In 2005, the segment pursued a strategy of expanding insurance business with customers in new international markets, whilst also expanding the range of products on offer in existing markets. These measures contributed to a very positive development in the area of car insurance business, reflected in the 36.1% increase in the number of new contracts signed and in the 12.5% increase in the number of contracts in place at the year-end. At the end of 2005, the segment had a worldwide portfolio of 431,964 insurance contracts.

Deposit business continues to grow
Deposit business in Germany and in the USA also developed positively over the course of 2005. The value of deposits at 31 December 2005 amounted to euro 6,392 million and was thus 25.3% higher than one year earlier. The total number of customer accounts worldwide rose during the year by 39.2% to 521,175. The objective of encouraging deposit customers to move into more diversified forms of investment is successfully being realised with the help of the tried and tested product combination "Save & Invest" and, in Germany since October 2005, with the "Save & Plan" savings model which enables wealth to be accumulated over time.

Fund business continues to make good progress and to generate high net cash inflows, particularly as a result of expanding the number of investment funds on offer. The net cash inflow in 2005 amounted to euro 115.2 million (+173.0%). By the year-end, the number of custodial deposit accounts had increased by 37.5% to 27,216.

The BMW Card was introduced in New Zealand in 2005, thus increasing the number of markets on which it is available to nine. In addition, the MINI Card was launched in Germany and Japan in 2005. At the end of the year under report, the Financial Services segment was handling 291,674 credit card accounts, 12.4% more than at the end of the previous year.

Risk situation remains evenly balanced
Credit risk for credit and lease financing activities was further reduced in 2005. Compared to the previous year, the bad debts ratio fell by 4 basis points to 0.37%. The main contributing factor was the on-going development and implementation of risk management tools. The interest rate risk is managed using a risk-return approach. Diversified value-at-risk, as measured by the Financial Services segment to quantify the interest rate risk*, decreased during the year from euro 55.4 million to euro 44.2 million.

Softlab strengthens market position
During the past year, the softlab Group continued to pursue its strategy of expanding activities whilst focusing on Germany, Austria and Switzerland. It acquired entory AG in July 2005 to add to the acquisition of axentiv AG in 2004. As a result of its acquisition of Anite GmbH in April 2005, Softlab Austria doubled in size. The Softlab Group specialises, amongst other areas, in customer relationship management, supply chain management, business intelligence, enterprise application integration and IT services. The Softlab Group will continue in 2006 to take measures to extend its position as a leading European IT consultant with particular expertise in the banking, insurance, telecommunication and industrial sectors. As part of this strategy, it aims to record significantly higher revenues with non BMW Group entities.

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

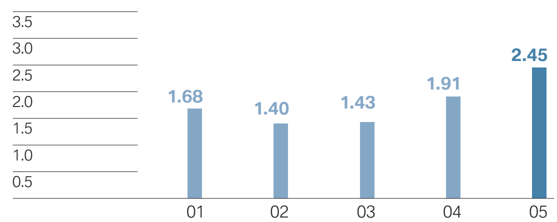
BMW Group workforce remains constant
The BMW Group had a worldwide workforce of 105,798 employees at 31 December 2005, virtually unchanged from the level one year earlier (– 0.2 %). More than three quarters of the workforce are employed in Germany where the headcount also remained virtually unchanged.

With more than 300 working time models currently in place, the BMW Group has created the flexibility to manage its capacity requirements actively, for example, during start-up situations or in the event of fluctuations in demand attributable to model life-cycle factors. Workforce skills can therefore be concentrated in those areas of the network where they are most needed, thus making an important contribution to job security.

The employee fluctuation rate at BMW Group has been at a very low level for many years. The BMW Group continues to recruit staff on a targeted basis in order to even out fluctuation. In 2005, for example, in addition to newly filled apprentice places, more than 1,000 posts were advertised and filled externally.

Number of apprentice positions remains at high level
1,237 young people started their training with the BMW Group at the start of the training year in autumn 2005. The number of apprentice positions at the end of 2005 remained unchanged at 4,464. The apprentice ratio in Germany (i. e. the ratio of apprentices to the total workforce) remained at 5.0 %.

Employee fluctuation ratio BMW AG*
as a percentage of workforce



*Number of employees on unlimited employment contracts leaving the company

Numerous 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.

Lower level of expenditure on training
The BMW Group invested some euro 194 million in prime and further training in 2005 (2004: euro 232 million). Training activities are organised in line with Group requirements. The 16.4 % reduction in training expenditure in 2005 was compatible with the normal fluctuation levels. Expenditure on training as a percentage of total personnel expense was 2.7 % in 2005 (2004: 3.2 %).

On-going implementation of the "Excellence in Human Resources" programme
With its "Excellence in Human Resources" (eHR) programme, the BMW Group makes full use of the

BMW Group employees	31.12.2005	31.12.2004	Change in %
Automobiles	98,260	99,043	–0.8
Motorcycles	2,838	2,918	–2.7
Financial Services	3,093	2,841	8.9
Other*	1,607	1,520	5.7
thereof consultancy/software*	(1,541)	(1,458)	5.7
BMW Group*	**105,798**	**106,322**	**– 0.5**
unadjusted	105,798	105,972	– 0.2

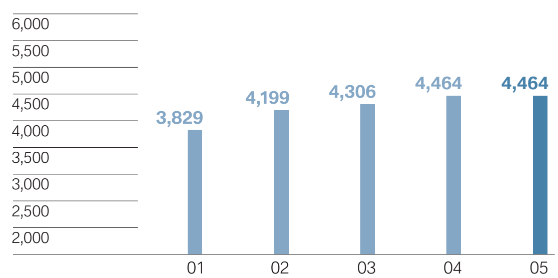
*Figure for end of previous year including acquired entities opportunities provided by new technologies to improve its human resources management. The objective is to ensure that employees and management staff receive an efficient service and competent advice from members of the human resources department and a swift response to their enquiries. At the same time, the EHR programme ensures that management is provided with relevant information, thus enabling them to perform their management duties.

The roll-out of the employee portal "MyNetwork" was completed in 2005 as part of the EHR programme. "MyNetwork" gives staff access to web-based applications i.e. personalised information relating to personnel issues and online services. Approximately 80,000 members of staff were using the portal by the end of 2005 which, together with the large volume of transactions generated, bears out that this process improvement has been fully accepted.

New potential for flexibility created
In conjunction with an agreement with the General Works Council and the IG Metall, a further instrument has been established to enable personnel capacities to be managed flexibly, both at short notice and in line with requirements. These so-called "Project Time" arrangements enable a defined number of selected employees in Bavaria to extend their working hours, over and above the collectively bargained tariff agreement, from 35 to 40 hours per week for a limited period. This is particularly designed to cover additional staffing requirements for projects of strategic importance. In 2005, the BMW Group also implemented further measures to create flexibility between the Group's various locations with the aim of supporting product start-ups on a targeted basis and managing staffing requirements from plant to plant.

"Today for Tomorrow" project launched
The BMW Group attaches great importance to assessing the foreseeable effects of demographic changes on operations; it has therefore devised a comprehensive plan of action, focusing on five main

BMW Group apprentices at 31 December



issues, which was presented to the public in autumn 2005. The plan's main objective is to safeguard the future viability of the Group; this is to be achieved on the one hand by ensuring that the workforce has the appropriate set of skills and, on the other hand, by being able to offer appropriate retirement models on a targeted basis. The five main points of emphasis are:

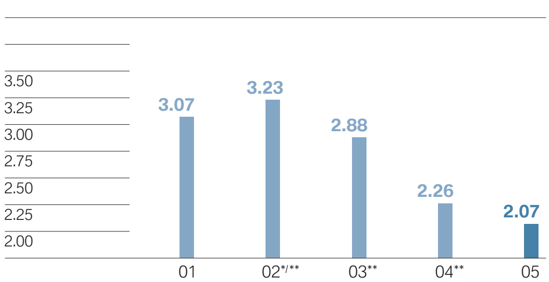
– adaptation of the working environment to suit future needs:
  Physical strain and damage can be avoided to a large extent by providing ergonomically designed working areas in offices and production areas. As an example, in conjunction with the production start-up of the new BMW 3 Series, more than euro 25 million has been invested to order to create optimum ergonomic workplaces in the Munich plant.
– health-care provision
– training
– increasing executive management's and employees' awareness of changes taking place in society and the company and of each individual's responsibility to make one's own provisions for the future.
– individual employee working lifetime models:
  The aim is to be in a position where the BMW Group can offer its employees retirement programmes which meet the needs of both employee and employer. Future financial scope is already being created by means of reallocating parts of the BMW profit share scheme.

Quality and environmental management system receives approval
All of the BMW Group locations adhere to high standards in the areas of quality and environmental care. This was confirmed once again in December 2005 with the successful completion of the certification audit of the BMW Group production function. This new certificate, which verifies that the quality and environment management system complies with DIN EN ISO 9001 and DIN EN ISO 14001, is valid for the next three years. This was the second time that the systems were certified using the so-called “matrix process”, according to which each location only has to be audited once within a three-year cycle. Central production units and control functions of the management system are audited annually. In 2005, the scope of the certificated area was extended to include the BMW plant in Thailand as well as motorcycle development and production. The BMW Group has never before had a larger area covered by a single certificate. Specialist external auditors (the German TÜV organisation) not only confirmed a very high standard in terms of quality and environment care, but also highlighted some processes as exemplary.

Ongoing measures to reduce emissions and safeguard resources
A number of key indicators demonstrate the efficiency of the BMW Group’s resources management. For example, over the past five years, the plants in Regensburg and Leipzig have been able to reduce the amount of solvents used in the company in total by almost 33% by extending the use of solvent-free powder varnish technology and applying a range of other methods. During the same period of time, the volume of water wasted during the production process was reduced by almost 29%. Despite the increase in 2005, it has been possible over the past ten years to reduce energy consumption by approximately 25% and CO_2 emissions by 20%. These reductions were achieved by using district heating and combined heat and power systems, and by applying a range of innovative projects such as district cooling. As an example, the Projekthaus (Project Building) erected in 2004 as part of the BMW Group’s research and innovation centre is cooled with groundwater from just below the ground surface. District cooling has been used largely to replace traditional electrically operated cooling equipment. Each year, this avoids emissions of up to 5,000 tonnes of CO_2 and saves around 8 million kilowatt hours of electricity, equivalent to the energy consumption of approximately 3,000 private households in Germany for one year.

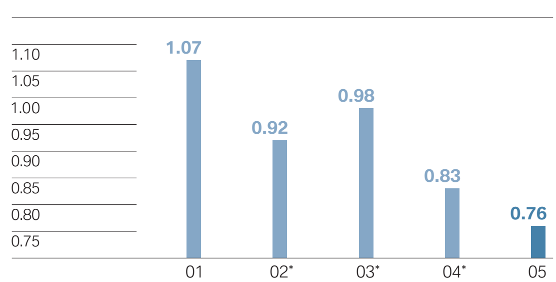
With the emissions trading system in Europe starting at the beginning of 2005, the BMW Group was able to boast a close balance between expected CO_2 emissions at its European production locations and emission rights allocated. It is, how-

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



*Structural increase in 2002 due to the new method of calculation in accordance with the Volatile Organic Compounds Regulation (31st Regulation on the Implementation of the Federal Immission Control Act)
**Variance to reported figures from previous years due to larger basis of data

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



*Variance to reported figures from previous years due to larger basis of data ever, becoming increasingly clear that further reductions will prove difficult to achieve. This is because new environmentally compatible technologies often require more energy than long-established processes which have been improved on over the years in terms of energy efficiency.

Implementation of the EU End-of-Life Vehicles Directive

The EU End-of-Life Vehicles Directive requires car manufacturers to take back, free of charge, any vehicles registered for the first time after July 1, 2002. From 2007 onwards, this requirement will apply to all vehicles. The BMW Group has taken appropriate steps to prepare for the EU End-of-Life Vehicles Directive. In Germany, it can fall back on a comprehensive recovery and recycling network which has been in place since 1994. This network is now being expanded to cover the whole of Europe.

Under EU legislation, from 2015 onwards, a maximum of five percent of a vehicle's weight may be disposed of as waste. As of 2008, vehicle type approvals must already confirm that vehicles comply with these quotas. BMW Group engineers ascertain how to develop vehicles in such a way that they can be disposed of as economically as possible. Potential scenarios for disposal of the individual components are directly integrated into the vehicle development process. For example, components intended to hold operating liquids, such as oil, fuel, brake fluid and coolant, are designed for all vehicles in such a way that they can be simply and quickly emptied using standard tools.

Focus on more environmentally-compatible transport solutions

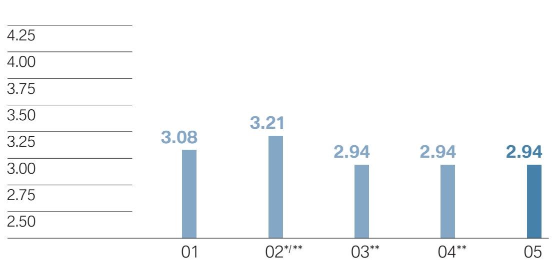
The logistics function is closely integrated with the BMW Group's environmental care activities and the relevant departments are continually working to find environmentally compatible solutions to transportation problems. The aim is to reduce the volume of pollutants which are emitted along the whole chain, from the procurement market for materials, deliveries between locations, through to the final delivery of the vehicle to the customer. The BMW Group is therefore steadily going over to more ecologically sound methods of transport such as ship and rail. In 2005, 32.2 % of land transport activities were carried out by rail, compared to 29.3 % in the previous year.

Increase in research and development expenditure in 2005

At the end of 2005, the BMW Group's research and development network consisted of ten locations in five countries with approximately 9,400 employees.

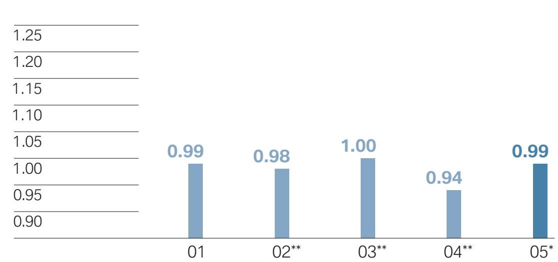
Research and development expenditure in 2005 amounted to euro 3,115 million, 10.5 % more than in the previous year.

Energy consumed per unit produced
in MWh



* Higher energy intensity due to continuing conversion to environmentally friendly water-based and powder-based painting technology.
** Variance to reported figures from previous years due to larger basis of data

CO_2 emissions per unit produced
in tons



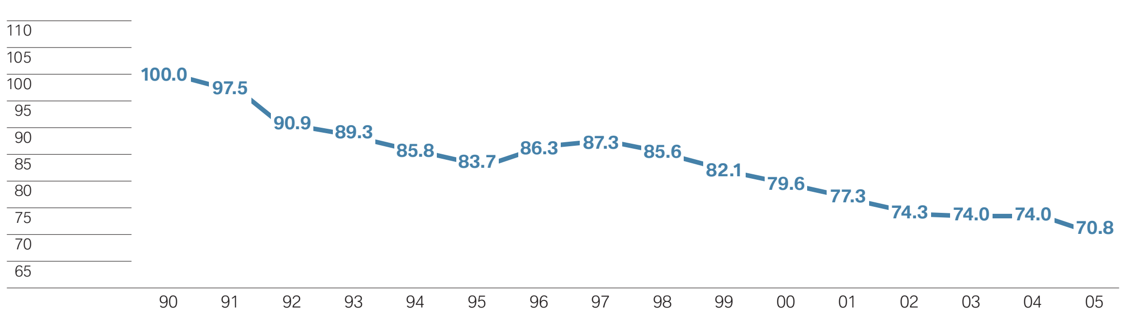
* The increase is attributable to a change in the energy mix.
** Variance to reported figures from previous years due to larger basis of data

Steady reduction of fleet consumption
The BMW Group reduced the consumption and CO_2 emissions of its vehicles between 1990 and 2005 by 30%; this is attributable, amongst other factors, to improvements in engine technology, aerodynamics and the construction of lightweight vehicles. In this way, the BMW Group is making its contribution towards the commitment given by the Association of the German Automobile Industry (VDA) to voluntarily reduce the fleet consumption of newly registered cars by 25% over the same period. The introduction of new low-consumption models, such as the MINI and the BMW 1 Series, together with the increase in demand for diesel vehicles and efficiency improvements brought about by optimised drive concepts, have all helped to reduce the BMW Group's fleet consumption. As a result, the BMW Group is also proceeding in line with the agreement made between the European Automobile Manufacturers (ACEA) and the European Commission, according to which, CO_2 emissions should be reduced to 140 grams per kilometre between 1995 and 2008, measured in terms of the European fleet average for passenger cars.

The BMW Group will achieve further reductions in fleet consumption in the short and long term by making further improvements to existing technologies in diesel and petrol engines and combining them with innovative concepts in the area of lightweight construction. Vehicle development within the BMW Group therefore adheres to the concept of efficient dynamics. In other words, vehicle consumption and emissions are constantly being reduced, whilst engine power and dynamic performance are increased. The objective is to provide access to the latest technologies as quickly as possible to a large number of customers, whilst still achieving lower consumption. The "High Precision Injection" technology, which the BMW Group will introduce in the near future, is the world's first jet-guided direct injection system suitable for large-scale serial production. With this technology, the BMW Group is the first manufacturer to come up with a practical solution for reducing consumption in ways which remain unavailable to other technologies.

In the area of high-performance models, the BMW Group is working on the BMW Active Hybrid drive concept, BMW's own interpretation of a hybrid drive system. At the IAA 2005, the BMW Group presented the BMW Concept X3 EfficientDynamics concept car which uses an active transmission system and high-performance capacitors (so-called "Super Caps"). For the purposes of the concept

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



* The adoption of the uniform VDA computation method for measurement in accordance with the DIN-1/3-Mix (up to 1996) and the New European Driving Cycle (from 1997 onwards) gives rise to minor variances compared to earlier BMW Group annual reports.

vehicle's active transmission system, an electric motor with high performance electronics has been added to the conventional automatic gearbox and the converter is omitted. The use of hybrid technology will reduce consumption in the European Driving Cycle by up to 20 percent. The main feature distinguishing it from other solutions is the use of space-saving Super Caps as the main means of storing energy. In 2005, the BMW Group joined forces with DaimlerChrysler and General Motors to develop hybrid drive systems with the objective of pooling know-how and making rapid and efficient progress in this area.

In the long-term, the BMW Group is working on the use of hydrogen as a source of fuel. The BMW CleanEnergy Initiative confirms the Group's commitment to the use of liquid hydrogen as the fuel of the future. The sixth generation of a hydrogen powered vehicle, currently being tested in conjunction with the BMW 7 Series, is now at the series development stage. The first vehicles will be handed over to customers within the next two years, at which stage they will be able to prove that they are suitable for everyday use.

Abundance of awards demonstrate lead in terms of technology

At the International Engine of the Year Awards 2005, the most important engine competition in the world, the BMW Group was the first manufacturer to take home six trophies in one year.

In addition to the main award for the "Engine of the Year", won by the V10 high performance engine that powers the BMW M5 and M6, the BMW Group was also presented with the following awards:

- V10-5.0 litre motor (BMW M5 and M6): Best New Engine 2005
- V10-5.0 litre motor (BMW M5 and M6): Best Performance Engine 2005
- V10-5.0 litre motor (BMW M5 and M6): Winner in the 4 litre plus engine category
- 3.0 litre Variable Twin Turbo-Diesel (BMW 535d): Winner in the 2.5 to 3.0 litre category
- 3.2 litre six-cylinder engine (M3): Winner in the 3.0 to 4.0 litre category

In 2005, the BMW Group was praised for its successful technology management by the Fraunhofer-Institut für Produktionstechnologie (IPT) in its International Benchmarking Project on Success Factors. According to the Institute, the BMW Group is one of Europe's five most innovative companies. As part of an investigation by the IPT, particularly successful methods and concepts in technology management, otherwise known as "successful practices", were singled out in leading European companies. The basis of success for the BMW Group is the strategically-driven desire to develop technologies with a high degree of usefulness for customers – combined with an innovation management system which is second to none in the automobile industry. The Benchmarking Project jury praised the BMW Group not only for its groundbreaking technologies, but also for the way in which professional innovative processes are embedded, both strategically and culturally, throughout the enterprise.

New test centre for passive safety

In June 2005, a new test centre for passive safety was inaugurated at the BMW Group's Research and Innovation Centre (FIZ) and has become an integral part of the development process. This technically well-equipped installation is linked up to the crash simulation catapult equipment which was installed in 2000; it provides experimental data and analysis results for automobiles and motorcycles for various purposes, such as ensuring that legal requirements are adhered to or testing whether development targets have been achieved.

Cooperation arrangements relating to engines for future MINI versions

The BMW Group and PSA Peugeot Citroën have developed a new family of four-cylinder petrol engines in a joint cooperation project. These newly developed engines employ state-of-the-art motor technology and are intended, as well as for other vehicles, for use in future versions of the MINI. This project has demonstrated that innovative motor technology and low-consumption engines are economically feasible in lower vehicle segments. Two motor concepts have been developed: an unsupercharged engine with fully variable valve drive, and a supercharged direct injection engine. Both engines set new standards in their respective capacity categories in terms of technology, dynamics and efficiency, without reduction in performance or driving comfort.

Many special details have been added to the new engines in order to meet strict requirements; these include the fully variable valve drive, the volume-flow controlled oil pump, the single-belt drive of the engines ancillaries, individual coils and composite camshafts. In addition, a host of innovative solutions have been included in this category for the first time: these include a direct gasoline injection to improve performance, the twin-scroll exhaust turbocharger, a on-demand mechanical coolant pump and the new tightening unit for the poly-V-drivebelt.

Together with the oil/water heat exchanger, the on-demand water pump serves to reduce fuel consumption and emissions. It saves drive power and reduces the engine's warming-up phase because the coolant does not circulate until the operating temperature has been reached.

Drive assistant systems improve safety

BMW drivers will be able to drive with better visibility at night time and dusk with the BMW Night Vision and High Beam Assist systems. BMW Night Vision incorporates a thermal imaging camera covering an area of up to 300 metres in front of the vehicle. The image created on the central monitor displays objects more brilliantly, the greater the warmth registered by the camera. People and animals are therefore the brightest areas of the image – and also the main points to concentrate on when driving responsibly. BMW Night Vision offers customers particular benefits on routes through the country, along narrow roads, entrance drives and in dark underground garages, tangibly increasing safety when driving at night.

With High-Beam-Assist, a camera sensor integrated in the inside rear view mirror housing registers traffic activity on the road and automatically controls the activation and deactivation of the high beam. The system identifies the headlights and rear lights of vehicles, as well as the surrounding road lighting. The high beam switches on in the absence of vehicles on the road ahead and of oncoming traffic on poorly lit roads.

ACC Stop & Go is a further development of the Active Cruise Control (ACC) system which is already available in the BMW 5, 6 and 7 Series and which became available as an option in the new BMW 3 Series in spring 2005. BMW Group engineers are working on the introduction of serial production of a Stop&Go function which will extend the usable ACC speed range down to standstill. As with the ACC serial function, with ACC Stop & Go, the driver remains responsible for the vehicle and can intervene in the process at any stage. If the ACC Stop & Go system recognises that its own limited braking ability is not adequate in a particular situation, then the driver is given visual or acoustic warnings in sufficient time to apply the brakes himself.

Purchasing structures based on a global approach

The global structure of the BMW Group is reflected in a corresponding regional split of the purchase volume, approximately half of which continues to be accounted for by Germany. Due to the first full production year of the BMW 1 Series and the high production volumes of the MINI, there was a slight shift (one percentage point) in purchase volume from Germany to the remainder of Western Europe. Increased purchasing activities by the BMW Group in Central and Eastern Europe for the BMW 1 and 3 Series resulted in a one percentage point increase in purchases in those regions. Purchases in the

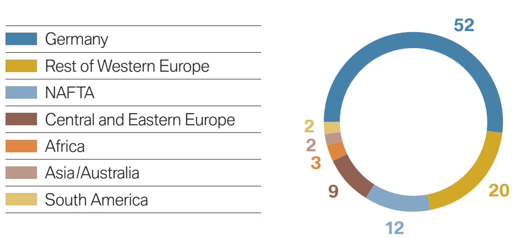
NAFTA region fell by one percentage point during the same period, mainly due to the higher production volume (and therefore higher purchase volume) in Europe, whilst the production volume of the BMW Spartanburg plant was down on the previous year. Purchases in the other regions changed in line with production volume growth and therefore remained unchanged in percentage terms compared to the previous year.

Raw material markets under strain

The high price levels on the raw material markets were particularly important for the Group's purchasing departments in 2005. Significantly higher costs had to be taken on board for supplies of steel and plastic. As an example, the average price of cold-rolled sheet steel increased by approximately 20 % compared to 2004. Industrial raw materials went up by 12 % in US dollar terms and by 13 % in euro terms. The price of non-precious metals increased by 14 % in both US dollar and euro terms. A major development was the increase, particularly in the final quarter 2005, in the price of energy-related raw materials, especially crude oil, which serves as the basis for plastics. Compared to 2004, the purchase price of these materials increased on average by around 36 %.

In the case of precious metals (rhodium, palladium, platinum), purchase price hedges held down the impact of market price increases for the BMW Group. As far as other raw materials were concerned, measures were put in place to ensure that additional costs were fairly spread over the entire added-value chain, with the BMW Group also bearing its share of these costs. Although purchase price predictions carried out since the year-end show that the commodity markets may have eased somewhat, it is likely that high price levels will persist in 2006.

Regional mix of BMW Group purchase volumes 2005
in %, basis: production material



Working with suppliers to improve competitiveness

The external share of the added-value chain is currently in the range of 70 to 80 percent; working closely with suppliers to improve products and processes is therefore a critical factor for success. The BMW Group initiated a joint project with suppliers back in 2004 with a view to working together to reduce product costs. This initiative was expanded in 2005 and now incorporates measures to improve the reliability of bought-in components and systems.

By considering all potential opportunities along the whole chain from the procurement market through to the dealer, the aim is to reduce costs of the current models, whilst at the same time improving field quality after vehicles have been delivered to customers. Insights gained in this way subsequently flow into the development of new vehicles.

New supplier management system

The objective of the "Management of Partner Networks" project was to extract full benefit from the innovative strength of the procurement market; the "New Supplier Management" project was launched at the beginning of 2005 in order to complement this project.

The focus is on optimising internal processes within the BMW Group at the crucial interfaces between development, purchasing, production and sales. By adopting concurrent engineering methods and involving suppliers more closely in the series development process, the aim is to ensure that ambitious costing, timing and quality targets for vehicle projects are secured and achieved at an early stage.

The tasks necessary to achieve this aim involve the following three areas:

– reaching consensus across departmental lines to select the best possible suppliers. Equal importance is attached to cost, field and supply quality, product functionality and security of supply factors.
– assessing risks consistently at all stages and monitoring costs during the product creation and series process
– ensuring supplier competence at an early stage with the aid of targeted measures.

Improved processes are integrated directly into vehicle development projects. This project is therefore contributing greatly towards improving the BMW Group's competitive position.

High ecological and social standards at BMW Group's suppliers

The BMW Group is aware that it is responsible for ensuring that its suppliers also adhere to social and ecological standards. As well as dealing with quality targets and cost aspects, the BMW Group's national and international purchasing guidelines also stipulate social and ecological standards. The BMW Group maintains close contact to its suppliers, working with them in a spirit of partnership. In this way, BMW Group specialists make enquiries during the year and use the annual pricing negotiations to assess how suppliers implement environmental measures for products and production and how they comply with social standards.

At the beginning of 2005, the BMW Group formalised the process of obtaining information about its suppliers' approach to sustainability. With the aid of a database, the BMW Group can, before making its selection, obtain information from all potential suppliers as to how they apply the principles of sustainability. Existing suppliers can update their data in the system once a year, thus providing the BMW Group with a precise overview of how well its international suppliers are dealing with social and ecological matters.

Web-based Supplier Relationship Management (SRM) integrated into organisational structure

Using the e-Business SRM programme, web-based processes were developed between 2002 and 2005 to improve coordination with suppliers; these were completed in 2005 and fully integrated into the group's organisational structure. The BMW Group's Partner Portal serves as the central platform for linking up with suppliers. More than 25,500 external users from 4,200 companies/company locations have access and some 35,000 internal users access the portal on a day-to-day basis. Various methods, including data encryption, are used to meet security requirements.

Process optimisation and data management techniques have improved the purchasing process and significantly widened access to information about the supply markets. Purchase orders, financial information and specific supply requests for series and test components are sent electronically via EDI (Electronic Data Interchange) or the Internet. The use of interactive e-Business tools, such as electronic enquiries or auctions, enables components and materials to be bought in more quickly, transparently and cheaply.

Integrating suppliers in the product creation process has been further optimised with the introduction of electronic processes. This includes, in particular, file-sharing and online-conferencing services. With these tools, the BMW Group's development partners can access all relevant data directly and communicate with BMW staff. As an example, approximately 1,600 internal and 2,000 external people use a basic toolset for non-centralised project management purposes.

Focus on efficiency and reach of the sales organisation

Sales and marketing activities in 2005 focused on implementing the product and market initiative in the various markets around the world in which the BMW Group operates. The reinforcement of the position of the new model series (BMW 1, BMW 6 and BMW X3 Series) on the markets and BMW 3 Series model change were at the centre of these activities. In addition, in response to the sharp sales volume increase and the larger product range brought about by the new model series, extensive measures were initiated to increase the efficiency of the sales organisation and to improve the way that this is put across to customers.

Continued expansion of sales network

The BMW Group continued in 2005 to expand its sales network and increase its commitment to existing markets. It is now represented via its own sales companies in 35 countries. Approximately 100 more countries are handled by local importers.

Following the opening of the new sales company in Portugal on 1 January 2005, the BMW Group is now present with its own sales companies in all Western European EU countries. On a year-on-year basis, BMW Group car sales in Portugal have increased by more than 50% since the new company started operations.

With the foundation of a newly incorporated sales company (BMW China Automotive Trading Ltd.), the BMW Group assumed direct responsibility for imports to China with effect from 1 October 2005; this supplements the existing joint venture with Brilliance China Automotive Holdings Ltd., which continues to be responsible for local production of BMW 3 and 5 Series cars and for the sale of those cars on the Chinese market. The sales network in China was significantly expanded during the year under report. With a total of about 60 dealerships, the BMW Group is now present in almost every province in China.

Worldwide dealer organisation

At the end of 2005, the dealer organisation for the BMW brand comprised some 3,000 independent dealerships. The international presence of the MINI brand was also further expanded in 2005. More than 1,400 dealerships operate now in 80 countries. As in the previous year, Rolls-Royce motorcars are sold worldwide by approximately 70 dealers in 23 countries. Another 13 markets are serviced directly by Rolls-Royce Motor Cars.

With worldwide capital expenditure in excess of euro 1 billion, the independent dealerships continued to support the activities of the BMW Group in 2005, helping to ensure that customers and other interested parties can positively enjoy the wider range of models and the BMW Group's growth in general.

The BMW Group also runs its own sales retail operations in branches in 36 major cities around the world.

Preparations for market engagement in India

Besides expanding activities in existing markets, the BMW Group made extensive preparations in 2005 to enter the Indian market. This represents an important step in the group's Asian strategy. The approval process to set up a group sales company in the Delhi region and for an assembly plant in Chennai for BMW 3 and 5 Series vehicles was successfully completed in autumn 2005. The new sales company will commence operations at the beginning of 2007.

As a result of this engagement in the Indian market, the BMW Group will be operating with its own sales companies in practically all of Asia's strategic markets. In addition to its comprehensive presence in China and the planned activities in India, the BMW Group already has its own sales companies in Japan, Indonesia, Malaysia, South Korea, Thailand and the Philippines.

Asian markets served by importers are handled out of the regional office in Singapore, where, at the beginning of 2006, the BMW Group also opened a new design studio. The BMW Group's logistical hub in Asia is based in Malaysia where an IT centre and a parts distribution centre for the region are located.

Investment in strong brands

The BMW Group possesses, with the BMW, MINI and Rolls-Royce brands, three of the strongest premium brands in the automobile sector. A wide range of activities was initiated in 2005 to define the brand profiles more clearly and to bring them even more to life for customers.

In connection with the BMW brand, the new BMW World building is currently under construction next to the group headquarters in Munich. The topping out ceremony for the new building took place on 1 July 2005, and its inauguration is planned for spring 2007. Once completed, up to 250 customers daily will come in person to collect their vehicles from BMW World and experience the BMW brand to the full. Tours of the nearby BMW plant and a visit to the BMW Museum will round off this brand experience.

In September 2005, as a first for the car industry, the BMW Group issued up-to-date information in podcast audio format directly from the BMW stand at the Frankfurt International Motor Show. Each day, new audio clips, in both German and English, could be downloaded free of charge. This pilot project is being used to explore new ways of reaching target groups which are becoming more and more difficult to reach through conventional advertising.

The BMW Group was able to engage the well-known filmmaker, Spike Lee, to make the current advertising film for the BMW 3 Series Touring. This is a follow-up to the film project "The Hire" which involved the creation of eight short films by well-known Hollywood directors from 2001 onwards.

The focus of the MINI brand profile was also further sharpened in 2005 with a number of unconventional measures. For example, on the occasion of the market introduction of the new models, MINI Seven, MINI Checkmate and MINI Park Lane, MINI enthusiasts in Germany were given the opportunity to bring their ideas about the new models to life by making short film clips of their own. The resulting clips, filmed with cell phone or digital cameras, were made available to the public on the website www.mini.de, and prizes awarded to the best ones.

In autumn 2005, some 6,000 MINI fans from more than 40 countries came to MINI United, the first official annual meeting of the international MINI fan community held at the racecourse in Misano, Italy, where they had a taste of excitement and the racing atmosphere for three days.

In 2005, the Rolls-Royce brand, which can already look back on a history of more than one hundred years, focused its sport sponsoring activities on polo. As well as supporting the top event, Cartier International Day, Rolls-Royce Motor Cars is also the official sponsor of the Prince of Wales polo team.

BMW managed team to contest Formula One for the first time

Following the acquisition of a majority interest in the Swiss Team Sauber, a BMW managed team will contest the Formula One World Championship from the 2006 season onwards. This will be the first time in BMW's history that it has participated at this level under its own management. The BMW Sauber F1 team was presented to the public at the beginning of 2006. The Sauber location in Hinwil, Switzerland, will continue to operate as a separate entity. The other motorsport projects will be keenly pursued. BMW will continue to participate in the World Touring Car Championship (WTCC). Formula BMW will also continue, with four series taking place in Asia, Germany, Great Britain and North America. The first-ever Formula BMW World Final took place in Bahrain in December 2005.

Premium – including premium service
The BMW Group works steadfastly to develop its service activities with a view to ensuring that the premium performance promise for the BMW, MINI and Rolls-Royce brands is also satisfied after initial purchase. The areas focused on include quality of technical service, customer care and individual mobility and service products.

Dealerships in particular are supported by a range of measures and through investment in the areas of customer care and advice. The focus of attention is on creating further training opportunities for employees, with the emphasis on technical expertise and competent after-sales services for customers. The related training programme was based on a series of seminars and individualised online-training provided locally.

In addition to the central training academy in Unterschleißheim in the Munich region, the BMW Group has seven further regional training sites in Germany. It also has supra-regional training centres in Dubai, Moscow, Malaysia and (since February 2005) in Peking. In total, the BMW Group currently maintains 53 training centres.

In 2005, in its first full year of operations, more than 500 training courses were held at the training academy in Unterschleißheim alone. Some 25,000 participants from around 80 countries participated in these courses.

The BMW Group will continue to expand its training centres up to 2010, with a particular emphasis on non-technical training aspects (e.g. brand-training, service processes, logistics, business management).

Dynamics Centre opened
The new Dynamics Centre in Dingolfing was officially opened on 15 June 2005. It is part of the central parts distribution system and began operations in January 2005. The Dynamics Centre directly supplies BMW and MINI brand original parts, accessories, merchandising and lifestyle products to all of BMW Group's 35 own sales companies, numerous importers and more than 300 regional dealerships. Some 250,000 different articles are held and despatched from an area covering 56 hectares. The Dynamics Centre has a workforce of approximately 650 employees. Capital expenditure at the site amounted to approximately euro 145 million.

BMW Stock in 2005

Exchange rate and commodity prices dominate mood on stock exchanges

The 2005 stock exchange year was dominated by the development of the US dollar exchange rate against the euro and by the continuing high level of commodity prices.

Over the course of the year, the relationship between the euro and the US dollar turned in favour of enterprises exporting into the dollar region. Compared to the exchange rate at the beginning of the year, the main European currency lost approximately 13% in value against the US dollar. At the end of the last day of trading in 2005, one euro was worth US dollar 1.18.

As in the previous year, the prices of important raw materials went up again, with oil and steel prices rising particularly steeply.

Despite the adverse impact of higher raw material prices, the main stock exchange indices rose sharply in 2005. Compared to the end of the previous year, the EUROSTOXX 50 registered a 21.3% gain in 2005 and the main German index, the DAX, rose by 27.1%.

The Prime Automobile index also performed extremely well, closing at 453.24 points and thus recording a gain of 31.1% over the year.

BMW common stock closed at euro 37.05 on 31 December 2005, giving an 11.6% increase for the year: the modest gains seen during the course of the year therefore continued towards the year-end.

By contrast, BMW preferred stock, which closed at euro 33.00 on 31 December 2005, rose by 33.1% and therefore performed better than the market as a whole.

With a market capitalisation of almost euro 25 billion, the BMW Group lies in fifth place amongst the world's car manufacturers.

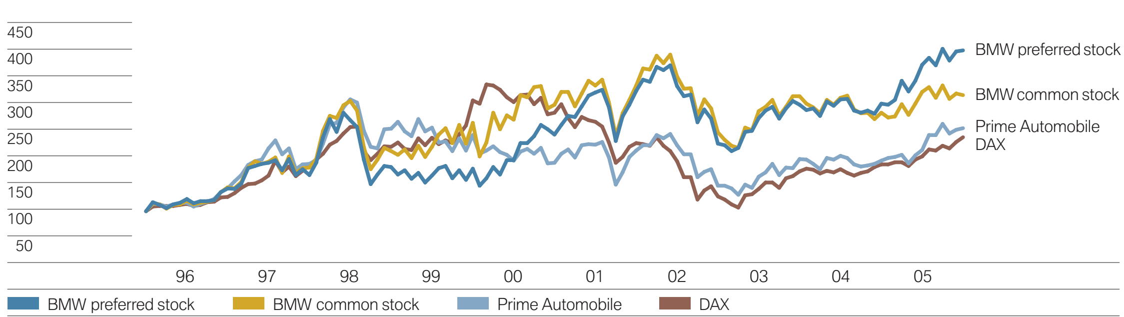
As in the past, the investor relations team provided a full range of services to investors with a long-term interest in the BMW Group. Activities included personal discussions and group events in the relevant financial centres of the world and at BMW AG's head office in Munich. These activities will be expanded further in 2006.

Programme to buy back shares of common stock

At the Annual General Meeting of Bayerische Motoren Werke Aktiengesellschaft (BMW AG) on 12 May 2005, the shareholders authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution and to withdraw these shares from circulation without any further resolution by the Annual General Meeting. The buy-back authorisation is valid until 11 November 2006. The consideration paid by the Company per share (excluding transaction costs) may not be more than 10% above or below the market price on the date of trading as determined by the opening auction in the Xetra trading system.

Following on from the authorisation given by the shareholders at the Annual General Meeting on 12 May 2005, the Board of Management of BMW AG resolved on 20 September 2005 to put a programme

Development of BMW stock compared to stock exchange indices
(Index: 31. 12. 1995 = 100)



in place to buy back shares via the stock exchange. Under this programme, up to 20,232,722 shares of common stock (i.e. 3% of the share capital) have been subsequently acquired. The shares have been acquired with the purpose of withdrawing them from circulation and reducing share capital. By the end of 2005, 13,488,480 shares of common stock, equivalent to 2% of the Company's share capital, had been acquired under the programme. The average price paid was euro 37.49. Including ancillary purchase costs, approximately euro 506 million was used in 2005 to buy back shares. Further information about the share buy-back programme can be found on the investor relations homepage: www.bmwgroup.com/ir, coverage of which was expanded in 2005.

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

For more than 30 years now, BMW AG has allowed employees to participate in the success of the Company; since 1989 this has taken the form of an employee stock participation plan. The Management Board of BMW AG has decided to continue the plan in 2006. Up to 1.5 million shares of preferred stock will be bought back via the stock exchange for subsequent issue to employees. As with previous plans, the buy-back will be handled by a securities house or bank. It will decide the timing of purchases independently and without influence from BMW AG. Further information will be notified under www.bmwgroup.com/ir; the progress of the buy-back programme will be reported there at regular intervals.

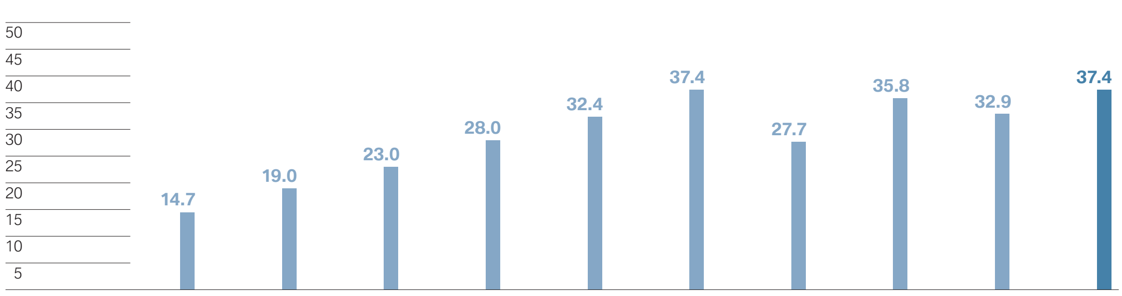
Comprehensive range of information via the Internet

From the third quarter 2005 onwards, in addition to live and recorded transmissions, the telephone conferences accessible via the investor relations heading in the BMW Group website have also been available for download free of charge as audio podcasts. A comprehensive range of information, with even greater coverage in 2005, is also available at www.bmwgroup.com/ir. As well as annual and quarterly reports, the site also contains up-to-date analyst forecasts, speeches and presentations and offers the opportunity to obtain stock prices and comparative information. On top of this, information is also available relating to the share buy-back programme, corporate governance and shareholder structure.

Sustainability as a success factor

In September 2005, the BMW Group was included, as sector leader, in the Dow Jones Sustainability Indexes. The BMW Group is therefore the only enterprise in the sector to have been included in this important group of indices for sustainable investment for the seventh time in succession. Over the past four years, the BMW Group has also been a member of various FTSE4Good Indices, including the FTSE4Good Europe 50 Index in which it is the only car manufacturer. It also won the "best-in-class" award in the Carbon Disclosure Project, an initiative started by institutional investors which assesses enterprises in terms of how they deal with risks and opportunities relating to climate change. These

Development in the value of a BMW stock investment in euro thousand
Investment of euro 10,000 at 1.1.1996, including dividends and proceeds from subscription rights, values at end of year



examples of recognition demonstrate how aspects of business sustainability are becoming increasingly important as an element of the BMW Group's capital market work.

The Sustainable Value Report published in September 2005 shows how the BMW Group is implementing the principle of sustainability in all its aspects and demonstrates the full extent of its social and ecological activities. The report is available in German, English, Italian, Chinese and Japanese and can be obtained, free of charge, via the e-mail address sustainability@bmwgroup.com. The report can also be accessed online at www.bmwgroup.com/sustainability.

BMW stock	2001	2002	2003	2004	2005
Common stock					
Number of shares in 1,000	622,228	622,228	622,228	622,228	622,228
Shares bought back at the reporting date	–	–	–	–	13,488
Stock exchange price in euro[1]					
Year-end closing price	39.15	28.92	36.75	33.20	37.05
High	41.49	47.60	38.40	37.44	39.97
Low	24.15	27.97	21.12	31.78	32.04
Preferred stock					
Number of shares in 1,000	50,638	51,468	52,196	52,196	52,196
Stock exchange price in euro[1]					
Year-end closing price	26.70	18.60	24.65	24.80	33.00
High	27.60	31.99	26.25	26.20	33.98
Low	16.55	18.17	14.86	22.86	24.48

	2001	2002	2003	2004[5]	2005
Key data per share in euro					
Dividend					
Common stock	0.52	0.52	0.58	0.62	0.64[2]
Preferred stock	0.54	0.54	0.60	0.64	0.66[2]
Earnings per share of common stock[3]	2.78	3.00	2.89	3.33	3.33
Earnings per share of preferred stock[4]	2.80	3.02	2.91	3.35	3.35
Cash flow	6.24	6.49	6.66	7.69	8.31
Equity	16.01	20.59	23.95	24.52	25.17

1] Xetra closing prices
2] proposed by management
3] annual average weighted amount
4] stock weighted according to dividend entitlements
5] adjusted for new accounting treatment of pension obligations

Group internal management system

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

The strategies set for each line of business and related project decisions give rise to strategic emphases which are then implemented at a functional level. The overall project development process becomes more targeted as a result of the closer link between strategies defined for lines of business and objectives defined for specific projects. Once a project decision has been reached, the task is to manage each individual project over time. Projects are therefore observed and resources reallocated, where necessary, according to priorities.

The project decision and related project selection are therefore important aspects of the value-based planning process of the BMW Group. Net present values (NPVs) and rates of return are computed as part of the decision-making process: this involves computing the present value of cash flows and the internal project rate of return (or model rate of return in the case of vehicle projects) which are expected to be generated by a project decision. The discount rate used in these computations is the group-specific minimum required rate of return derived from the capital market (weighted average cost of capital). Using this method, the amount by which a project will contribute to the total value of the segment (i.e. the project's value-added) can be documented at the same time that the project decision is taken. Targets and performance are controlled using project-related target NPVs and individual cash flow related parameters which have an impact on those values.

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

The management of product projects and of the product programme as a whole described above is subject to basic conditions which result from periodic planning. The aim here is to monitor and manage periodic targets on a long-term basis. Periodic performance is managed in the light of defined accounting policies and external financial reporting requirements. The BMW Group primarily uses profit before tax and segment-specific rates of return as the key indicator figures by which it manages operating performance. For example, return on capital employed is used as the main performance parameter of the Automobiles and Motorcycles segments. Return on sales is also used as a measurement basis. In the case of the Financial Services segment and the Group as a whole, the return on assets is used. The overall target set for earnings is continuous growth; the minimum rate of return required for each line of business is used as the relevant parameter. These periodic targets are supplementary to project and programme targets.

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

Key performance indicators in %	2005	2004*	2003	2002	2001
Return on Capital Employed					
Automobiles	23.2	25.4	23.8	30.1	32.7
Motorcycles	17.8	10.4	16.7	22.3	22.1
Return on Assets					
Financial Services	1.3	1.4	1.4	1.4	1.3
BMW Group	5.6	6.5	6.6	7.6	9.0

* adjusted for new accounting treatment of pension obligations

gleaned from these procedures allows on-going comparison between dynamic multi-period targets and periodic performance. Project and periodic planning are therefore interlinked, thus ensuring that individual project targets are taken into account throughout, including in the process of operational periodic management.

Earnings performance

The BMW Group recorded a net profit of euro 2,239 million for the financial year 2005. After adjusting the previous year's figures for the effect of the change in accounting policy for pension obligations, the net profit was at a similar level to 2004 (euro 2,242 million). The post-tax return on sales was 4.8% (2004: 5.1%). The group therefore generated earnings per share of common stock of euro 3.33 and earnings per share of preferred stock of euro 3.35, both unchanged from the previous year.

Group revenues rose by 5.2% compared to the previous year. Unlike in the previous year, exchange rates only had a small impact on the change in reported group revenues. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars went up by 2.3%, with product mix shifts affecting in particular the change in revenues reported by the Automobiles segment. Revenues from motorcycles business grew by 19.1% as a result of sales volume factors. The increase in revenues was helped above all by the introduction of new models in conjunction with the Motorcycle segment's new product initiative.

Revenues from financial services business grew by 18.2%, also as a result of volume growth. Revenues from other activities of the Group amounted to euro 119 million and related mainly to the softlab Group. The comparable figure for 2004 was euro 85 million.

Revenue trends were inconsistent from region to region. Whereas group revenues decreased in Germany by 8.0%, they increased in the rest of Europe by 9.1%. Revenues for the Americas region rose by 8.6%. For the markets in Africa, Asia and Oceania, they grew in total by 15.7%, mainly on the back of sales volume increases in specific Asian markets.

Group cost of sales went up 0.5 percentage points faster than revenues. This development reflected the impact of additional costs which the BMW Group has reported on since the beginning of 2005, namely the effect of less favourable exchange rates than in the previous year and higher raw material prices. Despite these adverse factors, gross profit increased in absolute terms by 3.6%, giving a gross profit percentage of 22.9% (2004: 23.2%). The gross profit percentage for industrial operations was 1.0 percentage points lower than in the previous year and that for financial operations was down by 0.5 percentage points. Information about the composition of these sub-groups is provided in Note [1].

Sales and administrative costs increased by 2.5% due to the higher level of business volumes;

- All brands achieve new sales volume highs
- Adverse external factors hold down reported earnings
- Group and segment earnings still at high level
- Operating cash flow well ahead of the previous year

Group Income Statement

in euro million	1.1. to 31.12.2005	1.1. to 31.12.2004*
Revenues	46,656	44,335
Cost of sales	–35,992	–34,040
Gross profit	**10,664**	**10,295**
Sales and administrative costs	–4,762	–4,648
Research and development costs	–2,464	–2,334
Other operating income and expenses	355	461
Profit before financial result	**3,793**	**3,774**
Financial result	–506	–191
Profit before tax	**3,287**	**3,583**
Income taxes	–1,048	–1,341
Net profit	**2,239**	**2,242**

*adjusted figures

the increase was, however, lower than that of revenues. They represented 10.2% of revenues, and were therefore 0.3 percentage points lower on a year-on-year comparison.

Research and development costs were 5.6% higher than in 2004, unchanged as a percentage of revenues at 5.3%. Research and development costs include amortisation of capitalised development costs amounting to euro 745 million (2004: euro 637 million). Total research and development costs amounted to euro 3,115 million (2004: euro 2,818 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for 2005 was 6.7% (2004: 6.4%).

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 3,025 million (2004: euro 2,672 million).

The positive net amount from other operating income and expenses fell by 23.0% compared to the previous year. Other operating income decreased primarily as a result of lower income from the reversal of write-downs, reflecting lower credits from unwinding interest, and the decrease in sundry operating income. By contrast, income from the reversal of provisions increased, partly as the result of reversing a provision relating to the Rover disengagement. The income from this release is included within the Reconciliations segment. Other operating expenses decreased by 5.8% compared to the previous year as a result of lower allocations to provisions and lower sundry operating expenses.

The financial result deteriorated by euro 315 million, mainly as a result of the euro 299 million increase in other financial result (net expense). This included a fair value loss of euro 308 million recognised on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London. The fair value loss on the option reflected the increase in the stock market price of Rolls-Royce plc shares. The market value of the BMW Group's investment in Rolls-Royce plc, London increased by euro 438 million during the financial year 2005. This increase was recognised directly in equity and cannot be offset directly against the fair value loss on the option. Within the financial result, the net positive result from investments decreased by euro 52 million whilst net interest expense decreased by euro 36 million. The net expense from the reversal of discounting on pension obligations and the income from the expected return on pension plan assets increased by 11.2% on a year-on-year basis.

As a result of the changes in the financial result described above, profit before tax fell by 8.3% compared to the previous year. The pre-tax return on sales was 7.0% (2004: 8.1%).

The group net profit was euro 3 million or 0.1% below the figure reported in the previous year. The was due to the lower effective tax rate brought about

Revenues by segment

in euro million	1.1. to 31.12.2005	1.1. to 31.12.2004
Automobiles	45,861	42,544
Motorcycles	1,223	1,029
Financial Services	9,408	8,226
Reconciliations	–9,836	–7,464
Group	**46,656**	**44,335**

Profit before tax by segment

in euro million	1.1. to 31.12.2005	1.1. to 31.12.2004*
Automobiles	2,976	3,164
Motorcycles	60	31
Financial Services	605	515
Reconciliations	–354	–127
Group	**3,287**	**3,583**

* adjusted figures

primarily by prior year tax reimbursements and lower tax rates in a number of countries. In addition, allowances on deferred tax assets were partially reversed as a result of a renewed assessment of recoverability in the light of the utilisation of capital allowances in the United Kingdom.

The Automobiles segment recorded a 9.9% increase in sales volume and a 7.8% increase in revenues. The increase in revenues was affected by product mix shifts. Segment profit fell by 5.9% as a consequence of the adverse external factors described above.

Revenues of the Motorcycles segment went up by 18.9% on the back of volume growth. Segment profit improved by 93.5%. The R 1200 RT and K 1200 S, introduced in conjunction with the segment's product initiative, and the R 1200 GS, all contributed well to improved profitability.

The Financial Services segment was again able to expand business successfully in 2005 as a result of which segment profit advanced impressively by 17.5%.

As in 2004, reconciliations to the group profit before tax gave rise to a net expense, which increased in 2005 by euro 227 million. This was primarily due to the fair value loss on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London.

Financial position

The group cash flow statement shows the sources and applications of cash flows for the financial years 2005 and 2004, classified into cash flows from operating, investing and financing activities.

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

Operating activities of the BMW Group generated a positive cash flow of euro 10,691 million in 2005, an increase of euro 1,380 million or 14.8% compared to the previous year. Changes in net current assets during 2005 generated a cash inflow of euro 923 million (2004: euro 222 million). Unlike in the previous year, the change in inventories gave rise to a cash inflow.

The cash outflow for investing activities, at euro 11,963 million, was similar to the previous year's level. The cash outflow for net investments in financial services activities rose again steeply and was euro 1,174 million higher than in the previous year. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 368 million compared to the previous year. In addition, payment of the final sales price instalment relating to the sale of Land Rover increased cash inflow by euro 1,000 million.

Financing activities in 2005 generated a positive cash flow of euro 699 million (2004: euro 3,137 million). The dividend payment in 2005 increased by 6.9% to euro 419 million. The share buy-back programme involved a cash outflow in 2005 of euro 506 million.

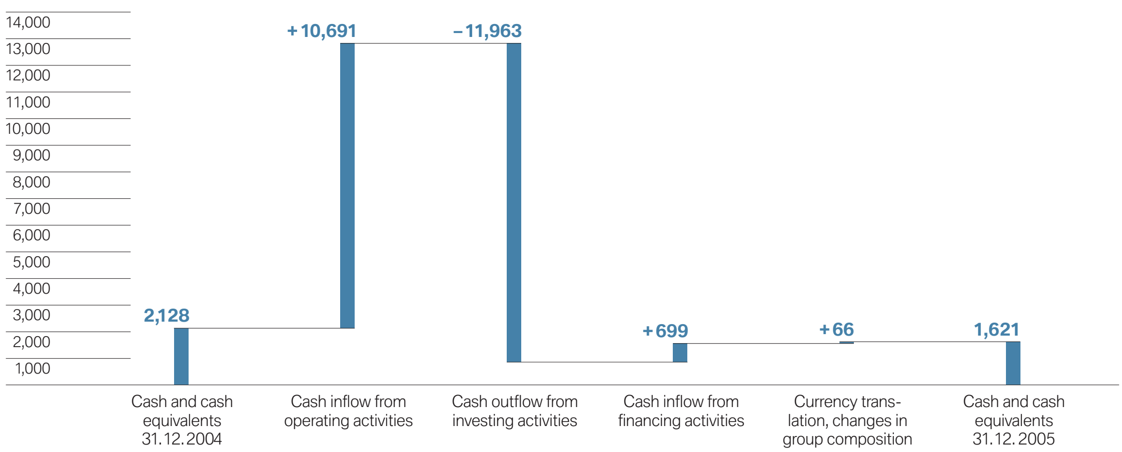
89.4% (2004: 77.9%) of the cash outflow for investing activities was covered by the cash inflow from operating activities.

The cash flow statement for industrial operations shows that the cash inflow from operating activities exceeded the cash outflow from investing activities by 150.7% (2004: 49.6%). By contrast, the cash flow statement for financial operations shows that the cash inflow from operating activities fell short of the cash outflow from investing activities by 52.5% (2004: 59.8%).

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group amounting to positive amount of euro 66 million (2004: negative amount of euro 22 million), the various cash flows resulted in a decrease in group cash and cash equivalents of euro 507 million (2004: increase of euro 469 million). An amount of euro 43 million included in cash and cash equivalents was assigned to Deutsche Treuinvest Stiftung as collateral in conjunction with obligations for employees' pre-retirement part-time work arrangements.

Net interest-bearing assets relating to industrial operations (including receivables from the financial operations sub-group) amounted to euro 4,877 million at 31 December 2005, an increase of euro 2,245 million compared to one year earlier. Net interest-bearing assets relating to industrial operations comprise cash and cash equivalents (euro 1,372 million), marketable securities relating to industrial

Change in cash and cash equivalents
in euro million



operations (euro 1,809 million) and receivables from financial operations (euro 3,236 million) less the financial liabilities of industrial operations. Excluding interest and currency derivatives, the latter amounted to euro 1,540 million.

Net assets position

Change in presentation of the Group balance sheet

For the purposes of preparing its Group financial statements, the BMW Group has applied revised IAS 1 (Presentation of Financial Statements), amended as part of the Improvement Project, at 1 January 2005. This Standard requires the balance sheet to be classified on the basis of the maturity of assets and liabilities (current/non-current distinction) and, as already reported in quarterly reports during 2005, has resulted in a change in presentation of the Group balance sheet (see also Note [8] (a)).

The balance sheet total went up by euro 6,932 million or 10.2 % to euro 74,566 million. The main factors behind the increase on the assets side were the higher level of leased products (+51.6 %), intangible assets (+22.2 %) and receivables from sales financing (+16.0 %). On the equity and liabilities side of the balance sheet, the main increases related to other liabilities (+26.4 %), pension provisions (+24.4 %) and financial liabilities (+12.1 %). Currency factors, mainly in connection with the higher exchange rate of the US dollar against the euro, increased the balance sheet total by euro 3,526 million. Excluding the effect of exchange rate fluctuations, the increase would have been 4.8 %.

Intangible assets increased by 22.2 % to euro 4,593 million. Within intangible assets, capitalised development costs went up by 18.6 % to euro 4,146 million. Development costs recognised as assets during the year under report amounted to euro 1,396 million (+24.5 %), equivalent to a capitalisation ratio of 44.8 % (2004: 39.8 %). The increase in capitalised development costs resulted from the higher volume of series development projects carried out in 2005. Amortisation in intangible assets amounted to euro 745 million (+17.0 %).

The carrying amount of property, plant and equipment increased by 3.4 % to euro 11,087 million. The bulk of capital expenditure related to further expansion of the worldwide production and sales networks. Capital expenditure on property, plant and equipment was euro 2,408 million or 21.8 % lower than in the previous year, mainly as a result of the effect of special factors in 2004, such as the construction of the new BMW Leipzig plant and investment incurred in conjunction with the BMW 3 Series model change. Total depreciation and disposals, including currency impact, amounted to euro 2,133 million (+3.4 %). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 88 million. Capital expenditure on intangible assets and property, plant and equipment totalled euro 3,993 million (–8.1 %), which, as in the previous year, was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 8.6 % (2004: 9.8 %).

As a result of the growth of business, the total carrying amount of leased products increased sharply by 51.6 % to euro 11,375 million. Adjusted for changes in exchange rates, leased products would have risen by 38.8 %.

The carrying amount of other investments increased by 67.3 % to euro 1,178 million, mainly as a result of the fair value gain recognised on the investment in the engine manufacturer Rolls-Royce plc, London. The market price of this investment rose by euro 438 million compared to the previous year-end. The increase in value of the investment was recognised directly in accumulated other equity.

Receivables from sales financing increased by 16.0 % to euro 29,053 million due to higher business volumes. Of this amount, customer and dealer financing accounted for euro 22,301 million (+18.7 %) and finance leases accounted for euro 6,752 million (+7.7 %).

Deferred tax assets amounted to euro 772 million at the balance sheet date, increasing by euro 257 million as a result of lower valuation allowances and the new accounting treatment of pension obligations (see Note [8] (b)).

Inventories, at euro 6,527 million, were roughly at the previous year's level. Trade receivables went up by 14.3 % compared to their low level at 31 December 2004.

Financial assets decreased by 42.7 % to euro 3,296 million mainly as a result of lower volumes and the lower fair values of derivative financial instruments.

Liquid funds fell by 6.7 % to euro 3,695 million. The make-up of liquid funds shifted in favour of marketable securities which were increased by 13.2 % compared to one year earlier. Cash and cash equivalents decreased mainly as a result of the share buy-back programme.

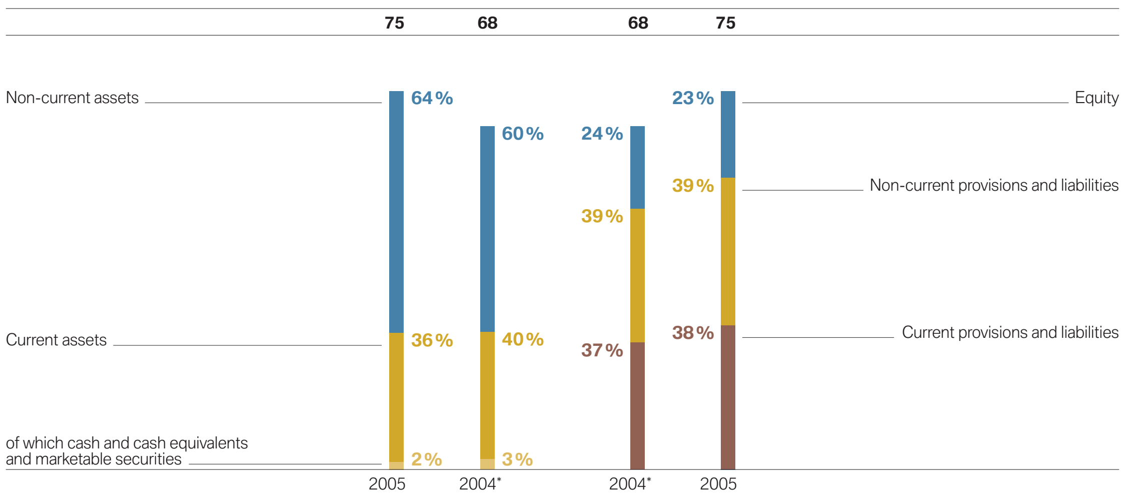
On the equity and liabilities side of the balance sheet, equity grew by 2.7 % to euro 16,973 million. The group net profit for the year increased equity by euro 2,239 million, whereas value changes recognised directly in equity reduced it by euro 875 million. The latter comprise translation differences, fair value gains and losses on financial instruments and available-for-sale securities as well as actuarial gains and losses. The dividend payment for the financial year 2004 and the buy-back of shares reduced equity by a further euro 925 million. The equity ratio of the BMW Group therefore fell overall by 1.6 percentage points to 22.8 %.

The equity ratio for industrial operations was 39.1 % compared to 41.6 % at the end of the previous year. The equity ratio for financial operations improved by 0.7 percentage points to 10.4 %.

The amount recognised in the balance sheet for pension obligations increased by 24.4 % to euro 5,255 million. As a result of the changed accounting policy for pension obligations, the amount reported under pension provisions now corresponds fully to the defined benefit obligation (DBO). In the case of pension plans with fund assets, the fair value of fund assets is offset against the defined benefit obligation. The increase in pension obligations was attributable principally to lower discount factors in Germany and in the United Kingdom and the use of new mortality tables in Germany.

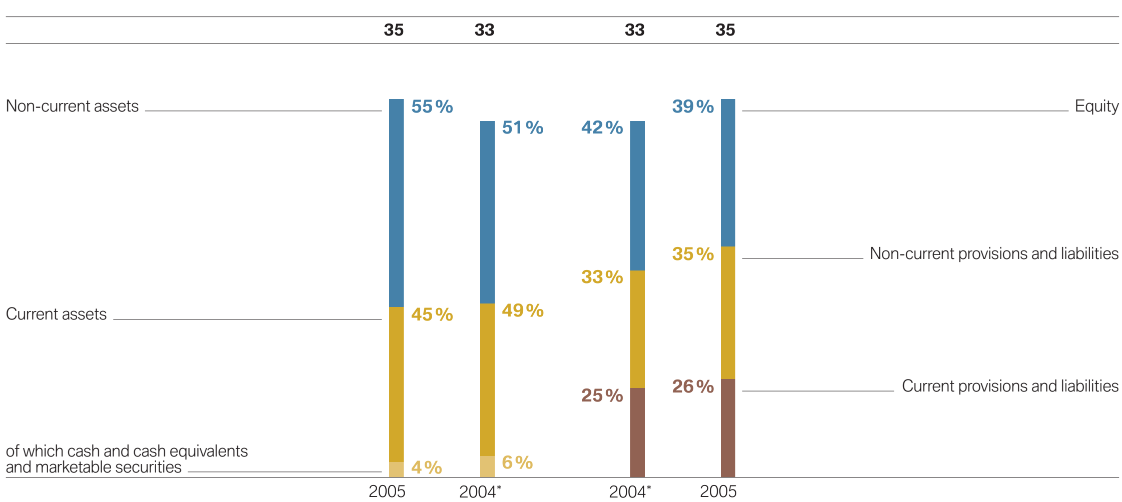
The higher level of additions to provisions related mainly to other provisions and was attributable to the increase in the volume of business and higher

Balance sheet structure Group
in euro billion



*adjusted figures

Balance sheet structure industrial operations
in euro billion



*adjusted figures

employee-related obligations. By contrast, provisions for other obligations decreased by 17.4%, mainly as result of the above-mentioned reversal of a provision relating to the Rover disengagement. The reversal is reported within the Reconciliations segment.

Deferred tax liabilities went up by 10.8% to euro 2,522 million, mainly as result of the higher level of leased-out products in the USA which are depreciated more quickly for tax purposes than for IFRS purposes. Currency factors also played a role.

Financial liabilities increased by 12.1% to euro 34,668 million. Within financial liabilities, bonds increased by 21.8% to euro 15,162 million, mainly as a result of the higher volume of the medium term note programme and of other bonds. Liabilities from customer deposits (banking) also increased sharply, rising by 25.3% to euro 6,392 million.

Trade payables amounted to euro 3,544 million and were thus 5.0% higher than one year earlier.

Other liabilities of euro 5,236 million were 26.4% above their level at the end of the previous year. Within other liabilities, deferred income relating to service and repair agreements increased sharply.

Subsequent events report

On 1 January 2006, the BMW Group acquired a majority interest in Sauber Holding AG, Vaduz.

In conjunction with the share buy-back programme, the BMW Group had, by 21 February 2006, acquired shares of common stock equivalent to 3% of the share capital of BMW AG.

In conjunction with the exchangeable bond relating to the BMW Group's investment in Rolls-Royce plc, London, declared and notified exchange requests had been received by the BMW Group from investors by 21 February 2006 corresponding to approximately 42% of the exchangeable bond. Servicing the exchange requests by the delivery of shares would have a positive effect on the BMW Group's earnings in 2006.

Apart from these items, no events have occurred after the balance sheet date which could have a major impact on the earnings performance, financial position and nets assets of the BMW Group.

Value added statement

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

Net valued added by the BMW Group in 2005 increased by 2.2% to euro 12,486 million. The increase was attributable to the higher level of revenues. The increase in gross valued added, at 5.6%, was even more pronounced since it is not affected by depreciation and amortisation, which were higher than in the previous year.

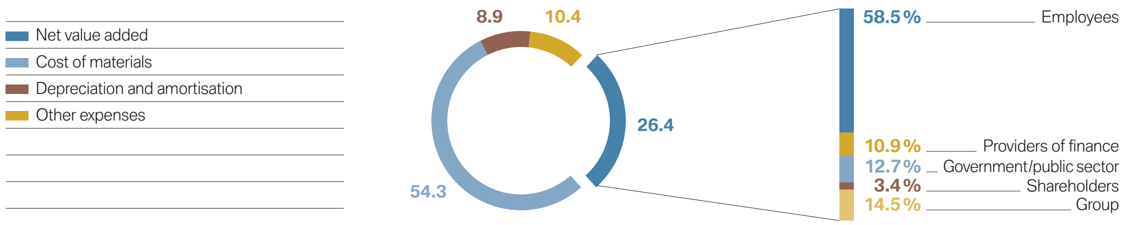
The bulk of the net value added (58.5%) is applied to employees, 2.5% up in absolute terms compared to the previous year. The amount applied to providers of funds also went up, rising by 27.6% to give a proportion of 10.9%. The government/public sector (including deferred tax liabilities of the Group) accounted for 12.7%. The proportion of net value added applied to shareholders, at 3.4%, was similar to the previous year's level. The remaining proportion of net value added (14.5%) will be retained in the Group to finance future operations. In absolute terms, this is 0.4% lower than in the previous year.

BMW Group value added statement

in euro million	2005	2005 in %	2004*	2004 in %	Change in %
Work performed					
Revenues	46,656	98.6	44,335	97.7	
Financial income	–188	–0.4	54	0.1	
Other income	844	1.8	980	2.2	
Total Group output	**47,312**	**100.0**	**45,369**	**100.0**	**4.3**
Cost of materials	25,694	54.3	24,467	53.9	
Other expenses	4,925	10.4	5,093	11.3	
Bought-in costs	**30,619**	**64.7**	**29,560**	**65.2**	**3.6**
Gross value added	**16,693**	**35.3**	**15,809**	**34.8**	**5.6**
Depreciation and amortisation	4,207	8.9	3,589	7.9	
Net value added	**12,486**	**26.4**	**12,220**	**26.9**	**2.2**
Applied to:					
Employees	7,306	58.5	7,125	58.3	2.5
Providers of finance	1,351	10.9	1,059	8.7	27.6
Government/public sector	1,590	12.7	1,794	14.7	–11.4
Shareholders	424	3.4	419	3.4	1.2
Group	1,815	14.5	1,823	14.9	–0.4
Net value added	**12,486**	**100.0**	**12,220**	**100.0**	**2.2**

*adjusted figures

BMW Group value added 2005
in %



Key performance figures

		2005	2004*
Gross Margin	%	22.9	23.2
EBITDA Margin	%	14.6	14.5
EBIT Margin	%	8.1	8.5
Pre-tax return on sales	%	7.0	8.1
Post-tax return on sales	%	4.8	5.1
Pre-tax return on equity	%	19.9	23.3
Post-tax return on equity	%	13.5	14.6
Equity ratio – Group	%	22.8	24.4
Industrial operations	%	39.1	41.6
Financial operations	%	10.4	9.7
Coverage of intangible assets, property, plant and equipment by equity	%	108.2	114.2
Return on Assets			
BMW Group	%	5.6	6.5
Financial Services	%	1.3	1.4
Return on Capital Employed			
Automobiles	%	23.2	25.4
Motorcycles	%	17.8	10.4
Cash inflow from operating activities	euro million	10,691	9,311
Cash outflow from investing activities	euro million	11,963	11,957
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	89.4	77.9
Net financial assets of industrial operations	euro million	4,877	2,632

*adjusted figures

Comments on the Financial Statements of BMW AG

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

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself and foreign subsidiaries. These vehicles are sold through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2005 rose by 5.8 % to 1,323,119 units. At 31 December 2005, BMW AG had 76,536 employees, 716 fewer than one year earlier. Wage earners account for approximately 54 % of the workforce.

In 2005, revenues were 3.0 % higher than in the previous year. Sales to foreign group sales companies accounted for euro 29.5 billion, or approximately 70 % of the total revenues of euro 41.8 billion. Cost of sales increased by 4.4 % and therefore at a slightly faster rate than the increase in revenues. The gross profit, at euro 5.4 billion, was 5.8 % lower than in the previous year.

Adverse currency factors, continued intense competition on the automobile markets and significantly increased raw material prices, have all had a negative impact on BMW AG's earnings. By contrast, income from the reversal of provisions and tax reimbursements were higher than in the previous year. In the financial year 2005, capital expenditure on intangible assets and property, plant and equipment was euro 1,472 million (2004: euro 2,321 million). This represents an increase of 36.6 %. In the previous year, a considerable volume of capital expenditure was incurred for the Leipzig plant and for equipment and tooling for various model series. Depreciation and amortisation amounted to euro 1,770 million.

As a result of the buy-back of 13,488,480 shares of common stock at an acquisition cost of euro 506 million, the equity ratio fell from 28.3 % to 25.8 %. Long-term external capital (registered profit-sharing certificates, pension provisions, the liability to the BMW Unterstützungsverein e.V. and liabilities due after one year) increased by 22.7 % to euro 4.7 billion. This was attributable to, amongst other factors, the change in the discount factor (from 4.75 % to 4.25 %) used to measure the pension provision and the use of the new mortality tables (Richttafeln 2005 G) issued by Prof. Dr. Klaus Heubeck.

BMW AG
Balance Sheet at 31 December in euro million

		2005	2004
Assets			
Intangible assets		86	67
Property, plant and equipment		5,717	6,052
Investments		4,774	4,774
Tangible, intangible and investment assets		**10,577**	**10,893**
Inventories		2,764	2,925
Trade receivables		1,054	896
Receivables from subsidiaries		2,751	1,019
Other receivables and other assets		558	1,616
Marketable securities		1,488	1,395
Cash and cash equivalents		518	982
Current assets		**9,133**	**8,833**
Prepayments		**92**	**77**
		19,802	**19,803**
Equity and liabilities			
Subscribed capital	674		
Nominal value of shares acquired for withdrawal from circulation	–13		
Issued capital		661	674
Capital reserves		1,971	1,971
Revenue reserves		2,052	2,545
Unappropriated profit available for distribution		424	419
Equity		**5,108**	**5,609**
Registered profit-sharing certificates		**35**	**35**
Pension provisions		4,174	3,289
Other provisions		6,447	7,002
Provisions		**10,621**	**10,291**
Liabilities to banks		500	500
Trade payables		1,858	1,355
Liabilities to subsidiaries		941	1,403
Other liabilities		710	571
Liabilities		**4,009**	**3,829**
Deferred income		**29**	**39**
		19,802	**19,803**

BMW AG **Income Statement** in euro million	2005	2004
Revenues	41,801	40,597
Cost of sales	– 36,379	– 34,842
Gross profit	**5,422**	**5,755**
Sales costs	– 2,731	– 2,685
Administrative costs	– 904	– 876
Research and development costs	– 2,917	– 2,666
Other operating income and expenses	893	993
Result on investments	647	636
Net interest expense	– 23	– 83
Profit from ordinary activities	**387**	**1,074**
Income taxes	50	– 326
Other taxes	– 13	– 1
Net profit	**424**	**747**
Transfer to revenue reserves	–	– 328
Unappropriated profit available for distribution	**424**	**419**

Revenues generated with car rental companies involving a repurchase commitment are derecognised. Based on the draft Pronouncement issued on 1 July 2004 by the German Institute of Public Accountants (IDW) relating to “Specific Issues in connection with Transfer of Ownership and Profit Realisation in accordance with HGB“ (IDW ERS HFA 13), the vehicles involved are presented within current assets, measured at amortised cost, since economic ownership has not been transferred to the car rental companies.

KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft (Auditors), 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 financial statements are published in the German Federal Gazette and filed with the Trade Register of the Munich District Court. These financial statements are available from BMW AG, D-80788 Munich, Germany.

Risk Management

Risk management in the BMW Group
As an enterprise with worldwide operations, the BMW Group faces a variety of risks. At the same time, opportunities can arise from changes in circumstances, which the BMW Group endeavours to anticipate in order to improve its competitive position. Business risks are only consciously entered into when it is considered that the value of the business can be increased and the potential outcome can be controlled. The Board of Management and the Supervisory Board are regularly informed about risks which could have a significant impact on business development.

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

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

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

In the course of business activities, the BMW Group is exposed to various types of risk:

Risks relating to the general economic environment
– As a result of its global activities, the BMW Group is affected by global economic factors such as changes in currency parities and changes on the financial markets. Of all the currencies in which the BMW Group does business, the US dollar represents the main single source of risk; fluctuations in the value of the US dollar could have a major impact on reported revenues and earnings. Exchange rate fluctuations of the British pound and the Japanese yen in relation to the euro can also have a material impact on earnings. Based on group forecasts, these three currencies account for some 80% of the foreign currency exposure of the BMW Group.
Currency risk is mitigated, amongst other measures, by close observation of the markets, manufacturing products outside the euro zone, purchasing material and equipment around the world and hedging currency exposures on the financial markets. Hedging transactions are entered into only with financial partners of first-class credit standing. The nature and scope of such measures

are set out in guidelines applicable throughout the BMW Group.
A cashflow-at-risk model and scenario analyses are used to measure exchange rate risks. These instruments are also used as part of the process of currency management for the purpose of taking business decisions.

- Changes in the international raw material markets also have an impact on the business development of the BMW Group. In order to safeguard the supply of production materials and to minimise the cost risk, the commodity markets relevant for the BMW Group are closely monitored. The market price trend of precious metals such as platinum, palladium and rhodium, for which appropriate hedging strategies are decided upon by the Raw Materials Committee, is also important in this context.
- Changes in the price of crude oil, which is an important basic material for components, have an indirect impact on production cost. Long-term supply contracts with suppliers reduce the risk exposure. As a manufacturing enterprise, the BMW Group is also affected by changes in energy prices, caused by market factors and tax legislation.
- Cyclical economic volatility also presents an element of risk for future business development. Unforeseeable interventionist economic policies can also impair the BMW Group's performance in specific markets. The BMW Group anticipates these risks by monitoring the markets in detail and using early warning indicators. Risk is also spread due to the worldwide nature of the BMW Group's activities.
- An escalation of political tensions, terrorist activities or possible pandemics could have a negative impact on the economic situation, which in turn could have a negative impact on the business development of the BMW Group.

Specific industry risks

- Changes in fuel prices, which may be market-induced or due to governmental tax policies, and the increasingly stringent requirements to reduce fleet fuel consumption as well as CO_2 and NO_X emissions, all continue to set high demands on engine and product development.

Operating risks

- Risks arising from business interruption and loss of production are insured up to economically reasonable levels. The BMW Group's extremely flexible production network and working time models also help to reduce operating risks.
- Close cooperation between manufacturers and suppliers is normal in the automotive sector, and whilst this provides economic benefits, it also creates a degree of mutual dependence. Some suppliers have become very important for the production activities of the BMW Group. Delivery delays, cancellations, strikes or poor quality can lead to production stoppages and thus have a negative impact on profitability. The Group mitigates this risk by employing extensive procedures for selecting, monitoring and handling suppliers. Before selection, for example, the technical competence and financial strength of potential suppliers are appraised. A comprehensive Supplier Relationship Management system, which also takes account of social and ecological aspects, helps to reduce risk exposure.

Risks relating to the provision of financial services

- As a consequence of the growth in lease business, the BMW Group faces a volume-induced increase in the residual value risk on vehicles returned to the Group at the end of lease contracts. Changes in the residual values of BMW Group vehicles on the used car markets are therefore constantly monitored and forecast. The overall risk position

is measured each quarter by comparing forecasted market values and contractual values according to model and market.
Provisions and write-downs on leased-out cars are recognised in the balance sheet to cover all identified risks. This risk is also reduced by measures such as active life cycle management and management of used car markets at an international level, both of which have a stabilising effect on the residual values of BMW Group vehicles.

– Operating risks relating to the provision of financial services are managed by the BMW Group by means of a process which records and measures risks and incorporates specific measures to avoid risk. In this way, the BMW Group minimises the risk of losses which could arise as a result of inappropriate or failed internal procedures and systems, human error or external factors.
– The BMW Group mitigates liquidity and interest rate change risks by matching maturities and employing derivative financial instruments. Credit line facilities with various banks ensure liquidity at all times. As part of a value-based interest rate management system, interest rate risks are measured and limited using a value-at-risk approach. In addition, sensitivity analyses are prepared regularly to measure the potential impact of interest rate changes on earnings.
– In order to avoid currency risks, financing and lease business is refinanced as a general rule in the currency of the relevant market.
A major part of financing and lease business within the Financial Services segment is refinanced on the capital markets. As a result of its good credit standing, reflected in the long-standing first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is able to obtain competitive conditions. In September 2005, Standard & Poor's and Moody's issued long-term ratings for the BMW Group. Due to its strong financial and business profile, the BMW Group has one of the best ratings in the automobile sector. Moody's published an A1 rating and Standard & Poor's an A+ rating, both with stable outlook.
– Various methods and systems such as rating and scoring are in place to manage credit risk, partly in the light of Basle-II requirements. Depending on the credit volume applied for and the credit risk rating of the party involved, financing applications for international dealers and fleet customers are presented to the local, regional or corporate credit committees for approval. A two-step credit application process helps to reduce the risk of default affecting the Group's worldwide financial services operations. In another measure to reduce risk, the BMW Group is continuously making efforts to standardise credit-decision processes and the quality of those processes on a worldwide basis, and to ensure that uniform rating systems are in place.
For retail customer financing purposes, the BMW Group uses validated scorecards to reach credit decisions more quickly and to monitor risk. Criteria such as arrears and bad debt ratios are analysed monthly and used to actively manage the credit portfolio and improve portfolio quality.

Legal risks

– The BMW Group is not involved in any court or arbitration proceedings which could have a significant impact on the economic position of the Group.
– Like all enterprises, the BMW Group is exposed to the risk of warranty claims. Adequate provisions have been recognised in the balance sheet to cover such claims. Part of the risk, especially where the American market is concerned, has been insured externally up to economically acceptable levels. The high quality of BMW Group prod-

ucts, which is ensured by regular quality audits and on-going improvement measures, helps to reduce this risk.

Personnel risks

- As an attractive employer, the BMW Group has found itself in a favourable position for many years in the intense competition for qualified technical and management staff. Employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift.
- An ageing and shrinking population in Germany will have a lasting impact on the conditions prevailing in the labour, product, services and financial markets. Demographic changes will give rise to risks and opportunities which enterprises will feel more and more in coming years. The BMW Group carefully reviews the effects of demographic change on operations, focusing in particular on the following issues:
  - the creation of a working environment for the future
  - promotion and maintenance of the workforce's ability to perform with the appropriate set of skills
  - training
  - increasing employees' awareness of their responsibility to make personal provisions for the future
  - individual employee working life-time models
- The general increase in life expectancy also has an impact on the pension obligations of the BMW Group. The interest rate used to discount pension obligations can also have a significant impact. In accordance with IAS, this must be determined by reference to market yields on corporate bonds with comparable maturities. BMW AG recognises full provisions for pension obligations to employees in Germany based on actuarial valuations. The funds remain in the enterprise and thus help to finance on-going operations. Pension entitlements in the USA and the remaining pension obligations in the United Kingdom are funded mainly by fixed-income securities with a high level of creditworthiness and by investments in stocks.

IT risks

- In the area of information technology, the BMW Group undertakes various measures relating to employees, organisational procedures, applications, systems and networks in order to protect itself from unauthorised access or misuse of data. Group directives for employees for handling data and internal rules for the safe use of information systems are in place across the Group. Internal communication reinforces employee awareness of security issues.
  Amongst the technical measures taken are certain standard activities such as the use of virus scanners, firewall systems and access controls at operating system and application level. These measures serve to protect confidentiality, integrity and authenticity.

Outlook

The economic environment in 2006

The BMW Group predicts that the global economic upswing will continue in 2006 at similar growth rates to those seen in 2005. As a consequence of oil production and processing capacity shortages, it is to be expected that prices will remain high in the near future; it is unlikely, however that the increase will be permanent. So far, the world economy has performed relatively robustly in the face of high oil prices. However, another sharp increase in prices could have an adverse impact on the pace of global growth, in particular in the light of the fact that the benefits from monetary and politically-driven fiscal measures are tailing off in most countries.

The growth rate in the United States will, at the most, only fall marginally, despite the reduced impetus of US economic policies. Overall, the upturn will remain intact, so that the USA is likely to see continued robust growth. This also applies to the emerging markets in Asia, Latin America and Eastern Europe. It is expected that the growth rates in these markets will be at a similar high level to 2006. In Japan, too, economic recovery will continue with further strong growth rates.

The pace of growth in the euro region will pick up slightly in 2006, but will still remain slower than in the rest of world. A possible revival depends largely on the extent to which domestic demand can recover from the weak phase that it has been going through for some years.

Economic outlook for the automobile industry in 2006

The most dynamic momentum for the global automobile economy will be provided again in 2006 by the markets of Asia's emerging economies. China and India will be able to maintain their high growth rates. The BMW Group also predicts high growth rates again for the car markets in Latin America. By contrast, the automobile sector in the three main traditional markets (Japan, the USA and Western Europe) is likely to continue to be static in 2006. In Germany, it is likely that the planned value added tax increase in 2007 will encourage consumers to buy earlier, so that it is to be expected that car sales volumes will grow slightly.

Inconsistent development of motorcycle markets to continue

The BMW Group forecasts that international motorcycle markets will continue to develop extremely divergently. It is predicted that Germany, the largest market for BMW motorcycles, will see volumes stabilise in 2006 after a number of years of market contraction.

Interest rates likely to rise

The expected tightening of monetary policies by the main central banks will result in further increases in interest rates in 2006 and, consequently in higher refinancing costs for the financial services business. At the same time, the BMW Group believes that financial services will generally continue to play a very significant role in the volume of vehicles sold, particularly in the area of leasing.

Outlook for the BMW Group in 2006

In the light of the general economic environment discussed above, the BMW Group believes that it will continue to perform successfully in the 2006 financial year. By expanding its product range even further and systematically engaging in new markets and segments, new opportunities will be created to generate continued profitable growth.

Further sales volume growth is forecast for the Automobiles segment, albeit at a more moderate rate than in 2005 due to the previous year's high base, and as a result of model life-cycle factors. It is also to be expected that the impact of seasonal factors on sales volume will gain in significance. Base volume factors in the first half of the year and model life-cycle factors will mean that, compared to the corresponding periods one year earlier, the sales volume of the BMW Group will grow much more strongly in the first half of the year than in the second.

Adverse external factors will continue to affect reported earnings of the Automobiles segment in 2006. Nonetheless, the BMW Group aims to achieve an improvement in the segment profit before tax, given that the continuing positive trend in sales volumes plus the benefit of on-going efficiency improvement measures will help profitability.

As far as the Motorcycles segment is concerned, the BMW Group forecasts overall that business will progress robustly in 2006. Numerous new models presented in conjunction with the product initiative, together with the engagement in new segments and intensified work on the markets, will all have a positive impact on sales volume. On-going projects to raise efficiency will further strengthen competitiveness, so that further profitable growth is expected for the BMW Motorcycles segment in 2006.

The BMW Group's financial services business will continue to grow in 2006. Pressure on margins due to rising refinancing costs will be countered by further process optimisation, efficiency improvements and the introduction of new products tailored to customer requirements. Regional expansion and a broader product range will also bolster these developments and result in a further increase in business volume. The segment profit will continue to climb in the light of this encouraging situation.

Reconciliations to group profit will also continue to be influenced significantly by external factors in 2006, such as fluctuations in the fair value of the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London.

The BMW Group will invest approximately euro 19 billion in new products and product-driven production capacity expansion measures during the period from 2005 to 2009. In 2006, total capital expenditure will again be lower than the record figure recorded in 2004 and will also continue to decrease as a percentage of group revenues.

After a five-year period in which the BMW Group has created more than 12,000 jobs worldwide on the back of its product and market initiative, it is now to be expected that the workforce will remain virtually constant in the near future.

Currency factors, high raw material prices and intense competition will again affect reported earnings in 2006. Although the impact of these factors should not be as great as in 2005, they will nevertheless have an adverse impact in 2006. Amongst other factors, this is partly due to the fact that less favourable currency hedge rates are in place than one year earlier; this will be felt most in the first half of 2006. By contrast, continuous efficiency and productivity improvements will have a positive impact on group earnings.

On the basis of a continued robust performance in all segments in 2006, the BMW Group expects to achieve a higher group profit before tax than in 2005. The effective tax rate will rise again in 2006, after deriving some benefit from a number of one-off factors in 2005.

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

Contents

BMW Group
Group and sub-group Income Statements

in euro million	Notes	Group 2005	Group 2004[2]	Industrial operations[1] 2005	Industrial operations[1] 2004[2]	Financial operations[1] 2005	Financial operations[1] 2004[2]
Revenues	[9]	46,656	44,335	47,206	43,662	9,801	8,479
Cost of sales	[10]	–35,992	–34,040	–37,343	–34,083	–8,623	–7,423
Gross profit		**10,664**	**10,295**	**9,863**	**9,579**	**1,178**	**1,056**
Sales and administrative costs	[11]	–4,762	–4,648	–4,312	–4,250	–479	–424
Research and development costs	[12]	–2,464	–2,334	–2,464	–2,334	–	–
Other operating income and expenses	[13]	355	461	275	426	24	14
Profit before financial result		**3,793**	**3,774**	**3,362**	**3,421**	**723**	**646**
Financial result	[14]	–506	–191	–474	–207	46	57
Profit before tax		**3,287**	**3,583**	**2,888**	**3,214**	**769**	**703**
Income taxes	[15]	–1,048	–1,341	–934	–1,213	–242	–254
Net profit	[16]	**2,239**	**2,242**	**1,954**	**2,001**	**527**	**449**
Earnings per share of common stock in euro	[17]	3.33	3.33				
Earnings per share of preferred stock in euro	[17]	3.35	3.35				

1] before consolidation of transactions between the sub-groups; unaudited
2] adjusted figures

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

Assets in euro million	Notes	Group 2005	Group 2004[2]	Industrial operations[1] 2005	Industrial operations[1] 2004[2]	Financial operations[1] 2005	Financial operations[1] 2004[2]
Intangible assets	[20]	4,593	3,758	4,569	3,739	24	19
Property, plant and equipment	[21]	11,087	10,724	11,060	10,703	27	21
Leased products	[22]	11,375	7,502	230	221	14,110	9,450
Investments accounted for using the equity method	[23]	94	65	94	65	–	–
Other investments	[23]	1,178	704	1,147	685	31	19
Receivables from sales financing	[24]	17,202	15,737	–	–	17,202	15,737
Financial assets	[25]	642	1,236	126	193	516	1,043
Deferred tax	[26]	772	515	1,144	390	–1,674	–992
Other assets	[27]	613	581	908	849	273	366
Non-current assets		**47,556**	**40,822**	**19,278**	**16,845**	**30,509**	**25,663**
Inventories	[28]	6,527	6,467	6,521	6,458	6	9
Trade receivables	[29]	2,135	1,868	2,086	1,820	49	48
Receivables from sales financing	[24]	11,851	9,317	–	–	11,851	9,317
Financial assets	[25]	2,654	4,517	2,022	3,254	632	1,263
Current tax	[26]	267	291	238	261	29	30
Other assets	[27]	1,955	2,224	3,411	2,217	753	800
Cash and cash equivalents	[30]	1,621	2,128	1,372	1,997	249	131
Current assets		**27,010**	**26,812**	**15,650**	**16,007**	**13,569**	**11,598**
Total assets		**74,566**	**67,634**	**34,928**	**32,852**	**44,078**	**37,261**
Total assets adjusted for asset backed financing transactions		70,667	63,365	–	–	40,179	32,992

1] before consolidation of transactions between the sub-groups; unaudited
2] adjusted figures

Equity and liabilities in euro million	Notes	Group 2005	Group 2004[2]	Industrial operations[1] 2005	Industrial operations[1] 2004[2]	Financial operations[1] 2005	Financial operations[1] 2004[2]
Subscribed capital		674	674				
Capital reserves		1,971	1,971				
Revenue reserves		16,351	14,531				
Accumulated other equity		–1,517	–642				
Treasury shares		–506	–				
Equity	[31]	**16,973**	**16,534**	**13,672**	**13,669**	**4,581**	**3,608**
Pension provisions	[32]	5,255	4,224	5,220	4,193	35	31
Other provisions	[33]	3,243	2,991	2,921	2,938	322	53
Deferred tax	[34]	2,522	2,277	1,611	1,464	658	618
Financial liabilities	[35]	16,830	15,667	1,070	1,117	15,760	14,550
Other liabilities	[36]	1,659	1,358	1,224	1,046	1,457	1,195
Non-current provisions and liabilities		**29,509**	**26,517**	**12,046**	**10,758**	**18,232**	**16,447**
Other provisions	[33]	2,663	2,662	2,367	2,423	328	287
Deferred tax	[34]	462	497	322	406	140	91
Financial liabilities	[35]	17,838	15,264	655	463	17,183	14,801
Trade payables	[37]	3,544	3,376	3,118	3,070	426	306
Other liabilities	[36]	3,577	2,784	2,748	2,063	3,188	1,721
Current provisions and liabilities		**28,084**	**24,583**	**9,210**	**8,425**	**21,265**	**17,206**
Total equity and liabilities		**74,566**	**67,634**	**34,928**	**32,852**	**44,078**	**37,261**
Total equity and liabilities adjusted for asset backed financing transactions		70,667	63,365	–	–	40,179	32,992

1] before consolidation of transactions between the sub-groups; unaudited
2] adjusted figures

BMW Group
Group and sub-group Cash Flow Statements

in euro million	Notes	Group 2005	Group 2004[2]
Net profit		2,239	2,242
Depreciation of leased products		3,441	2,869
Depreciation and amortisation of tangible, intangible and investment assets		3,025	2,675
Increase in provisions		764	746
Change in deferred taxes		236	467
Other non-cash income and expense items		176	75
Gain/loss on disposal of non-current assets and marketable securities		–99	19
Undistributed results from joint ventures		–14	–4
Changes in current assets and liabilities			
Change in inventories		187	–865
Change in receivables		–239	218
Increase in liabilities		975	869
Cash inflow from operating activities	[40]	**10,691**	**9,311**
Investment in intangible assets and property, plant and equipment		–3,875	–4,243
Proceeds from the disposal of intangible assets and property, plant and equipment		42	42
Expenditure for investments		–74	–43
Proceeds from the disposal of investments		13	34
Proceeds from sale of Land Rover		1,000	–
Investment in leased products		–9,461	–7,327
Disposals of leased products		3,197	3,197
Additions to receivables from sales financing		–45,365	–38,432
Payments received on receivables from sales financing		42,634	34,741
Investment in marketable securities		–455	–241
Proceeds from marketable securities		381	315
Cash outflow from investing activities	[40]	**–11,963**	**–11,957**
Buy-back of treasury shares		–506	–
Payment of dividend for the previous year		–419	–392
Proceeds from the issue of bonds		5,819	4,339
Repayment of bonds		–3,432	–3,126
Internal financing of financial operations		–	–
Change in financial liabilities		–214	1,451
Change in commercial paper		–549	865
Cash inflow/outflow from financing activities	[40]	**699**	**3,137**
Effect of exchange rate and changes in composition of group on cash and cash equivalents	[40]	**66**	**–22**
Change in cash and cash equivalents		**–507**	**469**
Cash and cash equivalents as at 1 January		2,128	1,659
Cash and cash equivalents as at 31 December	[40]	**1,621**	**2,128**

1] unaudited
2] adjusted figures

Industrial operations[1] 2005	Industrial operations[1] 2004[2]	Financial operations[1] 2005	Financial operations[1] 2004[2]	
1,954	2,001	527	449	Net profit
5	5	2,899	2,390	Depreciation of leased products
2,997	2,660	28	15	Depreciation and amortisation of tangible, intangible and investment assets
441	653	304	98	Increase in provisions
–54	482	418	111	Change in deferred taxes
342	43	–166	32	Other non-cash income and expense items
–99	19	–	–	Gain/loss on disposal of non-current assets and marketable securities
–14	–4	–	–	Undistributed results from joint ventures
				Changes in current assets and liabilities
184	–864	3	–1	Change in inventories
–73	472	218	–344	Change in receivables
501	690	276	404	Increase in liabilities
6,184	**6,157**	**4,507**	**3,154**	**Cash inflow from operating activities**
–3,834	–4,225	–41	–18	Investment in intangible assets and property, plant and equipment
39	40	3	2	Proceeds from the disposal of intangible assets and property, plant and equipment
138	–34	–212	–9	Expenditure for investments
6	31	7	3	Proceeds from the disposal of investments
1,000	–	–	–	Proceeds from sale of Land Rover
–369	–337	–9,092	–6,990	Investment in leased products
355	336	2,842	2,861	Disposals of leased products
–	–	–45,365	–38,432	Additions to receivables from sales financing
–	–	42,634	34,741	Payments received on receivables from sales financing
–183	–241	–272	–	Investment in marketable securities
381	315	–	–	Proceeds from marketable securities
–2,467	**–4,115**	**–9,496**	**–7,842**	**Cash outflow from investing activities**
–506	–	–	–	Buy-back of treasury shares
–419	–392	–	–	Payment of dividend for the previous year
–	–	5,819	4,339	Proceeds from the issue of bonds
–	–	–3,432	–3,126	Repayment of bonds
–3,456	–1,074	3,456	1,074	Internal financing of financial operations
–108	175	–106	1,276	Change in financial liabilities
129	–	–678	865	Change in commercial paper
–4,360	**–1,291**	**5,059**	**4,428**	**Cash inflow/outflow from financing activities**
18	**–1**	**48**	**–21**	**Effect of exchange rate and changes in composition of group on cash and cash equivalents**
–625	**750**	**118**	**–281**	**Change in cash and cash equivalents**
1,997	1,247	131	412	Cash and cash equivalents as at 1 January
1,372	**1,997**	**249**	**131**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity				Treasury shares	Total
				Translation differences	Fair value measurement of marketable securities	Derivative financial instruments	Pension obligations		
31 December 2003*	**674**	**1,971**	**12,681**	**–720**	**–146**	**1,700**	**–761**	**–**	**15,399**
Dividends paid	–	–	–392	–	–	–	–	–	–392
Translation differences	–	–	–	–43	–	–106	–	–	–149
Financial instruments	–	–	–	–	218	–930	–	–	–712
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	–446	–	–446
Deferred tax on transactions recognised directly in equity	–	–	–	–	–10	408	194	–	592
Net profit 2004	–	–	2,242	–	–	–	–	–	2,242
31 December 2004*	**674**	**1,971**	**14,531**	**–763**	**62**	**1,072**	**–1,013**	**–**	**16,534**
Acquisition of treasury shares	–	–	–	–	–	–	–	–506	–506
Dividends paid	–	–	–419	–	–	–	–	–	–419
Translation differences	–	–	–	117	–	110	–	–	227
Financial instruments	–	–	–	–	515	–1,780	–	–	–1,265
Actuarial gains and losses on pension obligations	–	–	–	–	–	–	–736	–	–736
Deferred tax on transactions recognised directly in equity	–	–	–	–	–15	627	287	–	899
Net profit 2005	–	–	2,239	–	–	–	–	–	2,239
31 December 2005	**674**	**1,971**	**16,351**	**–646**	**562**	**29**	**–1,462**	**–506**	**16,973**

see also Note [31]
* adjusted figures

BMW Group
Statement of Income and Expenses recognised directly in Equity

in euro million	2005	2004*
Fair value gains and losses on available-for-sale investments recognised directly in equity	515	218
Fair value gains and losses on financial instruments used for hedging purposes recognised directly in equity	–1,670	–1,036
Exchange differences arising on the translation of foreign subsidiaries	117	–43
Actuarial gains and losses on defined benefit pension and similar obligations	–736	–446
Deferred tax on gains and losses recognised directly in equity	899	592
Gains and losses recognised directly in equity	**–875**	**–715**
Net profit	**2,239**	**2,242**
Aggregate amount of net profit for period and gains and losses recognised directly in equity	**1,364**	**1,527**

* adjusted figures

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 2005 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as applicable in the EU. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) mandatory for the financial year 2005 were also applied.

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

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

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

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial and financial 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 2005 totalled euro 3.9 billion (31 December 2004: euro 4.3 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

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

The Group financial statements at 31 December 2005, drawn up in accordance with § 315a of the German Commercial Code, and the Group management report have been filed with the Commercial Register of the Munich District Court (HRB 42243) and will be provided for inspection on request. In addition the Group financial statements and the Group management report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

[2] Consolidated companies

The BMW Group financial statements include, besides BMW AG, all material subsidiaries, 17 special securities funds and 20 trusts (almost all used for asset backed financing transactions) both in Germany and abroad.

The number of subsidiaries, special purpose funds and other special purpose entities included in the Group financial statements changed in 2005 as follows:

	Germany	Foreign	Total
Included at 31.12.2004	40	134	174
Included for the first time in 2005	4	5	9
No longer included in 2005	–	3	3
Included at 31.12.2005	**44**	**136**	**180**

72 subsidiaries (2004: 76), either dormant or generating a negligible volume of business, are not included. Their influence on the Group's assets, liabilities, financial position and earnings is immaterial.

Non-inclusion of operating subsidiaries reduces total Group revenues by 1.7 % (2004: 1.6 %).

Three joint ventures have been consolidated using the equity method. Four equity investments, unchanged from the previous year, are not included since they are not material to the Group's financial and earnings position. They are included in the line "Other investments", measured at cost less, where applicable, accumulated impairment losses.

A complete list of the Group's shareholdings and the list of third party companies in which it has a shareholding that is not of minor importance for the Group have been filed with the Commercial Register of the Munich District Court (HRB 42243).

[3] Changes in the reporting entity

BMW Automotive (Ireland) Ltd., Dublin, Parkhaus Oberwiesenfeld GmbH, Munich, Gesellschaft für Vermietung und Verwaltung von Kraftfahrzeugen mbH, Munich, entory AG, Ettlingen, Silverstroke AG, Ettlingen, entory S. A. Luxembourg, Luxembourg, and Bavaria Reinsurance Malta Ltd., Valletta, have all been consolidated for the first time.

No subsidiaries were deconsolidated during the year under report.

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

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

[4] Consolidation principles

The equity of subsidiaries is consolidated in accordance with IFRS 3 (Business Combinations). IFRS 3 requires that all business combinations are accounted for using the purchase method, whereby identifiable assets and liabilities acquired are measured initially at their fair value. The excess of the Group's interest in the net fair value of the identifiable assets and liabilities acquired over cost is recognised as goodwill and is subjected to a regular review for possible impairment. Goodwill of euro 91 million which arose prior to 1 January 1995 remains netted against reserves. In the event of impairment and deconsolidation, goodwill that has been deducted from equity is dealt with directly in equity in accordance with the requirements of IFRS 3.80.

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

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

[5] Foreign currency translation

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

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

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

	Closing rate		Average rate	
	31.12.2005	31.12.2004	2005	2004
US Dollar	1.18	1.36	1.24	1.24
British Pound	0.69	0.71	0.68	0.68
South African Rand	7.47	7.72	7.91	8.01
Japanese Yen	139.11	140.83	136.83	134.41
Australian Dollar	1.61	1.75	1.63	1.69

[6] Accounting policies

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

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods are transferred to the customer, the sales price is agreed or determinable and receipt of payment can be assumed. Revenues are stated net of discounts, allowances, settlement discount and rebates. In the case of long-term construction work, revenues are, in accordance with IAS 18 (Revenue) and IAS 11 (Construction Contracts), not recognised using the stage of completion method since the effect on revenue recognition is at present not material for the BMW Group. Revenues also include lease rentals and interest income from financial services. Revenues for the financial operations sub-group also include the interest income earned by group financing companies.

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

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

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

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

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

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share). Undiluted earnings per share are calculated for common and preferred stock by dividing the net profit after minority 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 production costs, 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 stated at acquisition or manufacturing cost less systematic depreciation based on the estimated useful lives of the assets. Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method. Components of items of property, plant and equipment with different useful lives are depreciated separately.

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

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

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

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

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

Financing costs are not included in acquisition or manufacturing cost.

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

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

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

The recoverability of the carrying amount of intangible assets (including capitalised development costs and goodwill) and property, plant and equipment is tested regularly for impairment in accordance with IAS 36 (Impairment of Assets) on the basis of cash generating units. An impairment loss is recognised when the recoverable amount (defined as the higher of the asset’s net selling price and its value in use) is lower than the carrying amount. If the reason for the previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of its rolled-forward depreciated or amortised cost.

Investments accounted for using the equity method are measured at the group's share of equity taking account of fair value adjustments on acquisition.

Investments in non-consolidated group companies reported in other investments are measured at cost, since published price quotations in an active market are not available and their fair value cannot be determined reliably.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing costs are not included in acquisition or manufacturing cost.

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

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

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

Other provisions are recognised when the Group has an obligation to a third party, an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Measurement is computed on the basis of fully attributable costs.

Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the balance sheet date.

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

The preparation of the Group financial statements in accordance with IFRSs requires management to make certain assumptions and estimates that affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. The assumptions and estimates relate principally to the group-wide determination of economic useful lives, the recognition and measurement of provisions and the recoverability of future tax benefits. Actual amounts could in certain cases differ from those assumptions and estimates. Where new information comes to light, differences are reflected in the income statement.

[7] New financial reporting rules

(a) Financial reporting standards applied for the first time in the financial year 2005

The following Standards, as revised in conjunction with the IASB's Improvement Project, have been applied for the first time in the Group financial statements at 31 December 2005:

- IAS 1 (Presentation of Financial Statements)*
- IAS 2 (Inventories)
- IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
- IAS 10 (Events after the Balance Sheet Date)
- IAS 16 (Property, Plant and Equipment)
- IAS 17 (Leases)
- IAS 21 (The Effects of Changes in Foreign Exchange Rates)
- IAS 24 (Related Party Disclosures)
- IAS 27 (Consolidated and Separate Financial Statements)
- IAS 28 (Investments in Associates)
- IAS 31 (Interests in Joint Ventures)
- IAS 33 (Earnings per Share)
- IAS 32 (Financial Instruments – Disclosure and Presentation)
- IAS 39 (Financial Instruments – Recognition and Measurement)
- IAS 40 (Investment Property).

In addition, the following new or revised Standards of the IASB have been applied for the first time:

- IFRS 2 (Share-based Payment)
- IFRS 3 (Business Combinations)
- IFRS 4 (Insurance Contracts)
- IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IAS 36 (Impairment of Assets)
- IAS 38 (Intangible Assets)
- Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure)**
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk)
- Amendment to IAS 39 (Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities)
- Amendment to IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions)

* see also Note [8] (a)
** see also Note [8] (b)

IFRS 3 is required to be applied (in conjunction with the relevant provisions of IAS 36 and IAS 38) for all business combinations for which the agreement date is 31 March 2004 or later. All other provisions of IFRS 3, IAS 36 and IAS 38 have been applied from 1 January 2005 onwards.

The following Interpretations and amendments to existing Interpretations of the IFRIC have been applied for the first time:
- IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities)
- IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments)
- IFRIC (Amendment to SIC-12: Scope of SIC-12 Consolidation Special Purpose Entities).

(b) New financial reporting rules issued in 2005
The IASB has issued the following new or revised Standards or amendments to existing Standards in 2005:
- IFRS 7 (Financial Instruments: Disclosures) and an Amendment to IAS 1 (Presentation of Financial Statements: Capital Disclosures)
- Amendments to IFRS 1 & IFRS 6 (First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources)
- Amendment to IAS 21 (Effects of Changes in Foreign Exchange Rates)
- Amendment to IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions)
- Amendment to IAS 39 (The Fair Value Option)
- Amendments to IAS 39 and IFRS 4 (Financial Guarantee Contracts)
- IFRIC 6 (Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment)
- IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics)

IFRS 7 and the corresponding amendments to IAS 1 are mandatory from 1 January 2007 onwards. These new rules will result in a greater scope of disclosures about financial instruments in the Notes to the Group financial statements.

The amendments to IFRS 1 and IFRS 6 are only applicable for first-time adopters. They are therefore not relevant for the BMW Group financial statements. The revised version of IAS 21 is mandatory from 1 January 2006 onwards, but will similarly be of little significance for the BMW Group.

The revised version of IAS 39 relating to the accounting treatment of intragroup transactions has been adopted early by the BMW Group and applied in the 2005 Group financial statements (mandatory application from 1 January 2006 onwards). The rules relating to the fair value option become mandatory from 1 January 2006 onwards. It is not expected that there will be any significant cases where they will need to be applied within the BMW Group. Changes to IAS 39, relating to financial guarantee contracts, and to IFRS 4 become applicable from 1 January 2006 onwards. The changes are not expected to have a significant impact on the Group financial statements.

IFRIC 6 is mandatory from 1 January 2006 onwards, and IFRIC 7 from 1 January 2007 onwards. These new Interpretations are not material for the Group financial statements.

The IASB withdrew IFRIC 3 (Emission Rights) in July 2005. For this reason, emission rights are accounted for in accordance with the underlying rules contained in IAS 20, 36, 37 and 38.

[8] Changes in the Group financial statements at 31 December 2004

(a) IASB Improvement Project
The main changes resulting from the Improvement Project for the BMW Group relate to the application of the revised version of IAS 1 (Presentation of Financial Statements). This Standard requires the balance sheet to be classified on the basis of the maturity of assets and liabilities (current/non-current distinction) and has resulted in a changed presentation of the Group balance sheet. Assets, liabilities, and provisions are classified as current and non-

current items depending on their remaining term or their relationship to the normal operating cycle of an entity. In conjunction with the new classification of the balance sheet by maturity, certain balance sheet items have been sub-classified into their constituent parts and presented accordingly. The presentation changes made in connection with the new balance sheet classification rules do not have any impact on profit or loss.

The main changes were as follows:

Receivables from sales financing, financial assets and other assets are classified on the basis of the current/non-current distinction.

Prepayments are reclassified to other assets.

Other provisions, financial liabilities and other liabilities are classified on the basis of the current/non-current distinction. In addition, a number of items previously reported in provisions have been reclassified to liabilities in accordance with international practice.

Deferred income is reclassified to other liabilities.

Deferred tax assets and liabilities are not classified as current in accordance with applicable rules.

(b) Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure)

In December 2004, the IASB issued a revised version of IAS 19, permitting actuarial gains and losses arising in conjunction with defined benefit pension obligations to be recognised directly in equity. The amount of actuarial gains and losses recognised directly in equity is shown on page 69.

Under the corridor method previously used by the BMW Group, actuarial gains and losses were recognised when their net cumulative amount exceeded the higher of 10 % of the present value of the obligations or 10 % of the fair value of plan assets at the end of the preceding period. The amount exceeding the corridor was required to be recognised as income or expense over the average remaining working lives of the employees participating in the plans concerned. Fluctuations in the net cumulative amount of actuarial gains and losses within the corridor were not recognised on the grounds of immateriality. Unrecognised actuarial losses represented a short-fall in the amount recognised as liabilities in the balance sheet.

In accordance with the new accounting option for pension obligations, the full amount of previously unrecognised actuarial gains and losses is required to be recognised directly in equity. The revised rules do not envisage recognition through profit or loss of the amount by which actuarial gains and losses exceed the 10 % corridor.

In order to improve transparency in its financial reporting, the BMW Group has elected to apply the option made available by the IASB to change the accounting treatment for pension obligations and has adopted the amendment early at 31 December 2005.

Necessary adjustments for the financial year 2004 as a result of retrospective application have an impact on periodic result, equity, pension provisions as well as deferred tax assets and liabilities.

The following components of the financial statements are affected by the change in accounting policy for defined benefit pension obligations:

- Group and sub-group Income Statement
- Group and sub-group Balance Sheets
- Group and sub-group Cash Flow Statements
- Statement of Changes in Equity
- Segment Information

The restatement of the comparative figures for the financial year 2004 gives rise to an improvement in profit before tax of euro 29 million. After recognising a deferred tax expense of euro 9 million, the net profit for 2004 increased by euro 20 million to euro 2,242 million.

The adjustment to equity for periods prior to 2004 amounted to euro 751 million. Equity in the balance sheet at 31 December 2004 decreased by euro 983 million to euro 16,534 million. Pension provisions increased by euro 1,521 million to euro 4,224 million. Deferred tax assets increased by euro 219 million to euro 515 million, whilst deferred tax liabilities decreased by euro 319 million to euro 2,277 million.

If the Group financial statements had been prepared using the previous method, the impact would have been as follows:

Profit before tax in the income statement would be euro 44 million lower. Net of a deferred tax expense of euro 16 million, the net profit for 2005 would have been euro 28 million lower.

In the balance sheet at 31 December 2005, equity would have been euro 1,404 million higher and pension provisions euro 2,214 million lower. Deferred tax assets would be euro 254 million lower and deferred tax liabilities euro 556 million higher.

Earnings per share of common stock for the financial year 2004 improved by euro 0.03 to euro 3.33 as a result of the changes; earnings per share of preferred stock improved by the same amount to euro 3.35. For the financial year 2005, the adjustment to earnings per share would be euro 0.04. As a result, using the previous accounting policy, earnings per share of common and preferred stock would be euro 3.29 and euro 3.31 respectively.

Attention is drawn to the adjustments made to prior year figures by the use of footnotes.

[9] Revenues

Revenues by activity comprise the following:

in euro million	2005	2004
Sales of products and related goods	38,042	37,138
Income from lease instalments	3,322	2,623
Sale of products previously leased to customers	2,759	2,473
Interest income on loan financing	1,632	1,429
Other income	901	672
Revenues	**46,656**	**44,335**

Group revenues include revenues of euro 8,073 million (2004: euro 6,829 million) relating to financial services business.

An analysis of revenues by business segment and geographical region is shown in the segment information on pages 121 to 124.

[10] Cost of sales

Cost of sales comprises:

in euro million	2005	2004*
Manufacturing costs	25,598	24,670
Warranty expenditure	1,553	1,283
Cost of sales directly attributable to financial services	5,586	4,723
Interest expense for financial operations	1,033	813
Expense for risk provisions and write-downs for financial services business	541	492
Other cost of sales	1,681	2,059
Cost of sales	**35,992**	**34,040**

* see also Note [8] (b)

Cost of sales includes euro 7,160 million (2004: euro 6,028 million) relating to financial services business.

Expense for risk provisions and write-downs includes write-downs of euro 248 million (2004: euro 258 million) on receivables from financial services.

Manufacturing costs for industrial operations include impairment losses on intangible assets and property, plant and equipment of euro 25 million (2004: euro 16 million). Public subsidies in the form of reduced taxes on assets and consumption-based taxes amounted to euro 15 million (2004: euro 13 million).

[11] Sales and administrative costs

Sales costs amount to euro 3,889 million (2004: euro 3,806 million*) and comprise mainly marketing, advertising and sales personnel costs.

* adjusted in accordance with Note [8] (b)

Administrative costs amount to euro 873 million (2004: euro 842 million). These comprise expenses for administration which are not attributable to development, production or sales functions.

[12] Research and development costs

Research and development costs of euro 2,464 million (2004: euro 2,334 million) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs of euro 745 million (2004: euro 637 million).

Total research and development expenditure (i.e. research costs, development costs not recognised as assets and capitalised development costs) were as follows:

in euro million	2005	2004
Research and development costs	2,464	2,334
Amortisation	– 745	– 637
New expenditure for capitalised development costs	1,396	1,121
Research and development costs	**3,115**	**2,818**

[13] Other operating income and expenses

in euro million	2005	2004
Exchange gains	135	116
Income from the reversal of provisions	265	184
Income from the reversal of write-downs	66	133
Gains on the disposal of assets	116	15
Sundry operating income	262	532
Other operating income	**844**	**980**
Exchange losses	161	98
Expense from additions to provisions	165	264
Expenses for write-downs on receivables	29	24
Sundry operating expenses	134	133
Other operating expenses	**489**	**519**
Other operating income and expenses	**355**	**461**

Other operating income includes public-sector grants of euro 36 million (2004: euro 39 million).

[14] Financial result

in euro million	2005	2004
Income from investments	28	86
– thereof from subsidiaries: euro 3 million (2004: euro 66 million)		
Income from joint ventures	14	11
Impairment losses on investments in subsidiaries and in other companies	–	– 3
Result on investments	**42**	**94**
Expected return on plan assets	283	271
Other interest and similar income	363	244
– thereof from subsidiaries: euro 21 million (2004: euro 18 million)		
Interest and similar income	**646**	**515**
Expense from reversing the discounting of pension obligations	– 482	– 450
Expense from reversing the discounting of other long-term provisions	– 78	– 86
Write-downs on marketable securities	– 10	– 11
Sundry interest and similar expenses	– 318	– 246
– thereof to subsidiaries: euro 1 million (2004: euro 15 million)		
Interest and similar expenses	**– 888**	**– 793**
Net interest expense	**– 242**	**– 278**
Losses on the fair value measurement of financial instruments	– 306	– 7
Other financial result	**– 306**	**– 7**
Financial result	**– 506**	**– 191**

Income from investments relates principally to dividend income from Rolls-Royce plc, London. Income from joint ventures includes the equity results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich.

Within other financial result, income and expenses resulting from the fair value measurement of hedged items and hedging instruments have been presented on a net basis.

[15] Income taxes

Taxes on income comprise the following:

in euro million	2005	2004*
Current tax expense	437	841
Deferred tax expense	611	500
	1,048	**1,341**

*adjusted in accordance with Note [8] (b)

The reduction in the current tax expense is mainly attributable to tax reimbursements relating to prior years.

The increase in the deferred tax expense results from the higher usage of deferred assets as a result of the utilisation of tax losses, primarily outside Germany.

Deferred taxes are computed using tax rates based on laws already enacted in the various tax jurisdictions or using rates that are expected to apply at the date when the amounts are paid or recovered. A corporation tax rate of 25.0% applies in Germany. After taking account of the average multiplier rate (Hebesatz) of 412% for municipal trade tax and the solidarity charge of 5.5%, the overall tax rate for BMW companies in Germany is unchanged at 38.9%. The tax rates for companies outside Germany range from 10.0% to 40.7% (2004: 10.0% to 41.7%). Changes in tax rates in foreign tax jurisdictions did not have a significant impact on deferred tax income or expense in 2005 (2004: reduction of deferred tax expense by euro 4 million).

Deferred taxes were not recognised on retained profits of euro 12,413 million (2004: euro 10,541 million), 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.

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

in euro million	Deferred tax assets 2005	Deferred tax assets 2004*	Deferred tax liabilities 2005	Deferred tax liabilities 2004*
Intangible assets	1	6	1,594	1,322
Property, plant and equipment	127	401	474	534
Leased products	780	830	3,255	2,695
Investments	16	7	–	–
Current assets	807	569	3,810	4,002
Tax loss carryforwards	947	1,147	–	–
Provisions	1,639	1,247	98	191
Liabilities	3,386	3,088	789	584
Consolidations	1,489	1,361	281	209
	9,192	8,656	10,301	9,537
Valuation allowance	– 641	– 881	–	–
Netting	– 7,779	– 7,260	– 7,779	– 7,260
	772	**515**	**2,522**	**2,277**

*adjusted in accordance with Note [8] (b)

A valuation allowance is recognised on deferred tax assets when recoverability is uncertain. In determining the level of the valuation allowance, all positive and negative factors concerning the likely existence of sufficient taxable profit in the future are taken into account. These estimates can change depending on the actual course of events. Deferred tax assets of euro 453 million (31.12.2004: euro 439 million) relating to capital losses in the United Kingdom of euro 1.5 billion (31.12.2004: euro 1.5 billion) were written down in full since these losses can only be offset against capital gains, and not against operating profits. At 31 December 2005, a valuation allowance of euro 188 million (31.12.2004: euro 146 million) is recognised on deferred tax assets relating to tax losses available for carryforward amounting to euro 2.1 billion (31.12.2004: euro 2.5 billion), which for the most part can be carried forward without restriction. No valuation allowance is recognised on deferred tax assets at 31 December 2005 for capital allowances on property, plant and equipment in the United Kingdom (31.12. 2004: euro 296 million). In total, euro 240 million of the valuation allowance on deferred tax assets was reversed in the financial year 2005 (2004: euro 220 million). As a result of newly gained information, deferred tax assets of euro 202 million on capital allowances, which had been fully written down in the past, were written off without further profit or loss effect. The use of capital allowances in the United Kingdom gave rise to a deferred tax expense of euro 66 million (2004: euro 127 million); on the other hand, the valuation allowance increased by euro 36 million (without profit or loss effect) as a result of translation differences.

Interest and currency derivatives recognised directly in equity were euro 1,670 million (gross) lower at the end of 2005 than one year earlier as a result of reduced volumes and lower fair values. Deferred tax liabilities recognised directly in equity fell correspondingly by euro 627 million.

The actual tax expense for the financial year 2005 of euro 1,048 million (2004: euro 1,341 million*) is euro 231 million (2004: euro 53 million*) lower than the expected tax expense of euro 1,279 million (2004: euro 1,394 million*) which would theoretically arise if the tax rate of 38.9% (unchanged from the previous year), applicable for German companies, was applied across the Group. The difference between the expected and actual tax expense is attributable to the following:

in euro million	2005	2004*
Expected tax expense	**1,279**	**1,394**
Variances due to different tax rates	–123	–117
Tax reductions (–)/tax increases (+) as a result of non-taxable income and non-deductible expenses	158	–77
Tax expense (+)/benefits (–) for prior periods	–232	198
Other variances	–34	–57
Actual tax expense	**1,048**	**1,341**

The decrease in tax expense in 2005 is attributable to tax reimbursements for prior years and the reversal of valuation allowances on deferred tax assets relating to capital allowances in the United Kingdom as a result of a renewed assessment of recoverability.

*adjusted in accordance with Note [8] (b)

[16] Minority interest

The minority interest in profit totalling euro 0.098 million (2004: euro 0.238 million) comprises euro 0.096 million (2004: euro 0.246 million) relating to the minority shareholder Euro Lloyd Reisebüro GmbH, Cologne, and euro 0.002 million (2004: share of loss euro 0.008 million) relating to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

[17] Earnings per share

		2005	2004*
Net profit for the year after minority interest	euro million	2,239.3	2,241.8
Profit attributable to common stock	euro million	2,066.6	2,070.1
Profit attributable to preferred stock	euro million	172.7	171.7
Average number of common stock shares in circulation	number	619,815,630	622,227,918
Average number of preferred stock shares in circulation	number	51,488,137	51,301,117
Earnings per share of common stock	euro	**3.33**	**3.33**
Earnings per share of preferred stock	euro	**3.35**	**3.35**
Dividend per share of common stock	euro	**0.64**	**0.62**
Dividend per share of preferred stock	euro	**0.66**	**0.64**

* adjusted in accordance with Note [8] (b)

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	2005	2004*
Personnel costs		
Wages and salaries	6,104	5,954
Social security, retirement and welfare costs	1,202	1,171
– thereof retirement costs: euro 713 million (2004: euro 672 million)		
	7,306	**7,125**

* adjusted in accordance with Note [8] (b)

The average number of employees during the year was:

	2005	2004
Wage earners	53,708	54,490
Other employees	43,397	42,792
	97,105	**97,282**
Trainees and students gaining work experience	6,441	6,344
	103,546	**103,626**

The fee expense recognised in the financial year 2005 for the auditors of the Group financial statements, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, pursuant to § 314 (1) no. 9 HGB amounted to euro 4 million (2004: euro 4 million), and consists of the following:

in euro million	2005	2004
Fee expense		
Year-end audits	2	2
Tax advisory services	2	2
	4	**4**

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

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

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

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

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

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

Analysis of changes in Group tangible, intangible and investment assets 2004

in euro million	Acquisition and manufacturing costs					
	1.1.2004[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2004
Development costs	4,898	–	1,121	–	423	5,596
Other intangible assets	467	2	147	0	34	582
Intangible assets	**5,365**	**2**	**1,268**	**0**	**457**	**6,178**
Land, titles to land, buildings, including buildings on third party land	4,826	–40	303	497	26	5,560
Plant and machinery	16,327	–102	2,013	939	714	18,463
Other facilities, factory and office equipment	1,907	–20	250	11	192	1,956
Advance payments made and construction in progress	1,693	2	513	–1,447	4	757
Property, plant and equipment	**24,753**	**–160**	**3,079**	**–**	**936**	**26,736**
Leased products	**8,246**	**–615**	**5,372**	**–**	**3,728**	**9,275**
Investments accounted for using the equity method	**61**	**–**	**4**	**–**	**–**	**65**
Investments in associated companies	148	–1	33	–	30	150
Investments in other companies	522	–	42[3]	–	–	564
Non-current marketable securities	15	–1	9	–	3	20
Other non-current loans receivable	2	–	–	–	2	0
Other investments	**687**	**–2**	**84**	**–**	**35**	**734**

1] including the gross balances brought forward of companies consolidated for the first time
2] including impairment losses of euro 16 million
3] total fair value measurement changes recognised directly in accumulated other equity amounted to euro 154 million

Depreciation and amortisation				Reversals		Net book values	
1.1.2004[1]	Translation differences	Current year[2]	Disposals		31.12.2004	31.12.2004	31.12.2005
1,887	–	637	423	–	2,101	3,495	3,011
278	2	71	32	–	319	263	189
2,165	**2**	**708**	**455**	**–**	**2,420**	**3,758**	**3,200**
2,047	–14	153	13	–	2,173	3,387	2,779
11,588	–80	1,589	693	–	12,404	6,059	4,739
1,409	–15	222	182	–	1,434	522	498
1	–	–	–	–	1	756	1,692
15,045	**–109**	**1,964**	**888**	**–**	**16,012**	**10,724**	**9,708**
1,519	**–129**	**914**	**531**	**–**	**1,773**	**7,502**	**6,697**
–	**–**	**–**	**–**	**–**	**–**	**65**	**61**
22	–	3	–	–	25	125	126
117	–	–	–	112[3]	5	559	405
–	–	–	–	–	–	20	14
1	–	–	1	–	–	0	1
140	**–**	**3**	**1**	**112**	**30**	**704**	**546**

[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 and research and development costs.

Goodwill of euro 33 million was recognised in conjunction with the first-time consolidation of entory AG, Ettlingen and its subsidiaries, Silverstroke AG, Ettlingen and entory S.A. Luxembourg, Luxembourg. This item is not presented separately in the BMW Group balance sheet since the amount is not significant in relation to either the balance sheet total or intangible assets. In addition, the reversal of impairment losses amounting to euro 53 million was recognised on intangible assets; this amount is included in Reconcilations in the analysis of segment information by business segment.

Changes in intangible assets during the year are shown in the analysis of changes in Group tangible, intangible and investment assets on pages 90 and 93.

[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 90 and 93.

Property, plant and equipment include leased buildings, plant and machinery and other equipment amounting to euro 205 million (2004: euro 223 million) which relate primarily to the Oxford and Hams Hall production plants. Due to the nature of the lease arrangements (finance leases), economic ownership of these assets is attributable to the Group. The leases for plant and machinery and other equipment at the Oxford production plant, with a carrying amount of euro 77 million (2004: euro 111 million) at 31 December, run for periods up to 2013 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 38 million (2004: euro 88 million) runs until 2018 and may be extended for one year periods thereafter. A purchase option was not agreed.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2005	31.12.2004
Total of future minimum lease payments		
due within one year	95	79
due between one and five years	494	340
due later than five years	298	410
	887	**829**
Interest portion of the future minimum lease payments		
due within one year	19	20
due between one and five years	78	72
due later than five years	113	122
	210	**214**
Present value of future minimum lease payments		
due within one year	76	59
due between one and five years	416	268
due later than five years	185	288
	677	**615**

[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 5,919 million (2004: euro 4,084 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2005	31.12.2004
within one year	2,908	2,075
between one and five years	3,010	2,009
later than five years	1	–
	5,919	**4,084**

Contingent rents of euro 2 million (2004: euro 1 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 90 and 93.

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

Investments accounted for using the equity method include the Group's interests in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich. The Group's interest in these joint ventures (50% in each case), on an aggregated basis, was as follows:

in euro million	31.12.2005	31.12.2004
Disclosures relating to the Income Statement		
Income	463	317
Losses	461	307
Disclosures relating to the balance sheet		
Non-current assets	134	124
Current assets	215	312
Equity	99	82
Non-current liabilities	85	79
Current liabilities	165	275

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

Additions to investments in subsidiaries relate to share capital increases for the companies BMW Polska Sp. z o. o., Warsaw, BMW Financeira S.A. Credito, Financiamento e Investimento, Sao Paulo, and the incorporation of BMW (China) Automotive Trading Ltd., Peking.

Disposals of investments in subsidiaries relate mainly to the initial consolidation of BMW Automotive (Ireland) Ltd., Dublin, and Parkhaus Oberwiesenfeld GmbH, Munich.

Additions to investments in other companies in 2005 relate to the reversal of write-downs on the investment in Rolls-Royce plc, London, up to the market price at 31 December 2005. The gain of euro 438 million resulting from the market price increase was recognised directly in accumulated other equity.

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 90 and 93.

[24] Receivables from sales financing

Receivables from sales financing, totalling euro 29,053 million (2004: euro 25,054 million), comprise euro 22,301 million (2004: euro 18,782 million) for loan financing for retail customers and dealers and euro 6,752 million (2004: euro 6,272 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2005	31.12.2004
Gross investment in finance leases		
due within one year	2,771	2,592
due between one and five years	4,773	4,409
due later than five years	3	6
	7,547	**7,007**
Present value of future minimum lease payments		
due within one year	2,511	2,359
due between one and five years	4,238	3,908
due later than five years	3	5
	6,752	**6,272**
Unrealised interest income	**795**	**735**

Contingent rents recognised as income, generally relating to the distance driven, amounted to euro 4 million (2004: euro 1 million). Write-downs on finance leases amounting to euro 46 million (2004: euro 83 million) were computed and recognised on the basis of specific credit risks.

Receivables from sales financing include euro 17,202 million (2004: euro 15,737 million) with a remaining term of more than one year.

[25] Financial assets

Financial assets comprise:

in euro million	31.12.2005	31.12.2004
Interest and currency derivatives	806	2,674
Marketable securities and investment funds	2,074	1,832
Loans to third parties	90	1,045
Credit card receivables	221	168
Other	105	34
	3,296	**5,753**
thereof non-current	642	1,236
thereof current	2,654	4,517

The reduction in the carrying amount of interest and currency derivatives relates primarily to changed exchange rate parities with the US dollar and to the expiry of currency hedges.

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

in euro million	31.12.2005	31.12.2004
Stocks	500	531
Investment funds	467	14
Fixed income securities	1,085	1,196
Sundry marketable securities	22	91
	2,074	**1,832**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2005	31.12.2004
Fixed income securities		
due within 3 months	16	28
due later than 3 months	1,069	1,168
Sundry marketable securities		
due within 3 months	4	74
due later than 3 months	18	17
	1,107	**1,287**

The decrease in loans to third parties resulted from the repayment of the final sales price instalment from the sale of Land Rover.

[26] Income tax assets

Income tax assets can be analysed as follows:

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

31 December 2004* in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	515	515
Current tax	291	–	291
	291	**515**	**806**

* adjusted in accordance with Note [8] (b)

[27] Other assets

Other assets comprise:

in euro million	31.12.2005	31.12.2004
Other taxes	418	376
Receivables from subsidiaries	766	842
Receivables from other companies in which an investment is held	87	275
Prepayments	635	543
Collateral receivables	153	313
Sundry other assets	509	456
	2,568	**2,805**
thereof non-current	613	581
thereof current	1,955	2,224

Receivables from subsidiaries include trade receivables of euro 160 million (2004: euro 229 million) and financial receivables of euro 606 million (2004: euro 613 million). They include euro 114 million (2004: euro 168 million) with a remaining term of more than one year.

Receivables from other companies in which an investment is held include non-current items amounting to euro 4 million (2004: euro 10 million).

Prepayments of euro 635 million (2004: euro 543 million) relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Of the amount reported as prepayments, euro 438 million (2004: euro 355 million) has a maturity of less than one year.

[28] Inventories

Inventories comprise the following:

in euro million	31.12.2005	31.12.2004
Raw materials and supplies	674	617
Work in progress, unbilled contracts	931	978
Finished goods	4,042	3,991
Goods for resale	880	881
	6,527	**6,467**

At 31 December 2005, inventories measured at their net realisable value amounted to euro 268 million (2004: euro 437 million) and are included in total inventories of euro 6,527 million (2004: euro 6,467 million). Write-downs to net realisable value amounting to euro 10 million (2004: euro 49 million) were recognised in 2005. Amounts recognised as income from the reversal of write-downs were not significant.

[29] Trade receivables

Trade receivables amounting to euro 2,135 million (2004: euro 1,868 million) are all due within one year (2004: euro 1 million with a maturity of more than one year).

[30] Cash and cash equivalents

Cash and cash equivalents of euro 1,621 million (2004: euro 2,128 million), comprising cash on hand and at bank, have a maturity of under three months.

Cash and cash equivalents include euro 43 million assigned as collateral to Deutsche Treuinvest Stiftung, Frankfurt am Main, to secure obligations relating to pre-retirement part-time work arrangements.

[31] Equity

The Group Statement of Changes in Equity is shown on page 68.

Number of shares issued

At 31 December 2005, common stock issued by BMW AG is divided, as at the end of the previous year, into 622,227,918 shares with a par-value of one euro. Preferred stock issued by BMW AG is 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 in the form of bearer shares. Preferred stock bears an advance profit (additional dividend) of euro 0.02 per share. 708,025 of the shares of preferred stock are only entitled to receive dividends with effect from the beginning of the financial year 2006.

During the financial year 2005, BMW Group acquired 708,025 of its own (treasury) shares of preferred stock at an average price of euro 28.68 per share; these shares were issued to employees at a reduced price of euro 18.99 per share in conjunction with an employee share scheme. As a result of the repurchase of shares of preferred stock and their subsequent issue, the preferred stock portion of share capital remained unchanged at euro 52 million.

At the Annual General Meeting of BMW AG on 12 May 2005, the shareholders authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution and to withdraw those shares for circulation without any further resolution by the Annual General Meeting. The authorisation for the buy-back remains valid until 11 November 2006.

In conjunction with this authorisation, the Board of Management of BMW AG resolved on 20 September 2005 to put a programme in place to buy-back shares via the stock exchange. Under this programme, up to 3% of common stock will be acquired. The extent to which BMW AG will acquire more than this level as part of the currently valid authorisation, has not yet been decided.

The shares will be acquired with the purpose of withdrawing them from circulation and reducing share capital.

Up to 31 December 2005, a total of 13,488,480 treasury shares of common stock had been bought back via the stock exchange at an average price per share of euro 37.49 and a total acquisition cost of euro 506 million. The number of shares so purchased corresponds to 2% of the share capital. The shares are held by BMW AG at the balance sheet date. Equity has been reduced by the buy-back amount.

Transaction costs amounted to approximately euro 560 thousand (net of deferred taxes) and have been recognised directly in equity.

Capital reserves
The capital reserves comprise additional paid in capital on the issue of shares and remained unchanged at euro 1,971 million.

Revenue reserves
Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies. In addition, revenue reserves include both positive and negative goodwill arising on the consolidation of group companies prior to 31 December 1994.

Revenue reserves increased during the year by 12.5% to euro 16,351 million. They were increased in 2005 by the amount of the net profit for the year of euro 2,239 million and were reduced by the payment of the dividend for 2004 amounting to euro 419 million.

The unappropriated profit of BMW AG of euro 424 million for 2005 will be proposed to the Annual General Meeting for distribution. As in the previous year, this will not give rise to a tax credit relating to the corporation tax system applicable until 2001, since, following the enactment of the Tax Preference Reduction Act on 16 May 2003, the tax benefit on distributed profits was suspended until the end of 2005. Adjusted in the light of new information, tax reduction benefits of euro 168 million (2004: disclosed as euro 133 million) which result from the previous corporation tax system, can be realised in specific annual amounts during the period from 2006 to 2019. On the basis of the proposed dividend, a tax reduction benefit of euro 12 million arises for 2006. In the light of the maximum amount regulations which apply for each dividend year, the total amount will not be fully utilised before 2019.

Accumulated other equity
Accumulated other equity consists of all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, the effects of recognising changes in the fair value of financial instruments directly in equity, and actuarial gains and losses relating to defined benefit pension plans and similar obligations. At 31 December 2005, accumulated other equity is increased by deferred taxes recognised directly in equity amounting to euro 727 million (2004: decreased by deferred taxes of euro 172 million*).

Minority interest
As a result of the insignificance of the minority shareholders' interest in the equity of the group's subsidiaries, minority interest is not reported separately.

Minority interest in the share capital of subsidiaries amounts to euro 0.188 million (2004: euro 0.312 million). Of this amount, euro 0.187 million (2004: euro 0.311 million) relates to the minority shareholder Euro Lloyd Reisebüro GmbH, Cologne, and euro 0.001 million (unchanged from the previous year) relates to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

[32] Pension provisions

The BMW Group has elected to adopt early the new optional accounting policy of recognising actuarial gains and losses directly in equity and has applied the new treatment in the Group financial statements at 31 December 2005. Under the new rules, actuarial gains and losses will no longer be recognised in profit or loss over time.

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service and salary of employees. Due to similarity of nature, the obligations of BMW Group companies in the 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

* adjusted in accordance with Note [8] (b)

43 million (2004: euro 29 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. (2004: 7%). The expense for medical care costs in the financial year 2005 amounted to euro 8 million (2004: euro 5 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 400 million (2004: euro 383 million). This includes employer contributions paid to state pension insurance schemes amounting to euro 381 million (2004: euro 369 million).

Under defined benefit plans, the enterprise is required to pay the benefits granted to present and past employees. Defined benefit plans may be funded or unfunded, the latter sometimes financed by means of accounting provisions. Most of the pension commitments of the BMW Group in Germany relate to BMW AG, whose pension plans, like all those of all of the BMW Group's German subsidiaries, are unfunded and financed by means of accounting provisions. In addition, a deferred remuneration retirement scheme is in place which is funded by employee contributions. The main funded plans of the BMW Group are in the United Kingdom, the USA, Switzerland, the Netherlands, Belgium and Japan.

Pension obligations are computed on an actuarial basis at the level of the defined benefit obligation. This computation requires the use of estimates. The main assumptions, in addition to life expectancy, depend on the economic situation in each particular country. The following weighted average values are used in the United Kingdom (UK) and in the other countries:

in %	Germany		UK		Other	
31 December	2005	2004	2005	2004	2005	2004
Discount rate	4.25	4.75	4.72	5.25	5.28	5.31
Salary level trend	3.25	3.25	3.86	3.86	2.62	3.16
Pension level trend	1.75	1.75	2.83	2.74	1.89	1.67

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the period of service of employees with the Group.

In the case of funded plans, the defined benefit obligation is offset against plan assets measured at their fair value. Where the plan assets exceed the pension obligations and the enterprise has a right of reimbursement or a right to reduce future contributions, the surplus amount is recognised in accordance with IAS 19 as an asset under miscellaneous assets. A liability is recognised under pension provisions in the case of funded plans where the pension expense exceeds the contributions paid to the fund.

Actuarial gains or losses may result from increases or decreases in either the present value of the defined benefit obligation or in the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets. Past service cost arises where a BMW Group company introduces a defined benefit plan or changes the benefits payable under an existing plan.

Based on the measurement principles contained in IAS 19, the following funding status applies to the Group's pension plans:

in euro million	Germany		UK		Other		Total	
31 December	2005	2004*	2005	2004*	2005	2004*	2005	2004*
Present value of pension benefits covered by accounting provisions	4,234	3,336	–	–	112	104	4,346	3,440
Present value of funded pension benefits	–	–	6,576	5,764	315	249	6,891	6,013
Defined benefit obligations	4,234	3,336	6,576	5,764	427	353	11,237	9,453
Fair value of plan assets	–	–	5,784	5,086	233	180	6,017	5,266
Net obligation	4,234	3,336	792	678	194	173	5,220	4,187
Income (+) expense (–) from past service cost not yet recognised	–	–	–	–	–2	–2	–2	–2
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	–	–	10	9	10	9
Balance sheet amount at 31.12.	**4,234**	**3,336**	**792**	**678**	**202**	**180**	**5,228**	**4,194**
thereof pension provision	4,234	3,336	819	707	202	181	5,255	4,224
thereof pension asset (–)	–	–	–27	–29	–	–1	–27	–30

*adjusted in accordance with Note [8] (b)

Pension provisions relating to pension plans in other countries amounted to euro 202 million (2004: euro 181 million). This includes euro 82 million (2004: euro 69 million) relating to externally funded plans.

The increase in the defined benefit obligations was attributable to changes in the discount rates used in the actuarial computation and to changes in mortality rate assumptions.

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

in euro million	Germany		UK		Other		Total	
	2005	2004*	2005	2004*	2005	2004*	2005	2004*
Balance sheet amounts at 1.1.	3,336	2,513	678	820	180	165	4,194	3,498
Expense from pension obligations	271	272	90	96	36	36	397	404
Pension payments or transfers to external funds	–67	–59	–87	–112	–27	–25	–181	–196
Actuarial gains (–) and losses (+) on defined benefit obligations	619	563	516	141	–4	17	1,131	721
Actuarial gains (–) and losses (+) on plan assets	–	–	–425	–267	1	2	–424	–265
Employee contributions to the deferred remuneration retirement scheme	75	47	–	–	–	–	75	47
Transfer of obligations to non-consolidated entities	–	–	–	–	–	–	–	–
Translation differences on foreign pension plans	–	–	20	–	16	–15	36	–15
Balance sheet amounts at 31.12.	**4,234**	**3,336**	**792**	**678**	**202**	**180**	**5,228**	**4,194**
thereof pension provision	4,234	3,336	819	707	202	181	5,255	4,224
thereof pension asset (–)	–	–	–27	–29	–	–1	–27	–30

*adjusted in accordance with Note [8] (b)

The defined benefit plans of the BMW Group gave rise to an expense from pension obligations in the financial year 2005 of euro 397 million (2004: euro 404 million), comprising the following components:

in euro million	Germany		UK		Other		Total	
	2005	2004*	2005	2004*	2005	2004*	2005	2004*
Current service cost	120	91	53	54	25	31	198	176
Expense from reversing the discounting of pension obligations	151	132	308	303	23	15	482	450
Past service cost	–	49	–	–	–	–	–	49
Expected return on plan assets (–)	–	–	– 271	– 261	– 12	– 10	– 283	– 271
Expense from pension obligations	**271**	**272**	**90**	**96**	**36**	**36**	**397**	**404**

*adjusted in accordance with Note [8] (b)

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

The actual return from external pension funds was euro 707 million (2004: euro 536 million). The variance compared to the expected return and the actual return in the previous year was attributable mainly to the fact that, particularly in the United Kingdom, pension fund assets generated a higher return than planned as a result of the recovery of the international capital markets.

The level of the pension obligations differ depending on the pension system applicable in each country. Since the state pension system in the United Kingdom only provides a basic fixed amount benefit, retirement benefits are largely organised in the form of company pensions and arrangements financed by the individual. The pension benefits in Great Britain therefore contain contributions made by the employee.

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

in euro million	Germany					
	Defined benefit obligation		Plan assets		Net obligation	
	2005	2004*	2005	2004*	2005	2004*
1 January	3,336	2,513	–	–	3,336	2,513
Expense from pension obligations	271	272	–	–	271	272
Payments to external funds	–	–	–	–	–	–
Pension payments	–67	–59	–	–	–67	–59
Actuarial gains (–) and losses (+)	619	563	–	–	619	563
Employee contributions to the deferred remuneration retirement scheme	75	47	–	–	75	47
Translation differences and other changes	–	–	–	–	–	–
31 December	**4,234**	**3,336**	**–**	**–**	**4,234**	**3,336**

*adjusted in accordance with Note [8] (b)

in euro million	United Kingdom					
	Defined benefit obligation		Plan assets		Net obligation	
	2005	2004*	2005	2004*	2005	2004*
1 January	5,764	5,564	–5,086	–4,744	678	820
Expense from pension obligations	361	357	–271	–261	90	96
Payments to external funds	–	–	–87	–112	–87	–112
Pension payments	–262	–281	262	281	–	–
Actuarial gains (–) and losses (+)	516	141	–425	–267	91	–126
Translation differences and other changes	197	–17	–177	17	20	–
31 December	**6,576**	**5,764**	**–5,784**	**–5,086**	**792**	**678**

*adjusted in accordance with Note [8] (b)

in euro million	Other countries					
	Defined benefit obligation		Plan assets		Net obligation	
	2005	2004*	2005	2004*	2005	2004*
1 January	353	313	–180	–156	173	157
Expense from pension obligations	48	46	–12	–10	36	36
Payments to external funds	–	–	–27	–25	–27	–25
Pension payments	–9	–7	5	6	–4	–1
Actuarial gains (–) and losses (+)	–4	17	1	2	–3	19
Translation differences and other changes	39	–16	–20	3	19	–13
31 December	**427**	**353**	**–233**	**–180**	**194**	**173**

*adjusted in accordance with Note [8] (b)

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

in euro million	Components of plan assets					
	United Kingdom		Other countries		Total	
	2005	2004	2005	2004	2005	2004
Equity instruments	1,471	1,103	141	106	1,612	1,209
Debt securities	3,461	3,259	85	68	3,546	3,327
Real estate	621	562	4	4	625	566
Other	231	162	3	2	234	164
31 December	**5,784**	**5,086**	**233**	**180**	**6,017**	**5,266**

Benefit obligations are covered in Germany by accounting provisions. In the United Kingdom, a substantial portion of plan assets is invested in debt securities in order to minimise value fluctuations.

[33] Other provisions

Other provisions principally comprise the following items:

in euro million	31.12.2005 Total	31.12.2005 thereof due within one year	31.12.2004* Total	31.12.2004* thereof due within one year
Obligations for personnel and social expenses	1,355	812	1,264	840
Obligations for on-going operational expenses	3,414	1,428	3,012	1,199
Other obligations	1,137	423	1,377	623
	5,906	**2,663**	**5,653**	**2,662**

* adjusted in accordance with Note [8] (a)

Provisions for obligations for personnel and social expenses comprise mainly profit-share schemes and bonuses, early retirement part-time working arrangements and employee long-service awards. The increase compared to the previous year is attributable mainly to the higher level of obligations relating to profit-share schemes, bonuses and employee long-service awards.

Provisions for obligations for on-going operational expenses comprise primarily warranty obligations. The increase is mainly attributable to the higher level of provisions brought about by increased business volumes.

Provisions for other obligations cover numerous specific risks and obligations of uncertain amount. They comprise mainly obligations and risks in respect of the disengagement from the former Rover Group, the obligation for recovery and recycling of end-of-life vehicles and risks from legal disputes.

The discount factor used to discount non-current provisions ranged from 3.4 % to 5.0 %, depending on the length of period involved.

Other provisions changed during the year as follows:

in euro million	At 1.1.2005*	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	At 31.12.2005
Obligations for personnel and social expenses	1,264	7	815	3	721	13	1,355
Obligations for on-going operational expenses	3,012	26	1,556	66	1,210	36	3,414
Other obligations	1,377	19	371	15	321	324	1,137
	5,653	**52**	**2,742**	**84**	**2,252**	**373**	**5,906**

* adjusted in accordance with Note [8] (a)

Of the amount shown as reversed, euro 108 million are included in costs by function in the income statement.

[34] Income tax liabilities

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

31 December 2004* in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,277	2,277
Current tax	493	4	497
	493	**2,281**	**2,774**

*adjusted in accordance with Note [8] (b)

Current tax liabilities of euro 462 million (2004: euro 497 million) comprises euro 219 million (2004: euro 70 million) for taxes payable and euro 243 million (2004: euro 427 million) for tax provisions. In total, tax provisions of euro 90 million were reversed in 2005 (2004: euro 38 million).

[35] Financial liabilities

Financial liabilities includes all liabilities of the BMW Group at the relevant balance sheet dates relating to financing activities and comprises:

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

31 December 2004* in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	2,877	6,225	3,346	12,448
Liabilities to banks	1,989	1,598	203	3,790
Liabilities from customer deposits (banking)	4,878	223	–	5,101
Commercial paper	4,059	–	–	4,059
Asset backed financing transactions	1,116	3,153	-	4,269
Interest and currency derivatives	237	120	25	382
Bills of exchange payable	1	–	–	1
Other	107	393	381	881
	15,264	**11,712**	**3,955**	**30,931**

* adjusted in accordance with Note [8] (a)

Bonds include an exchangeable bond of euro 561 million issued on 4 December 2003 relating to the investment of the BMW Group in the engine manufacturer Rolls-Royce plc, London. This bond is subject to an annual interest rate of 1.875% and has a term of five years. After three years into the term, the Group has the right, up to the maturity date, to give notice on the bond if Rolls-Royce stock rises to a level of more than 130% of the exchange price of GBP 2.46. A cash-out option is also in place giving the Group, in the event that the exchange right is exercised, the right to make a payment equivalent to the market price of the stock at that date, rather than to deliver the stock itself. The present value of the bond at the balance sheet date, including transaction costs, was euro 519 million (2004: euro 506 million). The related option liability is included at 31 December 2005 in financial liabilities at its fair value of euro 452 million (2004: euro 96 million). The negative change in the fair value of the option liability, amounting to euro 356 million, is recognised as an expense in the line “Other financial result”.

Other financial liabilities of euro 896 million (2004: euro 881 million) comprise mainly finance lease liabilities.

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
BMW Finance N.V.,				
The Hague	variable	EUR 525 million	3.4	2.4
	fixed	JPY 92,000 million	6.6	1.5
	fixed	EUR 3,364 million	8.7	4.2
	fixed	CHF 200 million	5.0	2.0
BMW Coordination				
Center V.o.F., Bornem	variable	EUR 1,100 million	1.3	2.4
	variable	USD 93 million	1.0	4.4
	variable	GBP 58 million	1.0	4.6
	variable	CHF 80 million	1.5	0.9
	fixed	JPY 3,000 million	2.0	0.2
	fixed	USD 250 million	0.3	4.4
	fixed	EUR 20 million	1.0	2.2
BMW (UK) Capital plc,				
Bracknell	variable	EUR 375 million	2.3	2.3
	variable	GBP 60 million	1.0	4.6
	variable	JPY 8,800 million	2.0	0.1
	fixed	GBP 150 million	7.0	6.0
BMW US Capital, LLC,				
Wilmington, Del.	variable	USD 500 million	4.2	4.1
	variable	EUR 343 million	2.4	2.2
	variable	JPY 48 million	2.0	0.1
	fixed	JPY 42 million	2.0	2.5
	fixed	USD 1,275 million	9.6	4.2
	fixed	EUR 2,954 million	6.6	3.9
	fixed	GBP 607 million	3.0	3.5
Rolls-Royce Motor Cars Ltd.,				
Bracknell	variable	GBP 45.8 million	1.0	4.6
Other	variable	EUR 970 million	2.3	2.4
	variable	USD 120 million	6.0	4.9
	variable	JPY 25,500 million	2.0	0.1
	fixed	JPY 77,000 million	14.2	2.3
	fixed	GBP 150 million	3.5	5.8
	fixed	AUD 250 million	2.6	5.5
	fixed	EUR 300 million	4.0	3.0
	fixed	CHF 250 million	4.0	1.6

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 130 million	68.0	2.5
BMW Coordination Center V.o.F., Bornem	EUR 1,542 million	23.7	2.4
BMW (UK) Capital plc, Bracknell	GBP 5 million	13.0	4.6
BMW US Capital, LLC, Wilmington, Del.	USD 2,522 million	14.5	4.2

[36] Other liabilities

Other liabilities comprise the following items:

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

31 December 2004* in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Other taxes	320	1	–	321
Social security	122	1	–	123
Advance payments from customers	286	4	–	290
Deposits received	53	103	–	156
Subsidiaries	45	1	–	46
Liabilities to other companies in which an investment is held	2	–	–	2
Deferred income	553	864	159	1,576
Other	1,403	183	42	1,628
	2,784	**1,157**	**201**	**4,142**

* adjusted in accordance with Note [8] (a)

Deferred income comprises the following items:

in euro million	31.12.2005 Total	31.12.2005 thereof due within one year	31.12.2004 Total	31.12.2004 thereof due within one year
Deferred income from lease financing	678	408	527	347
Deferred income relating to service contracts	1,083	375	621	130
Grants	443	43	363	26
Other deferred income	217	200	65	50
	2,421	**1,026**	**1,576**	**553**

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.

[37] Trade payables

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

31 December 2004 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,322	54	–	3,376

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts to euro 4,209 million (2004: euro 4,156 million*).

*adjusted in accordance with Note [8] (a)

[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	31.12.2005	31.12.2004
Guarantees	62	54
Performance guarantees	15	88
Bills of exchange	16	4
	93	**146**

All contingent liabilities relate to non-group entities (2004: euro 1 million relating to 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 commitments

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 97 years and in some cases contain extension and/or purchase options. Lease payments of euro 79 million (2004: euro 164 million) were recognised as expense during the year.

The total of future minimum lease payments under non-cancellable leases is analysed by maturity as follows:

in euro million	31.12.2005	31.12.2004
Nominal total of future minimum lease payments		
due within one year	174	167
due between one and five years	521	508
due later than five years	591	613
	1,286	**1,288**

The above amounts include euro 2 million (2004: euro 28 million) in respect of non-consolidated subsidiaries and euro 63 million (2004: euro 54 million) for back-to-back operating leases.

Due to their expiry in 2005, back-to-back finance leases do not give rise to any obligations for future minimum lease payments:

in euro million	31.12.2005	31.12.2004
Total of future minimum lease payments		
due within one year	–	3
due between one and five years	–	3
due later than five years	–	–
	–	**6**
Interest portion of the future minimum lease payments		
due within one year	–	–
due between one and five years	–	–
due later than five years	–	–
	–	–
Present value of future minimum lease payments		
due within one year	–	3
due between one and five years	–	3
due later than five years	–	–
	–	**6**

In addition, the BMW Group is the lessee in the case of operating leases for vehicles which are leased to third parties over matching periods. The following amounts are payable under these contracts:

in euro million	31.12.2005	31.12.2004
Nominal total of future minimum lease payments		
due within one year	802	828
due between one and five years	667	900
due later than five years	–	–
	1,469	**1,728**

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

Purchase commitments for property, plant and equipment amount to euro 1,057 million (2004: euro 732 million).

Sundry other financial commitments amount to euro 217 million (2004: euro 207 million). This includes the amount of euro 19 million committed for the intended refurbishment of the head quarters of BMW AG.

[39] Financial instruments

Use and control of financial instruments
As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which exchange rate risks arise. The BMW Group's operations are financed in various currencies, mainly by the issue of bonds and medium term notes and through bank loans. The BMW Group's financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates, stock market prices and exchange rates. Financial instruments are only used to hedge underlying positions or forecasted transactions.

Protection against such risks is provided at first instance though natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Exchange rate, interest rate and liquidity risks of the BMW Group are managed at a corporate level. At 31 December 2005, derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies US dollar, British pound and Japanese yen.

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

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

in euro million	31.12.2005		31.12.2004*	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from sales financing	29,053	29,426	25,054	25,448
Financial liabilities	34,668	34,534	30,931	30,869

* adjusted in accordance with Note [8] (a)

The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2005 on the basis of the following interest rates:

ISO Code in %	EUR	USD	GBP	JPY
Interest rate for six months	2.6	4.7	4.6	0.1
Interest rate for one year	2.8	4.8	4.6	0.1
Interest rate for five years	3.2	4.9	4.6	1.0
Interest rate for ten years	3.8	5.0	4.5	1.7

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

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

in euro million	Nominal amount	Fair values			
		Total	due within one year	due between one and five years	due later than five years
31 December 2005					
Assets					
Currency hedge contracts	6,378	270	163	107	–
Interest rate contracts	11,975	488	41	315	132
Other derivative instruments	209	48	21	27	–
Total	18,562	806	225	449	132
Liabilities					
Currency hedge contracts	14,509	361	154	207	–
Interest rate contracts	5,792	36	2	13	21
Other derivative instruments	561	453	–	453	–
Total	20,862	850	156	673	21
31 December 2004					
Assets					
Currency hedge contracts	13,833	1,844	1,390	453	1
Interest rate contracts	9,608	813	124	495	194
Other derivative instruments	114	17	8	9	–
Total	23,555	2,674	1,522	957	195
Liabilities					
Currency hedge contracts	3,189	237	124	91	22
Interest rate contracts	7,043	38	8	27	3
Other derivative instruments	646	107	105	2	–
Total	10,878	382	237	120	25

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

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

The fair values of financial instruments relating to hedged forecast transactions are recognised directly in accumulated other equity. At 31 December 2005, the positive impact from the fair value measurement of financial instruments (net of deferred taxes) amounted to euro 591 million (2004: euro 1,134 million) and has been recognised directly in equity. This comprises fair value gains of euro 29 million (2004:

euro 1,072 million) on cash flow hedges and of euro 562 million (2004: euro 62 million) on available-for-sale securities.

During the year under report, net fair value losses of euro 543 million (2004: euro 420 million) were recognised directly in equity, comprising fair value losses of euro 1,043 million on cash flow hedges (2004: euro 628 million) and fair value gains of euro 500 million (2004: euro 208 million) on available-for-sale securities.

In the financial year under report, fair value gains of euro 661 million (2004: euro 942 million) were removed from other accumulated equity and realised during the year. Write-downs of euro 10 million (2004: euro 11 million) on available-for-sale securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2004. Reversals of write-downs on current marketable securities of euro 3 million were recognised directly in equity (2004: euro 6 million recognised as income). In 2005, gains of euro 33 million (2004: euro 4 million) were realised on the disposal of available-for-sale securities and the equivalent amount removed from other accumulated equity and recognised in the income statement.

Credit risk

Financial assets are recognised in the balance sheet net of write-downs for the risk that counter-parties are unable to fulfil their contractual obligations, irrespective of the value of collateral received. Depending on the nature and amount of exposure entered into, collateral will be required, information on the credit-standing of the counter-party obtained or historical data based on the existing business relationship (i. e. payment patterns to date) reviewed in order to minimise the credit risk relating to performance relationships underlying non-derivative financial instruments. Write-downs are recorded as soon as credit risks are identified on individual financial assets. This credit risk is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant. A concentration of credit risk with particular borrowers or groups of borrowers has not been identified.

[40] Explanatory notes to the cash flow statements

The cash flow statements show how the cash and cash equivalents of the BMW Group, industrial operations and financial operations have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Cash Flow Statements), cash flows are classified into cash flows from operating, investing and financing activities. The cash flow statements of the BMW Group are presented on pages 66 and 67.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques and cash at bank, to the extent that they are available within three months from the balance sheet date and are subject to an insignificant risk of changes in value. The negative impact of changes in cash and cash equivalents due to the effect of exchange rate fluctuations in 2005 was euro 60 million (2004: euro 23 million).

The cash flows from investing and financial activities are based on actual payments and receipts. The cash flow from operating activities is computed using the indirect method, starting from the net profit of the Group. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group balance sheet.

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

in euro million	2005	2004
Interest received	283	243
Interest paid	240	267
Dividends received	28	86
Income taxes paid	604	736

[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 associates and with parties which have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediaries. Significant influence over the financial and operating policies of the Group can arise when a party holds 20 % or more of the shares of BMW AG or is a member of the Board of Management or Supervisory Board of BMW AG.

For the financial year 2005, the disclosure requirements contained in IAS 24 only affect the BMW Group with regard to business relationships with joint ventures and other equity investments as well as with members of the Board of Management and Supervisory Board of BMW AG.

Transactions of BMW Group companies with joint ventures and other equity investments – mainly BMW Brilliance Automotive Ltd., Shenyang (50%), TRITEC Motors Ltda., Campo Largo (50%), F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich (50%), and ZNF Maschinenfabrik Spandau GmbH, Berlin (49%) – all arise in the normal course of activities of those companies and are based on arm's length principles.

Stefan Quandt is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v.d.H., which, via its subsidiaries in the Thiel Group, performed logistics services for the BMW Group during the financial year 2005. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sale contracts are not material for the BMW Group and are made, without exception, on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG, and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Bad Homburg v.d.H. which purchased vehicles from the BMW Group during the financial year 2005. These service and sale contracts are not material for the BMW Group and are made, without exception, on the basis of arm's length principles.

With the exception of these related party transactions, companies of the BMW Group did not enter into any significant transactions with members of the Board of Management or Supervisory Board of BMW AG or with companies in whose representative bodies those persons are represented. The same applies to close members of the families of those persons.

[42] Declaration with respect to the Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued a declaration, required by §161 of the German Stock Corporation Act, which is included in the BMW Group Annual Report 2005 and which is available to shareholders on the BMW Group website under the address 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, Bad Homburg v.d.H. The shareholding 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

Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of current members of the Board of Management and the Supervisory Board amounts to euro 15.2 million (2004: euro 14.8 million). The remuneration consists of the following:

in euro million	2005	2004
Short-term employment benefits	14.7	14.3
Benefits due at end of employment relationship	0.5	0.5
	15.2	**14.8**

Subject to the approval of the proposed dividend at the Annual General Meeting 2005, the salaries of the members of the Board of Management for the financial year 2005 amounted to euro 12.2 million (2004: euro 11.9 million), comprising fixed components of euro 2.0 million (2004: euro 1.9 million) and variable components of euro 10.2 million (2004: euro 10.0 million).

In addition, an amount of euro 0.5 million (2004: euro 0.5 million) has been granted to current members of the Board of Management after the end of their employment relationship. This relates to the expense for allocations to pension provisions.

Subject to the approval of the proposed dividend at the Annual General Meeting 2005, the compensation of the members of the Supervisory Board for the financial year 2005 amounted to euro 2.5 million (2004: euro 2.4 million), comprising fixed components of euro 0.1 million (2004: euro 0.1 million) and variable components of euro 2.4 million (2004: euro 2.3 million).

The remuneration of former Board members and their dependants amounted to euro 2.6 million (2004: euro 2.5 million).

Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 37.0 million (2004: euro 36.8 million*), computed in accordance with IAS 19.

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 126 to 129.

* adjusted in accordance with Note [8] (b)

[45] Application of §264 (3) and §264b of the German Commercial Code (HGB)

A number of incorporated companies and partnerships as defined by §264a HGB which are consolidated subsidiaries of BMW AG and for whom the BMW AG Group financial statements represent exempting consolidated financial statements, apply the exemption provisions contained in §264 (3) HGB and/or §264 b HGB for the purposes of the preparation of a management report:

- Alphabet Fuhrparkmanagement GmbH, Munich
- BMW Leasing GmbH, Munich
- BMW Vertriebs GmbH, Munich
- BMW Vertriebs GmbH & Co. OHG, Dingolfing
- BMW Ingenieur-Zentrum GmbH + Co., Dingolfing

[45] Segment information

Description of business segments

In accordance with the rules contained in IAS 14 (Segment Reporting), the BMW Group presents segment information using business segments as its primary reporting format and geographical segments as its secondary reporting format. This distinction is based on internal management and financial reporting systems and reflects the risk and earnings structure of the Group.

The activities of the BMW Group are broken down into the segments Automobiles, Motorcycles and Financial Services.

The Automobiles segment develops, manufactures, assembles and sells cars and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts and accessories.

BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent import companies. Rolls-Royce brand vehicles are sold in the USA via a subsidiary company and elsewhere by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells BMW brand motorcycles as well as spare parts and accessories.

The Financial Services segment focuses primarily on leasing automobiles, providing loan finance for retail customers and dealers, accepting customer deposits and insurance activities. The profit before financial result of this segment includes net interest income on retail customer and dealer financing business and the result of lease business. Leased products are carried at acquisition cost less straight-line depreciation down to the imputed residual value of the vehicles. Leased products are written down to their fair value where this is lower. Inter-group profits on own products are eliminated on consolidation and included in the Reconciliations to the Group profit before tax.

Reconciliations to the Group profit before tax for the Group include national holding companies, group financing companies and income and expenses not specifically attributable to the business segments. Reconciliations also include certain operating companies which are not allocated to segments, namely BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, and the Softlab Group. Presswerk Swindon Pressings Ltd., Bracknell, is included in the Automobiles segment from 1 January 2004 onwards, as it has manufactured exclusively for that segment since that date.

Other explanatory comments on segment information

Segment information is generally prepared in conformity with the accounting policies adopted for preparing and presenting the Group financial statements. Inter-segment receivables and payables, ‘provisions, income, expenses and profits are eliminated in Reconciliations. Inter-segment sales take place at arm’s length prices.

Significant non-cash items comprise mainly changes in provisions, write-downs, reversal of write-downs and depreciation on leased products.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Segment assets and segment liabilities comprise all assets and liabilities employed by the relevant business segment to generate the profit before financial result.

The return on sales for each segment is based on the profit before tax.

Internal financing is computed as the profit before tax activities adjusted for depreciation and significant non-cash items and less actual tax payments.

In the case of segment information by geographical region, external sales are based on the location of the customer’s registered office. Segment information is provided for the regions Germany, rest of Europe, the Americas and Africa, Asia and Oceania, in line with internal management and reporting procedures.

Segment information by business segment in euro million		Automobiles 2005	Automobiles 2004*
Revenues with third parties		**37,247**	**36,399**
Change compared to previous year	%	2.3	8.9
Inter-segment revenues		**8,614**	**6,145**
Change compared to previous year	%	40.2	25.6
Total revenues		**45,861**	**42,544**
Change compared to previous year	%	7.8	11.0
Gross profit		**9,512**	**9,298**
Profit before financial result		**3,080**	**3,338**
Change compared to previous year	%	–7.7	10.0
Result from equity method accounting		**14**	**11**
Other financial result		**–118**	**–185**
Profit before tax		**2,976**	**3,164**
Change compared to previous year	%	–5.9	14.6
Return on sales	%	**6.5**	**7.4**
Significant non-cash items		**802**	**739**
Internal financing		**6,017**	**5,876**
Capital expenditure		**3,832**	**4,200**
Depreciation and amortisation		**2,903**	**2,595**
Additions to leased products		**369**	**337**
Investments accounted for using the equity method		**94**	**65**
Assets		**25,679**	**24,483**
Liabilities		**19,692**	**16,729**
Average workforce during the year		**96,436**	**96,863**

* adjusted in accordance with Note [8] (b)

Motorcycles		Financial Services		Reconciliations		Group	
2005	2004*	2005	2004	2005	2004*	2005	2004*
1,217	1,022	**8,073**	6,829	**119**	85	**46,656**	44,335
19.1	–2.9	18.2	1.8	40.0	–74.9	5.2	6.8
6	7	**1,335**	1,397	**–9,955**	–7,549	**–**	–
–14.3	–	–4.4	60.0	31.9	–30.9	–	–
1,223	1,029	**9,408**	8,226	**–9,836**	–7,464	**46,656**	44,335
18.9	–2.5	14.4	8.5	31.8	–37.5	5.2	6.8
315	245	**1,067**	931	**–230**	–179	**10,664**	10,295
67	38	**622**	515	**24**	–117	**3,793**	3,774
76.3	–33.3	20.8	14.2	–120.5	23.8	0.5	11.7
–	–	**–**	–	**–**	–	**14**	11
–7	–7	**–17**	–	**–378**	–10	**–520**	–202
60	31	**605**	515	**–354**	–127	**3,287**	3,583
93.5	–38.0	17.5	13.9	–	–	–8.3	11.8
4.9	3.0	**6.4**	6.3	**–**	–	**7.0**	8.1
3	13	**2,803**	2,107	**478**	810	**4,086**	3,669
141	94	**3,346**	2,545	**145**	673	**9,649**	9,188
76	102	**40**	18	**45**	27	**3,993**	4,347
91	56	**28**	14	**3**	7	**3,025**	2,672
–	–	**9,092**	6,990	**–2,259**	–1,955	**7,202**	5,372
–	–	**–**	–	**–**	–	**94**	65
602	663	**47,270**	37,222	**1,015**	5,266	**74,566**	67,634
377	479	**41,318**	32,853	**–3,794**	1,039	**57,593**	51,100
2,859	2,953	**2,958**	2,706	**1,293**	1,104	**103,546**	103,626

Segment information by region in euro million	External sales 2005	External sales 2004	Capital expenditure 2005	Capital expenditure 2004	Assets 2005	Assets 2004*
Germany	11,001	11,961	3,248	3,637	27,278	25,015
Rest of Europe	17,266	15,823	430	515	17,759	15,727
The Americas	11,560	10,648	239	92	19,977	15,949
Africa, Asia, Oceania	6,829	5,903	76	103	7,970	6,877
Reconciliations	–	–	–	–	1,582	4,066
Group	**46,656**	**44,335**	**3,993**	**4,347**	**74,566**	**67,634**

* adjusted in accordance with Note [8] (b)

Munich, 21 February 2006

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

We have audited the consolidated financial statements – comprising income statement, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements as well as the Management Report on the position of the Company and Group – prepared by Bayerische Motoren Werke Aktiengesellschaft, for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and Group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German Commercial Law pursuant to § 315 a Abs. 1 HGB, are the responsibility of the parent Company's Management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the disclosures in the consolidated financial statements and the group management report is examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, the 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 IFRS, as adopted by the EU, the additional requirements of German Commercial Law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 24 February 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos	Höfer
Wirtschaftsprüfer	Wirtschaftsprüfer

Members of the Supervisory Board

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg
Chairman
Former Chairman of the Board of Management of BMW AG

Chairman of the Presiding Board, Personnel Committee, Audit Committee
Member of the Mediation Committee

Mandates**
Allianz Versicherungs-AG
Bertelsmann AG
FESTO AG
MAN AG (Deputy Chairman)

Deere & Company
Leipziger Messe GmbH

Manfred Schoch*
Deputy Chairman
Chairman of the General Works Council

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Stefan Quandt
Deputy Chairman
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Mandates**
DELTON AG (Chairman)
Dresdner Bank AG
Gerling-Konzern Allgemeine Versicherungs-AG

DataCard Corp.

Konrad Gottinger*
Deputy Chairman
Member of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Dr. Hans-Dietrich Winkhaus
Deputy Chairman
Former Chairman of the Board of Henkel KGaA

Member of the Presiding Board, Personnel Committee and Audit Committee

Mandates**
Degussa AG
Deutsche Lufthansa AG
ERGO Versicherungsgruppe AG
Schwarz-Pharma AG (Chairman)

Henkel KGaA

Volker Doppelfeld
Former member of the Board of Management of BMW AG

Mandates**
D. A. S. Deutsche Automobilschutz Allgem. Rechtsschutz-Versicherungs AG

Bizerba GmbH & Co. KG

* Employee representative
** Mandates
Membership of other supervisory boards and comparable boards in Germany and abroad at 31. 12. 2005

Bertin Eichler*
Executive Member of the
Executive Board of IG Metall

Mandates**
ThyssenKrupp AG (Deputy Chairman)
BHW Holding AG
BGAG Beteiligungsgesellschaft der
Gewerkschaften AG (Chairman)

Ulrich Eckelmann*
Head of the Industry, Technology and
Environment section of IG Metall

Mandates**
ThyssenKrupp Automotive AG

Werner Eisgruber*
Member of the Works Council, Dingolfing

Franz Haniel
Managing Director of Giesecke & Devrient GmbH

Mandates**
Franz Haniel & Cie. GmbH (Chairman)
secunet Security Networks AG

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

Mandates**
BASF AG

DataCard Corp.
Deere & Company
Northern Trust Corp.
Robert Bosch Corp.
Snap-on Inc.

Susanne Klatten
BSc., MBA
Honorary Senator of the
Technical University of Munich

Mandates**
ALTANA AG (Deputy Chairman)
ALTANA Pharma AG

UnternehmerTUM GmbH

Willibald Löw*
Chairman of the Works Council, Landshut

Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl
Former President of Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V.
Professor of Biology (retired)

Mandates**
Münchener Rückversicherungs-Gesellschaft AG

Georg von Holtzbrinck GmbH
Sanofi-Aventis S.A.

Wolfgang Mayrhuber
Chairman of the Board of Management of Deutsche Lufthansa AG

Mandates**
Eurowings Luftverkehrs AG
LSG Lufthansa Service Holding AG
Lufthansa Cargo AG
Lufthansa Cityline GmbH (Chairman)
Lufthansa Technik AG
Münchener Rückversicherungs-Gesellschaft AG
Thomas Cook AG (Deputy Chairman)

HEICO Corp.
SWISS International Air Lines AG

Werner Neugebauer*
Regional Executive Officer of IG Metall Bavaria

Franz Oberländer*
Member of the Works Council, Munich

Anton Ruf*
Director Technical Integration

Prof. Dr. Jürgen Strube
Chairman of the Supervisory Board of BASF AG

Mandates**
Allianz Lebensversicherungs-AG
BASF AG (Chairman)
Bertelsmann AG (Deputy Chairman)
Commerzbank AG
Fuchs Petrolub AG (Chairman)
Hapag-Lloyd AG
Linde AG

Werner Zierer*
Chairman of the Works Council, Regensburg

* Employee representative
** Mandates
Membership of other supervisory boards and comparable boards in Germany and abroad at 31.12.2005

Dr. Helmut Panke
Chairman

Mandates**
Microsoft Corp.
UBS AG

Ernst Baumann
Human Resources, Industrial Relations Director

Mandates**
Krones AG

Dr. Michael Ganal
Sales and Marketing

Mandates**
BMW Brilliance Automotive Ltd.

Prof. Dr.-Ing. Dr.-Ing. E. h. Burkhard Göschel
Development and Purchasing

Stefan Krause
Finance

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

Dr.-Ing. Norbert Reithofer
Production

Mandates**
BMW Brilliance Automotive Ltd.
BMW Motoren GmbH (Chairman)
BMW Österreich Holding GmbH (Chairman)
BMW (South Africa) (Pty) Ltd. (Chairman)

General Counsel:
Dr. Dieter Löchelt

** Mandates
Membership of other supervisory boards and comparable boards in Germany and abroad at 31.12.2005

Corporate Governance

Corporate Governance in the BMW Group

For the BMW Group, corporate governance is an all-embracing issue which affects all areas of the enterprise. Transparent reporting and a policy of corporate governance aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility, has long been the basis for managing the affairs of the BMW Group. The underlying corporate culture at BMW is founded upon the principles of transparency, placing trust in others and taking responsibility for one's own actions.

Declaration of Compliance and the BMW Group Corporate Governance Code

Management and supervisory boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by the "German Government Corporate Governance Code Commission", as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or are not being applied.

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft believe that the recommendations and suggestions contained in the German Corporate Governance Code (GCGC) contribute to an enhancement of the financial markets in Germany, in particular for international investors. Since 3 December 2002, both Boards have issued and published annual Declarations of Compliance in accordance with § 161 of German Stock Corporation Act (AktG). Each Declaration of Compliance is made available on the Internet for five years. At the joint meeting held on 6 December 2005, the Board of Management and Supervisory Board of BMW AG issued the Declaration of Compliance with the new version of the German Corporate Governance Code valid from 12 July 2005. Moreover, the Board of Management and Supervisory Board have, in the past, developed the BMW Group's own corporate governance code on the basis of the GCGC taking account of the specific circumstances of the BMW Group. The aim is to provide shareholders and other stakeholders with a comprehensive and stand-alone document covering the corporate governance practices applied by the BMW Group. The BMW Group's Corporate Governance Code has been revised in conjunction with the new version of the GCGC. In addition to changes relating to the Investors' Protection Improvement Act and the Corporate Integrity and Modernisation of the Contestation Act, new recommendations incorporated into the new version of the GCGC have also been taken into account. The Corporate Governance Code of the BMW Group can be obtained, along with other shareholder information, such as notifications pursuant to § 15a of the German Trade Securities Act (Directors' Dealings) from the BMW Group website. Interested parties can also find other general information about the Group, up-to-date analysts' reports and all financial publications of the BMW Group at www.bmwgroup.com/ir.

In the interest of investor protection and in order to ensure that the BMW Group complies with regulations relating to potential insider information, the Board of Management has appointed an Ad-hoc Committee comprising representatives from various specialist departments and whose members examine the relevance of issues for ad-hoc disclosure purposes. The procedures and decision-taking process applied by this committee, which has been in place since 1994, have been brought into line with the revised requirements of the Investors' Protection Improvement Act. All persons working on behalf of the enterprise and with access to insider information in accordance with existing rules, have been included in an appropriate list and informed of the duties arising from insider rules.

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

Annual document pursuant to §10 of the Securities Prospectus Act

Notifications pursuant to stock exchange and securities regulations, published or made available to the public by BMW AG during the financial year 2005, are available online at www.bmwgroup.com/ir. By following this procedure, BMW AG has simultaneously implemented a new provision contained in the Securities Prospectus Act dated 22 June 2005.

Principles for the compensation of the Board of Management and Supervisory Board

The BMW Group supports the endeavours of the German Corporate Governance Code to increase transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the Articles of Association 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.

1. Compensation of the Board of Management
Responsibilities

The structure and determination of the compensation of the Board of Management are the responsibility of the Personnel Committee of the Supervisory Board. The Personnel Committee comprises the Chairman of the Supervisory Board and his four deputies.

Overall objectives

The compensation model used for the Board of Management should be attractive in the context of the competitive environment for highly qualified executives. As an incentive to encourage performance, the variable component should be linked to a high degree to the financial success of the BMW Group. The structure of the compensation of the Board of Management should also contain parallels to the compensation system applied to employees and senior management.

Components of compensation

The compensation of the Board of Management includes fixed and variable salaries. For the purposes of determining the overall compensation of the Board of Management, the Personnel Committee, having considered the overall position and forecasts of the BMW Group, decides on an overall salary framework, which will include a high variable proportion.

The factors determining the amount of variable compensation enable members of the Board of Management to earn a competitive level of income with a very high bonus element (2005: 83.6%, 2004: 84.0%) for financial years in which the BMW Group performs well. Measurement of the variable component of compensation is based on the BMW Group's net profit for the relevant year and the level of the dividend. An upper limit is set for the compensation of the Board of Management.

The compensation system does not include any stock options, value appreciation rights which work in the same way as stock options or any other stock-based compensation components. The Personnel Committee reviews at regular intervals the compensation system, with regard to the structure and amount of the remuneration of the Board of Management.

Compensation of the Board of Management for the financial year 2005

On the basis of the proposed dividend, the total salaries of the Board of Management for the financial year 2005 amounts to euro 12.2 million (2004: euro 11.9 million), comprising fixed components of euro 2.0 million and variable components of euro 10.2 million (2004: euro 10.0 million).

in euro million	2005		2004	
	Amount	Proportion	Amount	Proportion
Fixed salaries	2.0	16.4%	1.9	16.0%
Variable salaries	10.2	83.6%	10.0	84.0%
Total salaries	12.2	100%	11.9	100%

In addition, an amount of euro 0.5 million (2004: euro 0.5 million) has been granted as benefits for current members of the Board of Management after the end of their employment relationship. This relates to the expense for allocations to pension provisions. In total, the aggregated amount of paid and committed components was euro 12.7 million.

The amount paid to former members of the Board of Management and their dependants in 2005 was euro 2.6 million (2004: euro 2.5 million). Pension obligations for former members of the Board of Management and their dependants are covered by pension provisions, measured on an IAS 19 basis, of euro 37.0 million (2004: euro 36.8 million*).

2. Compensation of the Supervisory Board Responsibilities

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. Compensation is currently based on shareholders' resolutions taken at the Annual General Meeting on 18 May 1999 and § 15 of the Statutes of BMW AG. The Statutes (Articles of Incorporation) of BMW AG can be accessed via the Internet.

Components of compensation

In addition to the reimbursement of expenses, the members of the Supervisory Board receive a fixed remuneration and a bonus based on the level of the dividend.

Compensation of the Supervisory Board for the financial year 2005

On the basis of the proposed dividend, the compensation of the Supervisory Board for activities during the financial year 2005 amounted to euro 2.5 million (2004: euro 2.4 million), comprising a fixed compensation of euro 0.1 million (2004: euro 0.1 million) and a variable compensation of euro 2.4 million (2004: euro 2.3 million).

in euro million	2005		2004	
	Amount	Proportion	Amount	Proportion
Fixed compensation	0.1	4.0%	0.1	4.3%
Variable compensation	2.4	96.0%	2.3	95.7%
Total compensation	2.5	100%	2.4	100%

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity in 2005. 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).

* adjusted in accordance with Note [8] (b)

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 on the German Corporate Governance Code" pursuant to §161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft declare the following with respect to the recommendations of the "Government Commission on the German Corporate Governance Code":

The recommendations published in the official section of the electronic Federal Gazette on 4 July 2003 (Code version dated 21 May 2003) have been complied with, except for the divergences described in the declaration dated 7 December 2004 relating to section 4.2.2 paragraph 1, section 4.2.4 sentence 2, section 5.4.5 paragraph 3 and section 6.6 paragraph 2 sentence 1.

The recommendations published in the official section of the electronic Federal Gazette on 12 July 2005 (Code version dated 2 July 2005) have been complied with, with the following divergences:

– The discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee and not, additionally, by the Supervisory Board (section 4.2.2 paragraph 1 GCGC).
– The compensation of the members of the Board of Management is disclosed in the Notes to the Group Financial Statements subdivided according to fixed and performance-related components, but not by individual person (section 4.2.4 sentence 2 GCGC).
– The compensation of the members of the Supervisory in the corporate governance report is subdivided into its components, but not by individual person (section 5.4.7 paragraph 3 GCGC).
– The purchase or sale of BMW shares or related financial instruments, in particular derivates, by Board of Management and Supervisory Board members of the Company or by other persons with senior management responsibilities or by related parties of such parties are reported in accordance with § 15a German Trade Securities Act, but not disclosed additionally in the Corporate Governance Report (section 6.6 paragraph 3 GCGC).

Munich, 6 December 2005

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board Board of Management

Reason for divergences

Section 4.2.2 paragraph 1 GCGC:
The Supervisory Board has transferred discussion and regular review of the structure of the compensation system of the Board of Management to the Personnel Committee. The Supervisory Board is informed on a regular basis of the work of the Personnel Committee.

Section 4.2.4 sentence 2 and 5.4.7 paragraph 3 GCGC:
The principles of the compensation of the members of the Board of Management and Supervisory Board are made known on the Internet in an easy to understand format and discussed in the Annual Report. In addition, the total compensation of the Board of Management and Supervisory Board is disclosed, with separate disclosure of fixed and performance-related components. The Chairman of the Supervisory Board also reports on these principles and any changes thereto at the Annual General Meeting. In the opinion of the BMW Group, this scope of reporting provides adequate transparency. It enables the compensation system to be assessed by comparison with other enterprises and on the basis of the performance of the Group.

Section 6.6 paragraph 3 GCGC:
Notifications received by the BMW Group in conjunction with directors' dealings are reported without delay and kept up-to-date in the Internet at www.bmwgroup/ir. Each notification is reported on the Internet for at least 30 days. From the perspective of the BMW Group, this safeguards the interests of shareholders and other stakeholders to receive information in good time. In addition, notifications already reported during the year, are reported again retrospectively in conjunction with the Annual Document pursuant to §10 of the Securities Prospectus Act. Disclosing information – which could be more than one year after the transaction – again in the Corporate Governance Report does not appear to be necessary in the light of the existing disclosure rules which have been extended further in 2005 by the Securities Prospectus Act.

BMW AG Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2005	Equity in euro million	Net result in euro million	Capital investment in %
Domestic[1]			
BMW Bank GmbH, Munich[2]	268	–	100
BMW Finanz Verwaltungs GmbH, Munich	216	[4]	100
BMW INTEC Beteiligungs GmbH, Munich[2]	113	–	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	56	3	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	8	100
BMW Maschinenfabrik Spandau GmbH, Berlin	39	1	100
BMW Leasing GmbH, Munich[2]	16	–	100
BMW Hams Hall Motoren GmbH, Munich[3]	15	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[2]	11	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[2]	[4]	–	100

1] In the case of German subsidiaries, based on financial statements drawn up in accordance with HGB.
2] profit and loss transfer agreement with BMW AG
3] profit and loss transfer agreement with a subsidiary of BMW AG
4] below euro 0.5 million
5] In the case of foreign subsidiaries, based on financial statements drawn up in accordance with uniform IFRSs accounting policies.
Equity and net result are translated at the closing rate.

Principal subsidiaries of BMW AG at 31 December 2005	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[5]			
BMW Österreich Holding GmbH, Steyr	1,144	110	100
BMW Motoren GmbH, Steyr	765	206	100
BMW Austria Gesellschaft m.b.H., Salzburg	46	4	100
BMW Holding B.V., The Hague	5,529	14	100
BMW Australia Finance Ltd., Melbourne, Victoria	449	22	100
BMW Finance N.V., The Hague	423	– 19	100
BMW Overseas Enterprises N.V., Willemstad	59	1	100
BMW Japan Corp., Tokyo	324	47	100
BMW Japan Finance Corp., Tokyo	250	21	100
BMW (South Africa) (Pty) Ltd., Pretoria	319	53	100
BMW (Schweiz) AG, Dielsdorf	309	26	100
BMW Italia S.p.A., Milan	259	114	100
BMW France S.A., Montigny le Bretonneux	196	64	100
BMW Australia Ltd., Melbourne, Victoria	81	45	100
BMW Belgium Luxembourg S.A./N.V., Bornem	71	20	100
BMW Canada Inc., Whitby	66	50	100
BMW Sverige AB, Stockholm	32	8	100
BMW Korea Co., Ltd., Seoul	30	19	100
BMW Nederland B.V., The Hague	27	15	100
BMW Automotive (Ireland) Ltd., Dublin	25	7	100
BMW New Zealand Ltd., Auckland	4	2	100
BMW (UK) Holdings Ltd., Bracknell	1,810	– 65	100
BMW (UK) Manufacturing Ltd., Bracknell	658	179	100
BMW (GB) Ltd., Bracknell	533	235	100
BMW Financial Services (GB) Ltd., Hook	305	33	100
BMW (UK) Capital plc, Bracknell	145	6	100
BMW Malta Ltd., Valletta	707	71	100
BMW Malta Finance Ltd., Valletta	586	48	100
BMW Coordination Center V.o.F., Bornem	590	– 1	100
BMW España Finance S.L., Madrid	247	35	100
BMW Ibérica S.A., Madrid	204	76	100
BMW de Mexico, S.A. de C.V., Mexico City	23	13	100
BMW (US) Holding Corporation, Wilmington, Del.	927	180	100
BMW Manufacturing, LLC, Wilmington, Del.	693	73	100
BMW of North America, LLC, Wilmington, Del.	626	216	100
BMW Financial Services NA, LLC, Wilmington, Del.	489	106	100
BMW US Capital, LLC, Wilmington, Del.	316	42	100

BMW Group 10-year Comparison

		2005 IASs/IFRSs	2004 IASs/IFRSs adjusted[1]
Deliveries to customers			
Automobiles[3]	units	1,327,992	1,208,732
Motorcycles[4]	units	97,474	92,266
Produktion			
Automobiles[3]	units	1,323,119	1,250,345
Motorcycles[5]	units	92,012	93,836
Financial Services			
Contract portfolio	contracts	2,087,368	1,843,399
Business volume (based on balance sheet carrying amounts)	euro million	40,428	32,556
Income Statement			
Revenues	euro million	46,656	44,335
Gross profit percentage Group[8]	%	22.9	23.2
Gross profit percentage industrial operations[9]	%	20.9	21.9
Gross profit percentage financial operations[9]	%	12.0	12.5
Profit before financial result	euro million	3,793	3,774
Profit before tax	euro million	3,287	3,583
Return on sales (EBT/revenues)	%	7.0	8.1
Income taxes	euro million	1,048	1,341
Effective tax rate	%	31.9	37.4
Net profit / – loss for the year	euro million	2,239	2,242
Balance sheet			
Non-current assets	euro million	47,556	40,822
Current assets	euro million	27,010	26,812
Equity	euro million	16,973	16,534
Equity ratio Group	%	22.8	24.4
Industrial operations[9]	%	39.1	41.6
Financial operations[9]	%	10.4	9.7
Non-current provisions and liabilities	euro million	29,509	26,517
Current provisions and liabilities	euro million	28,084	24,583
Balance sheet total	euro million	74,566	67,634
Cash flow statement			
Cash and cash equivalents at balance sheet date	euro million	1,621	2,128
Cash flow[9]	euro million	5,602	5,187
Operative cash flow[10]	euro million	6,184	6,157
Capital expenditure	euro million	3,993	4,347
Capital expenditure (capital expenditure/revenues)	%	8.6	9.8
Personnel			
Workforce at the end of year[7]		105,798	105,972
Personnel cost per employee	euro	75,238	73,241
Dividend			
Dividend total	euro million	424	419
Dividend per share of common stock/preferred stock	euro	0.64/0.66	0.62/0.64

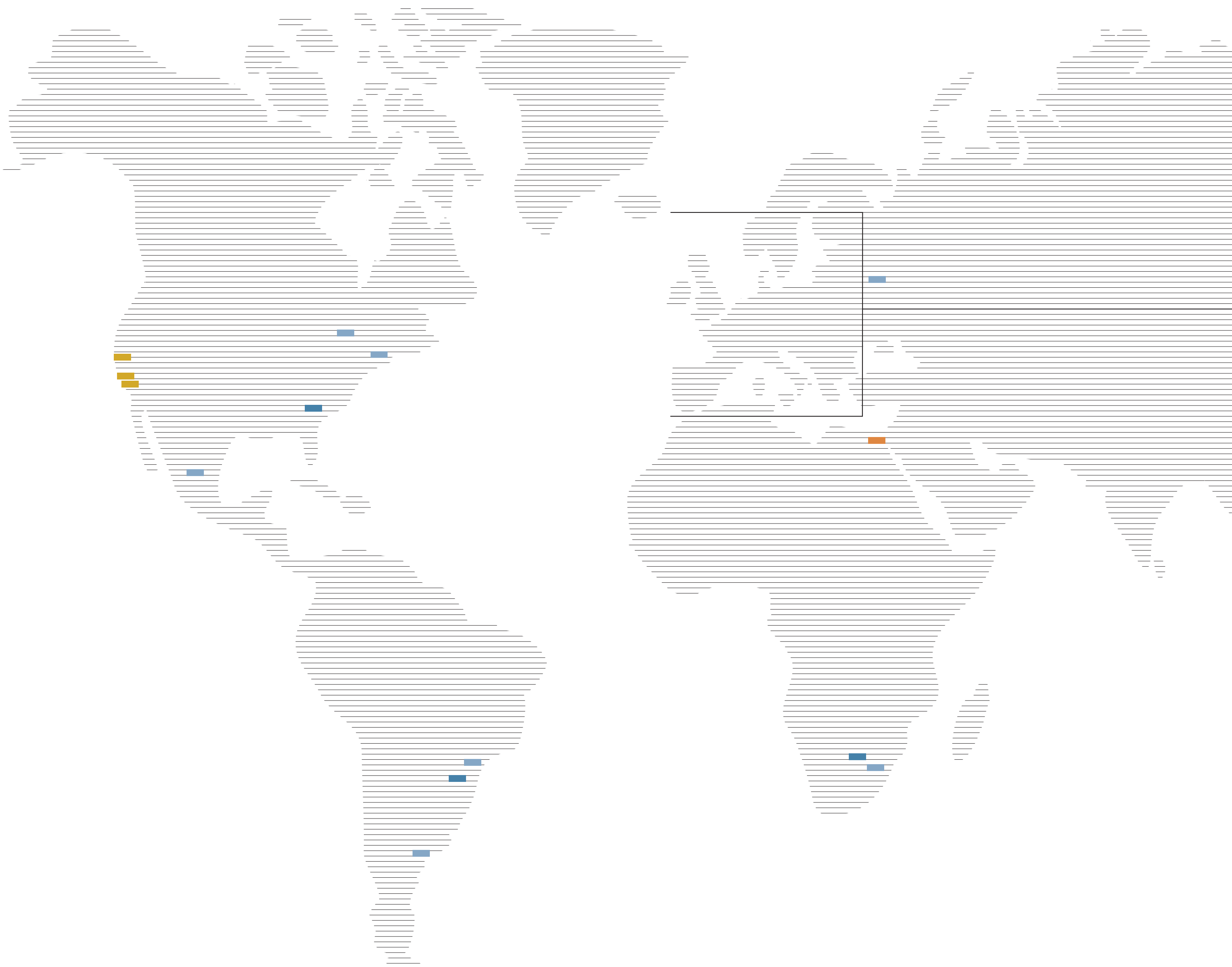
1] adjusted for new accounting treatment of pension obligations 2] reclassified after harmonisation of internal and external reporting systems 3] incl. Rover Cars until 9 May 2000
volume of C1 up to 2002: 33,489 units 6] net profit of euro 663 million before extraordinary items 7] from 1998 figures exclude suspended contracts of employment, employees
computation of cash flow for external reporting purposes into line with standards normally applied on the financial markets. In future, the BMW Group will disclose both the figure for
also given in the glossary on page 140. 10] figures only available from 2000 onwards

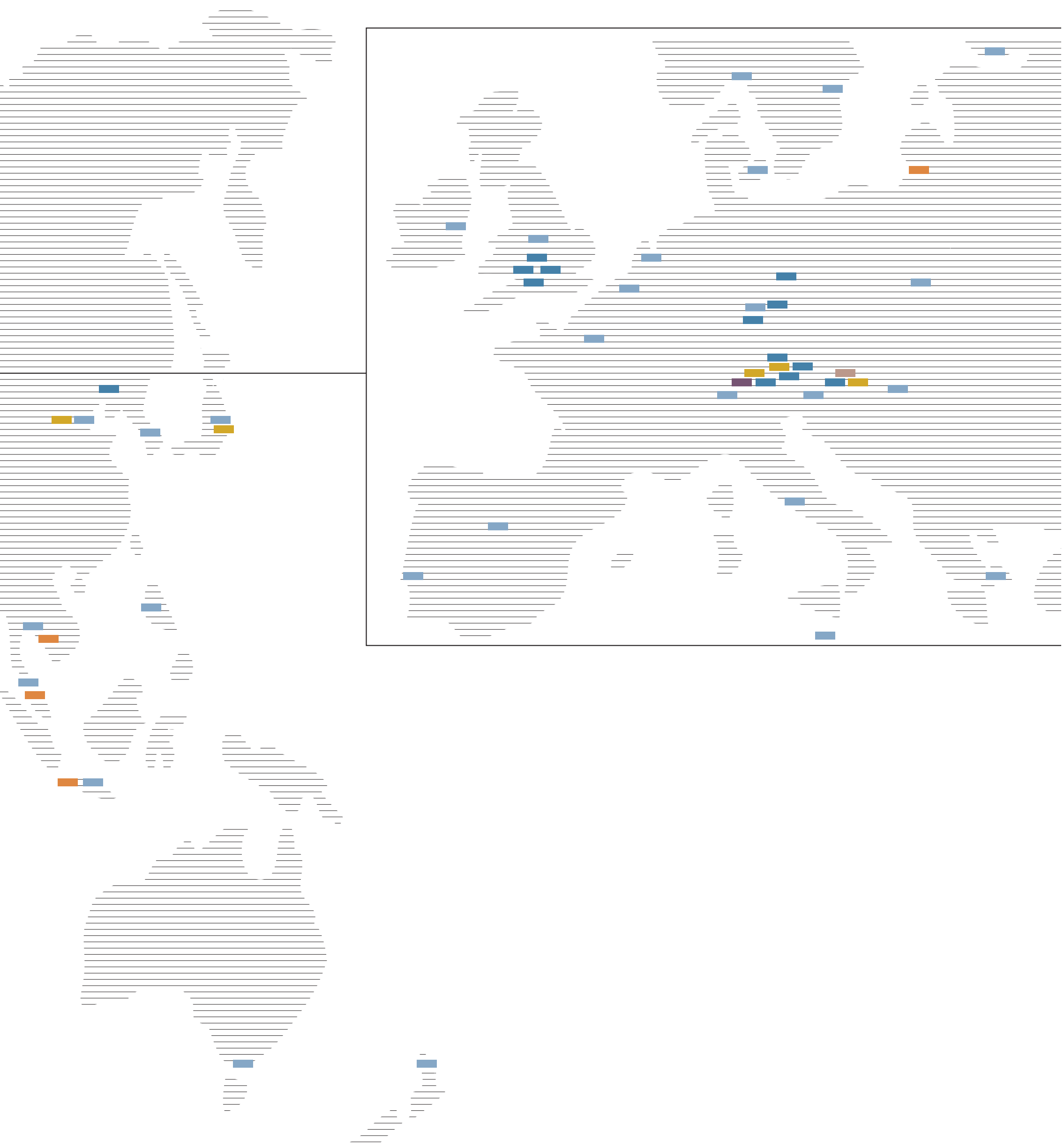
2003 IASs/IFRSs	2002 IASs/IFRSs reclassified[2]	2001 IASs/IFRSs	2000 IASs/IFRSs	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB
1,104,916	1,057,344	905,657	1,011,874	1,011,874	1,180,429	1,187,115	1,196,096	1,151,364
92,962	92,599	84,713	74,614	74,614	65,168	60,308	54,014	50,465
1,118,940	1,090,258	946,730	1,026,775	1,026,775	1,147,420	1,204,000	1,194,704	1,143,558
89,745	93,010	90,478	74,397	74,397	69,157	60,152	54,933	48,950
1,623,425	1,443,236	1,297,702	1,317,150	970,747	1,010,839	855,250	719,861	665,234
28,647	26,505	25,306	24,958	17,578	16,859	12,564	10,862	8,589
41,525	42,411	38,463	37,226	35,356	34,402	32,280	30,748	26,723
22.7	22.8	25.3	22.8	18.1	16.4	16.0	17.1	–
22.1	22.7	24.0	23.5	–	–	–	–	–
12.3	10.5	16.0	12.0	–	–	–	–	–
3,353	3,505	3,356	2,065	1,578	931	1,232	1,451	965
3,205	3,297	3,242	2,032	1,663	1,111	1,061	1,293	849
7.7	7.8	8.4	5.5	4.7	3.2	3.3	4.2	3.2
1,258	1,277	1,376	823	637	448	537	590	365
39.3	38.7	42.4	40.5	38.3	40.3	50.6	45.6	43.0
1,947	2,020	1,866	1,209	1,026	–2,487[6]	462	638	420
36,921	34,667	31,282	30,079	20,056	19,857	18,586	16,735	13,413
24,554	20,844	19,977	19,261	15,819	17,650	12,053	10,506	9,770
16,150	13,871	10,770	9,432	4,896	3,932	6,445	5,240	4,636
26.3	25.0	21.0	19.1	13.6	10.5	21.0	19.2	20.0
45.4	43.1	37.0	35.9	19.1	11.9	28.7	25.3	25.0
9.8	9.4	8.4	8.1	8.0	8.7	10.0	10.0	11.5
22,090	20,028	19,223	17,386	13,457	14,785	9,331	10,288	8,597
23,235	21,612	21,266	22,522	17,522	18,790	14,863	11,713	9,950
61,475	55,511	51,259	49,340	35,875	37,507	30,639	27,241	23,183
1,659	2,333	2,437	2,927	2,879	2,055	1,935	1,257	1,379
4,490	4,374	4,202	3,779	3,198	2,807	2,479	2,518	2,092
4,970	4,553	4,304	3,966	–	–	–	–	–
4,245	4,042	3,516	2,781	2,138	2,155	2,179	2,311	1,958
10.2	9.5	9.1	7.5	6.0	6.3	6.8	7.5	7.3
104,342	101,395	97,275	93,624	93,624	114,952	118,489	117,624	116,112
73,499	69,560	66,711	63,548	62,307	55,710	51,703	50,493	46,122
392	351	350	310	310	269	234	203	152
0.58/0.60	0.52/0.54	0.52/0.54	0.46/0.48	0.46/0.48	0.40/0.42	10.23/10.74	10.23/10.74	7.67/8.18

and Land Rover until 30 June 2000 4] excluding C1, sales volume up to 2003: 32,859 units 5] up to 1999 including BMW F650 assembly at Aprilia S.p.A./excluding C1 production at Bertone, production
in the non-working phase of pre-retirement, low-income earners 8] to 1996 presented using the nature of expense method 9] In its financial statements for 2005, the BMW Group has brought the
the cash flow as defined here and operating cash flow; the latter corresponding to the cash flow from industrial operations reported in the cash flow statement. An exact definition of the two cash flow terms is

BMW Group Locations.

The BMW Group is present in the world markets with 22 production and assembly plants, 35 sales subsidiaries and a research and development network.





Headquarters

Research and Development
BMW Group Research and Innovation Centre (FIZ), Munich
BMW Forschung und Technik, Munich
BMW Group Car IT, Munich
BMW Innovations- und Technologiezentrum für Leichtbau, Landshut
BMW Entwicklungszentrum für Dieselmotoren, Steyr, Austria
BMW Group Designworks, Newbury Park, USA
BMW Group Technology Office, Palo Alto, USA
BMW Group Engineering and Emission Test Center, Oxnard, USA
BMW Group Technology Office, Tokyo, Japan
BMW Group Entwicklungsbüro, Peking, China

Production
Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant
Munich plant
Oxford plant, GB
Regensburg plant (including Wackersdorf)
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
TRITEC Motors Ltda., Curitiba, Brazil (joint venture with DaimlerChrysler)

Contract production
Magna Steyr Fahrzeugtechnik, Austria

Assembly plants
CKD production Cairo, Egypt
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kuala Lumpur, Malaysia
CKD production Rayong, Thailand

Sales subsidiary markets
Argentina
Australia
Austria
Belgium
Brazil
China
Canada
Denmark
Finland
France
Germany
Great Britain
Greece
Hungary
Indonesia
Ireland
Italy
Japan
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Philippines
Poland
Portugal
Russia
South Africa
South Korea
Spain
Sweden
Switzerland
Thailand
USA

Glossary

[ACEA]
Abbreviation for “Association des Constructeurs Européens d’Automobiles” (European Automobile Manufacturers Association).

[BMW CleanEnergy]
BMW CleanEnergy is the name of the BMW Group’s initiative for a sustainable energy strategy. The aim is to develop products that are in keeping with the idea of sustainability and meet responsibility for the future. The BMW Group will therefore support, in the long term, a hydrogen economy based on regenerative energy sources such as hydro-electric power, wind power and solar energy. In doing so, the BMW Group favours the hydrogen-powered combustion engine because it best meets customer requirements in terms of power, dynamic performance, costs and sophistication.

[BMW Night Vision]
BMW Night Vision uses Far Infrared technology to cover an area way beyond the range of the headlamps (up to 300 metres). It detects mainly pedestrians, animals or objects radiating heat, which makes them stand out from their surroundings and thus show up brightly and clearly on the screen. BMW Night Vision does not show unnecessary, distracting details, but concentrates on essentials.

[Cash flow]
The difference between cash inflows and cash outflows for a specific period. Cash flow can be defined in a variety of ways. The cash flow referred to in the BMW Group Annual Report is computed as follows:

	Net profit/loss
+	depreciation and amortisation on intangible assets and property, plant and equipment
+/–	increase/decrease in pension provisions
=	Cash flow

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

[Common stock]
Stock with voting right (cf. preferred stock).

[Cost of materials]
Comprises all expenditure to purchase raw materials and supplies.

[DAX]
Abbreviation for “Deutscher Aktien Index”, the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

[Deferred taxes]
Accounting for deferred taxes is a method of allocating tax expense/benefit to the appropriate accounting period.

[Derivatives]
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

[DJSI]
Abbreviation for “Dow Jones Sustainability Index World”. A family of indexes created by Dow Jones and the Swiss investment agency SAM Sustainability Group for companies with strategies based on a sustainability concept. The BMW Group has been one of the leading companies in the DJSI since 1999.

[DSC]
DSC (Dynamic Stability Control) can correct unstable driving conditions, such as under- or oversteering, as soon as they begin. Thus, when DSC is activated and intervenes in the braking or engine management system, the vehicle is stabilised by applying the brakes on the individual wheels. Within physical limits, dangerous skidding is stopped as soon as it starts. The latest generation of DSC also offers a number of additional safety and comfort functions, such as Trailer Stability Control or Fading Compensation when braking performance decreases.

[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.

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

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

[High-Beam Assistant]
The High-Beam Assistant reduces strain on the driver by automatically switching the high beam on and off. A camera sensor at the front of the rear view mirror monitors road traffic up to around 1,000 metres ahead. The system recognises light from the headlamps of oncoming vehicles and the rear lights of vehicles ahead. High beam is generally used more often and correctly. Other road users are no longer dazzled by mistake.

[High-revving concept]
The high-revving concept is typical of all high-performance normal-aspiration power units of BMW M GmbH. It allows ideal transmission ratios and thus generates enormous thrust on the driving axle. These high-performance engines are characterised by particularly spontaneous and smooth power development up into the top engine speed range, a relatively low weight in relation to the high power, and comparatively economical fuel consumption.

[IASs]
International Accounting Standards.

[IFRSs]
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

[Internal financing]
Internal financing is calculated as the profit before tax, adjusted for depreciation and amortisation and material non-cash items, less income tax paid.

[Preferred stock]
Stock which receives a higher dividend than common stock, but without voting rights.

[Principal subsidiaries]
Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly
– holds the majority of the voting rights
– has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
– has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

[Production network]
The BMW Group production network consists worldwide of 16 plants, five 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 Assets BMW Group]
Profit before interest expense (expense from reversing the discounting of pension obligations and of other non-current provisions, other interest and similar expenses) and tax as a percentage of the balance sheet total.

[Return on Assets Financial Services]
Profit before tax as a percentage of operating assets.

[Return on Capital Employed]
Profit before financial result as a percentage of capital employed. Capital employed is defined as operating assets less non-interest bearing liabilities. For this purposes, non-interest bearing liabilities exclude non-interest bearing provisions and liabilities.

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

[Risk management]
An integral component of all business processes. Following enactment of the Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations and which could endanger the continued existence of the company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

[Sports Activity Vehicle]
The BMW X5 is the first-ever Sports Activity Vehicle - a combination of a typical BMW sedan featuring sporting and comfortable driving features on the one hand, with far-reaching driving abilities in terrain on the other. This creates a new market segment. In 2004, the BMW Group added another SAV, the BMW X3, to its model range.

[Subscribed capital]
The share capital of a company is computed by multiplying the nominal value of the shares by the number of shares.

[Supplier relationship management]
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the group and create efficient sourcing and procurement processes along the whole added-value chain.

[Sustainability]
Sustainability or sustainable development. The United Nations Conference on the Environment and Development, held in Rio de Janeiro in 1992, resolved a global action plan for combating poverty, ensuring a suitable population policy, promoting urban development, human rights, trade, agriculture, environmental protection, research and technology. Referred to as Agenda 21, this action plan serves to ensure sustainable development, preserving the world's natural resources and limiting the emission of pollutants to a volume the environment can absorb or degrade.

[VALVETRONIC]
VALVETRONIC provides variable valve lift, taking over the function of the throttle butterfly, which is no longer required. The result is an engine able to breathe freely, saving fuel in the process.

[xDrive]
The xDrive all-wheel drive system distributes engine power fully variably to all four wheels. The system recognises at a very early stage when power has to be shifted and reacts in fractions of a second. This increases driving dynamics, ensures maximum traction and can maintain the vehicle's directional stability in critical situations.

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

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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.

Financial Calendar

Interim Report to 31 March 2006	3 May 2006
Annual General Meeting	16 May 2006
Interim Report to 30 June 2006	2 August 2006
Interim Report to 30 September 2006	2 November 2006

Knowing strengths,
developing power –
driving performance.

Contents

Details of the official fuel consumption and CO_2 emission values of the vehicle models mentioned in the following pages are shown in the summary on pages 51 and 52.

Ladies and Gentlemen,

The year 2005 was a demanding year for the BMW Group and, at the same time, one of the most successful in the Company's history.

Last year, our automobile sales grew by almost ten percent, all three brands achieved new highs in terms of sales volume. Simultaneously, we – like the entire automobile industry – were confronted with immense burdens due to changes in economic conditions. The combination of currency impact, above-average raw material prices and intense competition posed a special challenge for the BMW Group. We were able to alleviate the greater part of these adverse factors with ongoing efficiency improvement measures and significant in-

Helmut Panke, Chairman of the Board of Management creases in sales volume. In doing so, we ultimately attained our goal of generating approximately the same high level of earnings in 2005 as in the previous year, which had been the best in the Company's history. With a profit before tax of euro 3,287 million and a net profit of euro 2,239 million, the BMW Group achieved two of its best values ever and thus also demonstrated its operating strength in a difficult economic environment.

In 2005, we once again established a new record in sales volume in the Automobiles segment – for the fourth time in succession. As a result of the successful implementation of our product initiative, motorcycle sales rose significantly last year, thus putting the Motorcycles segment back on course for growth. The Financial Services segment continues to develop strongly, the number of contracts in place and the volume of business again recorded double-figure percentage growth in 2005. These examples all demonstrate the BMW Group's success. Most of the credit for this goes to the Company's employees whom I wish to thank explicitly, on behalf of the entire Board of Management, for their commitment. In 2005, probably more than ever before, they did everything they could to ensure that the Company achieved its ambitious target for the year. The dealer network and our Company's business partners also deserve credit, for their investment and their entrepreneurial approach contributed decisively to the BMW Group's success.

Today, the BMW Group holds a position of extraordinary economic strength – not only among the German automobile manufacturers. This is due to continuing strong demand for BMW Group vehicles. This cannot be taken for granted.Therefore I wish also to thank our customers, whose trust in our products has enabled us to be successful. Last year we became segment leaders worldwide with the BMW 3, 5 and 7 Series, the core model series of the BMW brand. In

2005, not only the BMW X3 but also the BMW 1 Series and 6 Series were, for the first time, available throughout the entire year. They also contributed positively to the development of the BMW brand in 2005 and thus confirmed that we have focused on the right segments for the expansion of our product range.

The MINI brand has recorded steady growth in sales volume since its launch five years ago – a success story which is as unique in the industry as the MINI itself.

Rolls-Royce Motor Cars also developed successfully in 2005: with 796 Rolls-Royce Phantom sold, we remain the undisputed market leader in the top luxury segment. The expansion of the model range, already announced, will help us to continue to develop this leading position.

As you know, we have resolutely expanded our product range in recent years and thus cover all the premium segments of the international automobile markets which are currently relevant for us. Strong demand, particularly for the new model series, shows that this is the right course. For we want to continue to grow in future and, by expanding our range, we are opening up new market opportunities.

The BMW Group focuses with all its brands exclusively on the premium segments of the international automobile markets – with a consistency of purpose which is no doubt unique in the industry. From development, through production to marketing: we always concentrate on our strengths and thus on the implementation of the premium claim which we convey with each of our vehicles. We do not make compromises. And we do not enter fields in which we cannot do better than others. This consistency of purpose enabled the BMW Group to achieve success in recent years. And it will also lead the Company to success in the years to come. We set the decisive course for it last year.

Whether considering expansion into new, highly promising markets or growth in existing markets, with the products already available or with new models that appeal to new customers: each step by the BMW Group – whether in relation to markets or products – is taken in full awareness of its own distinctive strengths and always in pursuit of a long-term course.

It is this long-term orientation that makes our Company strong and robust. Of course general economic conditions also influence our business and do not just affect our competitors. However, with a high degree of flexibility within the Company – just think of our large number of work time models, for example – we can react relatively quickly to changes in conditions. That is how we avoid abrupt and thus expensive corrective manoeuvres and, at the same time, offer our employees a high degree of job security.

Since we coped so successfully with the special challenges of the year 2005, I am all the more confident that the BMW Group is well prepared for the coming years. We know our strengths. We do what we can do best. And we want our success to continue. Could a company wish for better conditions? In this respect, I am convinced that we shall continue the BMW Group's success story in 2006.

Helmut Panke
Chairman of the Board of Management

A distinctive course, such as the BMW Group pursues, demands a great deal of strength, determination and continuity. However, those who follow such a course without compromise remain free to determine the direction and pace of their future growth. This applies, in particular, to the automobile industry with its long-term product cycles, sophisticated process and production structures and unique brands, which are the result of consistent brand management. Here, short-term action could mean losing everything in the long run. In contrast, those who resolutely adhere to their course can achieve objectives way beyond the reach of others.

Which course leads to success?

Which course leads to success?

From an economic point of view, 2005 was a demanding year for the automobile industry. Unabated dynamic growth on the Asian markets contrasted with rising raw material costs, keener competition on the established markets and a continuing weak US dollar against the euro.

If you wonder, at times such as these, which course leads to success, then there is only one answer for the BMW Group: its own. However, for this course you have to know what you can do best – and what not; you have to find out what you are capable of doing; concentrate on your own strengths and use these to develop your vision, strategy and their implementation. In the case of the BMW Group, this distinctive course follows a very simple formula: premium. Today, this claim is reflected in practically all the Company's structures, processes and products. The BMW Group is the only multi-brand automobile manufacturer not operating in the volume segments of the automobile market. The premium claim and volume business are simply not compatible with one another. Thus, the BMW Group offers its customers exclusively authentic premium products, which are distinguished by their emotional appeal, uncompromising engineering, innovative technology and outstanding quality.

Seen in this light, a distinctive course defines not only what you do and how you do it, but also what you do not do. For, in the long term, if you can never say "No", you will always have to say "Yes". But if you concentrate on your own strengths and anticipate the challenges of the market, tailor-made solutions can be found. The difference is decisive. It is the difference between "being pushed" and "making your own way", between imitating and pioneering, between quick results due to short-term action and the kind of lasting success generated by your own strength.

In this way, the BMW Group has succeeded in developing its business in established markets and, at the same time, in systematically opening up new fields of growth. For example, in China, a booming market where already more long-wheelbase versions of the BMW 7 Series sedan are sold than anywhere else in the world, the Company opened its own production facilities in 2004. It is planning to do the same in Chennai, India, in 2006/2007: then the BMW Group will be represented on the subcontinent with its own sales subsidiary and an assembly plant.

But even the pursuit of a distinctive course does not guarantee immunity against economic setbacks and currency risks, shifts in the market and failures. Last year, conditions proved particularly difficult for the automobile industry. Often, however, such difficult times reveal whether or not a company is on the right course. In 2005, the BMW Group sold around ten percent more vehicles than in the previous year and approximately achieved the high earnings level of 2004.

In order to ensure that the Company's growth course continues, engineers and designers are working intensely on the further development of the product range. At the same time the BMW Group is going ahead with international expansion – a process that requires a great deal of strength in the short term, but opens new sales dimensions in the long term. Also, it is important to prepare for global challenges such as demographic change and the transition to the hydrogen age.

The BMW Group is doing all of this in its own consistent way. The fact that it sometimes takes a different approach to others is bound to raise questions. Some of these are taken up on the following pages.

Understanding brands – and bringing them to life.

People who talk about brands soon end up in theory. As a "distinctive perception in customers' minds", brands are, by definition, invisible, intangible and thus for many incomprehensible. At the same time, distinctive brands are now more valuable than ever as lighthouses in the endless sea of products. Brands provide orientation, they transport emotional added value, which, along with product substance, is crucial for a purchasing decision. That is why strong brands have more loyal customers, achieve higher prices and are dynamic drivers of profitable growth. This also applies to the brands of the BMW Group: today, BMW, MINI and Rolls-Royce are among the most valuable premium brands worldwide.

There is just one difficulty: strong brands cannot simply be designed on the drawing board. On the contrary, they evolve in practice by being developed consistently over a long period and, in particular, by being understood and "lived" by the employees. Three years ago, therefore, the BMW Group opened a Brand Academy in the centre of Munich for its employees and business partners. There, the world of its three brands BMW, MINI and Rolls-Royce takes a very concrete form. At the Brand Academy, which is probably unique in the automobile industry, the dynamic character of the BMW brand, for example, and the emotional, cosmopolitan chic of the MINI brand are conveyed very realistically. Brand Academy participants really experience the impressive presence for which the Rolls-Royce brand stands with all five senses. This is how abstract brand values become memorable brand personalities and employees convincing brand multipliers. 7,500 of them – mostly management staff, but also external service-providers and partners of the BMW Group – have attended the Brand Academy to date and taken the brand values they experienced back to their respective working environment.

Such a multiplier effect cannot be overestimated for a premium brand's penetration. For the employees' brand understanding is one of the decisive factors for the public's perception of a brand. How convincing is it? Does it keep its promises? Does it really live up to its premium claim? In this context, service quality is one of the areas which customers observe particularly critically. Therefore, in 2004, the BMW Group built a 20,000-square-metre training centre, also in Munich, which is devoted to the service quality of the BMW Group's sales organisations worldwide. In this "model service workshop" the technical features and technology of the BMW Group's vehicles are communicated at 70 training locations. The Sales and Aftersales Academy of the BMW Group has room to train up to 450 participants a day. In its first full year of operation, 25,000 participants from 80 countries were trained here. The academy in the north of Munich thus acts as a flagship for all the BMW Group's 53 training centres worldwide.

The objective: customers of the BMW Group are to be offered the same highly qualified premium service wherever they need it. So if you wonder what a premium brand sounds like, part of the answer is to be found not only in the typical BMW engine sound, but also in the noiseless efficiency of excellent, smooth-running service.

––– above: training in the BMW Group's Sales and Aftersales Training Academy.
––– below: brand experience in the Brand Academy.

––– With its entry into the Indian market, the BMW Group is opening up further growth potential.

Opening up markets that are beginning to develop.
At first glance, the beginnings are modest. In 2005, 227 automobiles of the BMW brand were delivered in India. Less than 0.2 percent of India's population has an annual income of euro 19,000 or more, therefore only a correspondingly small proportion could afford a premium automobile. Nevertheless, the BMW Group is currently building an assembly plant in Chennai, formerly known as Madras, where BMW 3 and 5 Series automobiles are to be assembled for the local market from 2007. The Company has also established a sales subsidiary in the Greater Delhi area, which will commence operations at the beginning of 2007. The dealer network is to be extended to all the country's major urban areas. Initial capital investment in the sales subsidiary and assembly plant will amount to around euro 20 million.

The BMW Group's commitment on the subcontinent makes sense when it is seen as part of a global growth strategy. The BMW Group is pursuing the goal of being the most successful supplier of premium automobiles in every relevant market. In doing so, emerging markets are initially served by importers. As soon as these markets have reached a certain size, the Company's presence is intensified with a sales subsidiary or an assembly plant. In India, this point has now been reached. The state has improved conditions for capital investment and developed the road network. In addition, a new middle class has evolved and grown rapidly in recent years. As a result, demand in the premium automobile segment is also developing strongly. Experts are expecting it to multiply in the coming years.

Thus, it is simply consistent to establish a corresponding infrastructure with the Chennai assembly plant in this up-and-coming market. The plant is designed initially for an annual production of 1,700 vehicles, a volume that can be extended flexibly, depending on how retail develops. Indeed, a market's potential is often stimulated when local production begins. On the North American market, for example, sales volume has multiplied more than fivefold since the BMW Group's decision to build its own plant in Spartanburg, South Carolina. It has risen from 53,343 automobiles in 1991 to more than 300,000 vehicles in 2005.

The BMW Group is also expecting dynamic sales volume growth in other Asian markets. There it already has, for example, a production and sales joint venture in China, assembly plants in Thailand, Malaysia and Indonesia, an IT and parts distribution centre in Malaysia and a newly opened design centre in Singapore. With its business activities in India, it now has a presence in all the strategic hubs of Asia. Retail in Asia is to increase from slightly more than 111,000 vehicles in 2005 to 150,000 automobiles of the brands BMW, MINI and Rolls-Royce within three years. These are, as always, ambitious goals. But the beginnings are extremely promising.

Working on drive concepts for the future.

Nowadays, whenever people discuss climate change, emissions protection and finite resources, they also talk about sacrifice, compromise and the need to use less. The development engineers of the BMW Group are working on highly progressive drive technologies with economical fuel consumption and low emissions. Amazingly, at the same time each new generation of vehicle offers enhanced performance and dynamics. This is because the BMW Group's development engineers are following a concept called "EfficientDynamics" which combines Sheer Driving Pleasure with more efficient energy utilisation.

Today, all new BMW petrol engines, with the exception of the M power units and special engines, feature VALVETRONIC. This controls the valve opening times, timing and height, and thus the flow rate, as a function of the accelerator pedal position. Thus, the valves always work efficiently. This significantly increases the efficiency of the petrol engines. Intelligent lightweight engineering concepts, such as are used, for example, in the current BMW 5 and 6 Series, make the vehicles far lighter and thus reduce their energy consumption.

All these are seemingly small optimisation measures, but considered together in the entire fleet of vehicles they represent a significant increase in efficiency: since 1990, the BMW Group's fleet consumption has decreased by almost 30 percent. In future, innovative drive concepts are expected to bring further reductions. Newly developed High Precision Injection, the BMW version of direct petrol injection with spray-guided lean combustion, for example, is suitable for lowering petrol consumption by a further five to fifteen percent in future. The BMW Group's concept vehicle BMW Concept X3 EfficientDynamics, for example, unites the currently most advanced combination of a highly efficient internal combustion engine with the power of a high-performance electric motor. The key to the BMW Concept X3 EfficientDynamics hybrid concept lies in the "super caps" in the side-sills. Electric power is stored very quickly in these capacitors and can be called up whenever the driving dynamics requires it.

In the long term, however, the BMW Group aims to replace fossil fuels by regeneratively produced hydrogen. In 2004, the Company convincingly demonstrated the efficiency of this environment-friendly fuel with its H2R Research Car. The prototype with a twelve-cylinder hydrogen combustion engine achieved a top speed of more than 300 km/h and holds nine international records for hydrogen-powered vehicles with combustion engine. The first BMW 7 Series automobiles with hydrogen combustion engine are currently in the process of series development and will prove their suitability in daily use. Then the first hydrogen-powered BMW automobiles that emit practically only steam upon combustion will be on the road. Thus, today's and tomorrow's drivers will continue to experience Sheer Driving Pleasure without compromise.

––– Record vehicle in the wind tunnel: testing the hydrogen-powered prototype of the BMW H2R.

Striving for advances – learning from nature.
Sometimes pioneering involves going back a long way, considering ideas that appear to have nothing to do with normal business activities, putting principles into practice which seem revolutionary but have, in fact, evolved and been optimised over hundreds of thousands of years.

The BMW Group's engineers do this by gaining inspiration, for example, from birds' feathers, river current patterns, elephants' skulls or a horse's body structure. During their work, engineers who develop automobiles often face exactly the same problems with which nature has to cope. To be more precise: problems which nature has already solved brilliantly. One pivotal challenge, for example, is to equip mobile organisms with a variety of abilities and characteristics without exposing them to excessive load. For more mass always means increased energy consumption and less mobility – on the road as in nature. And that is why evolution has constantly perfected the art of "intelligent lightweight construction" over the course of millions of years. Birds' feathers, for example, are impressive examples of strength, flexibility and lightweight structure – and thus ideal models for the required function of rear axles which also have to cope with a great deal of strain without exerting too much weight on the road. Elephants' skulls, which can effortlessly move loads weighing several hundred kilograms, also have amazingly filigree structures and, at the same time, weigh only a few kilograms. And then there are horses which – thanks to their sophisticated bone structure – have an extremely favourable ratio of "load-bearing parts" to total weight (one of the factors that inspired engineers when designing the dashboard of the new BMW 3 Series).

Countless models such as these are to be found in nature. Indeed, plants and animals that employ far fewer materials frequently achieve higher levels of efficiency than even the most sophisticated technical innovations. This may sound surprising, but it is understandable when you realise that some natural construction principles have millions of years of testing and continuous improvement behind them. Gaining inspiration from the "research laboratory" outside the front door thus simply means gaining a significant technological head start. The technical term for this is bionics, an artificial word made up of biology and technics, and an established part of daily routine for the BMW Group's development engineers. The extremely robust aluminium rim construction of the BMW K 1200 S motorcycle, for example, was inspired by the structure of mammal bones. The air intake pipe through which the diesel engine draws in combustion air was optimised on the basis of river current patterns. And thanks to bionic principles the engineers have also succeeded, in the current BMW 3 and 5 Series sedans, in maintaining or even reducing total weight despite significantly increased comfort and safety features. Less weight also means lower fuel consumption and thus fewer emissions of pollutants. In this way, the design engineers have not only borrowed one of the principles of success from nature, but can also do something for it in return.

––– **Branch forks and mammal bones as model – the parts of the motorcycle rim exposed to most strain were specially reinforced. These rims have been used in series in the K 1200 S since January 2005.**

––– **One model, one start-up, four production locations (clockwise from top left: Leipzig, Regensburg, Munich and Rosslyn): the BMW Group set standards with the production start-up for the new BMW 3 Series sedan.**

Managing complexity and remaining flexible.
Production start-ups for new models are always an immense challenge for automobile manufacturers. This challenge is particularly demanding when the new model is to roll off the assembly lines not only at one, but at four plants at once – and in the same uncompromising quality at all locations. This is the remarkable feat that the BMW Group accomplished when it launched production of the new BMW 3 Series sedan.

The production start-up of the new BMW 3 Series began at the BMW plant in Munich in December 2004, followed closely by the BMW plants in Regensburg, Leipzig and Rosslyn, South Africa. Production at a fifth plant in Shenyang, China, started somewhat later. For the "breathing structures" of the BMW Group's worldwide production network, this was an extraordinarily deep breath requiring intensive preparation. Three years before production began, employees of the Rosslyn plant had come to Munich to prepare together for the start-up of the new BMW 3 Series. Under the lead of the BMW plant in Munich, the BMW Group development engineers and production specialists had elaborated solutions for producing the new model in all its complexity as efficiently as possible and in the highest quality at different locations. Today, for example, all model variants share one and the same front body section, while the previous generation had three and the one prior to that as many as 30 different fronts. Large body pieces, such as doors, flaps or roofs are transported to the individual plants from central pressings plants. The vehicles are produced on a main assembly line that is largely "variant neutral", where all models are built individually and flexibly according to the level of order processing. Integration modules, such as the cockpit or front-end, are pre-assembled separately beforehand and delivered just-in-sequence. This further reduces the number of work sequences and of variants on the main assembly line. In order to ensure that the necessary components are always available at the right time and place, design engineers, purchasing specialists and supply planners had to draw up a logistics concept with a significantly increased share of just-in-sequence and just-in-time deliveries – no easy task since the production chain goes halfway around the globe.

The plants of the BMW Group support each other within the production network, depending on market conditions and the respective model cycle. This enables the Company to react extremely quickly to economic changes, customer wishes and demand. In the actual plants, flexible production facilities for different model variants and units, as well as highly flexible structures and work times ensure maximum freedom of action. High priority is also given to flexible processes and structures. With the new Mobile Standard Production Cell (Mobi-Cell) developed by BMW, entire robot cells can be used flexibly almost anywhere in the production network – not just statically at one location. The Mobi-Cell acts as a kind of universal extension module for production facilities and enables the body shop to adapt its production structures to meet market requirements within a very short time. In other words, Mobi-Cells give the Company a little more air whenever and wherever it wants to take a deep breath.

Understanding demographic change as an opportunity – and benefiting from it.
Industrial nations are currently undergoing an immense upheaval. For years the number of births has been lower than that of deaths, while statistical life expectancy continues to rise. In most industrial countries the classic population pyramid has long turned upside down.

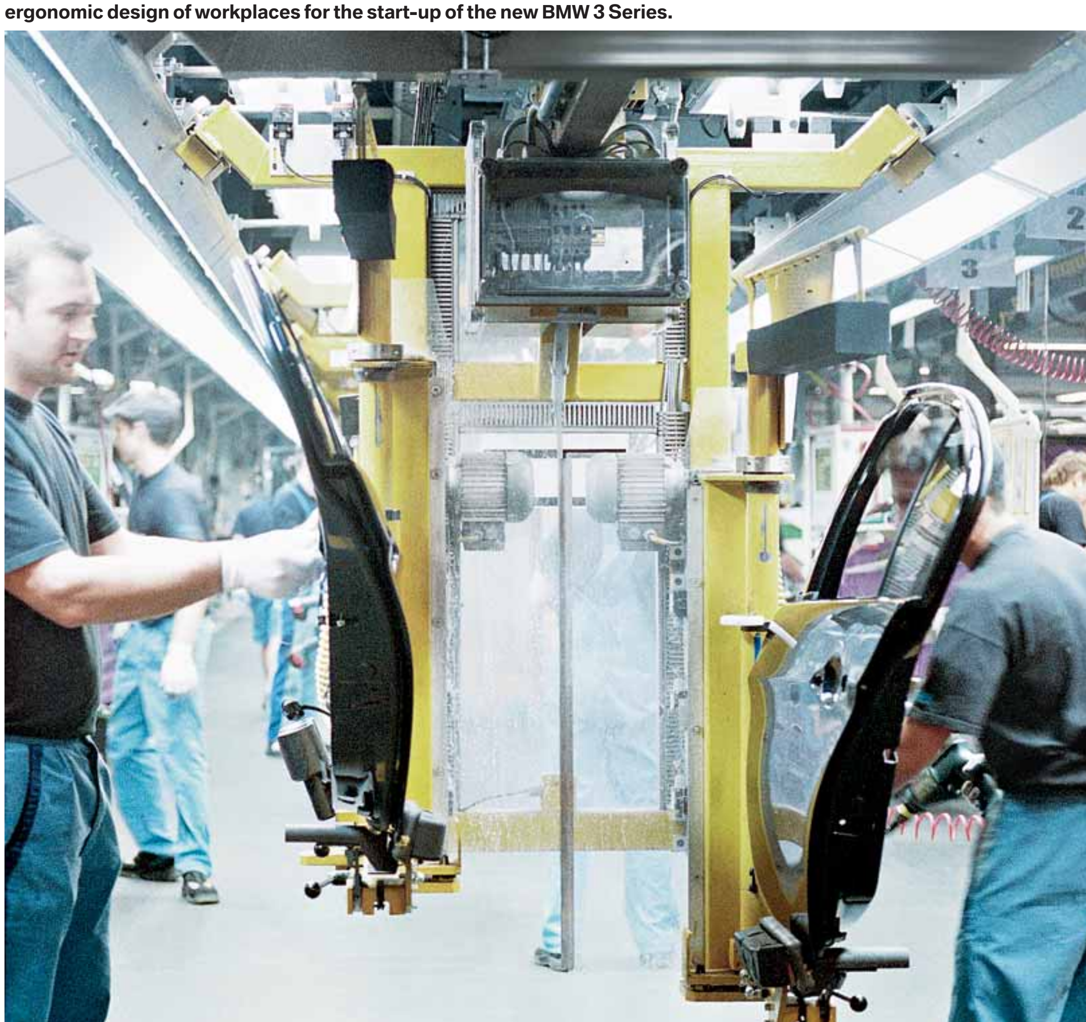
Clearly, therefore, the average age of the BMW Group's workforce will be far older in 2020 than it is now. With fewer years of study and the statutory age of retirement likely to rise, employees will work up to ten years longer than they do today. It is also clear that older employees tend to be more prone to illness and are often not as physically fit as their younger colleagues. At the same time, however, they are more experienced, more responsible, better able to make sound judgments and indispensable because of their organisational knowledge.

In an aging society, companies that both enhance the performance of their workforce and resolutely make use of their employees' knowledge and experience are more likely to gain a head start. The BMW Group is putting this into practice with an overall project approach, which anticipates the developments of demographic change. In this project, called "Today for tomorrow", employees are offered not only advice and information to heighten their awareness of old-age provisions and health protection, but also privately financed pension schemes. Health and fitness training as well as comprehensive health care programmes help employees of all ages to use their potential to the full and to remain fit and healthy. Workplaces are designed to adapt to the human body and the way it moves rather than the other way round. In the Munich plant alone, more than euro 25 million were invested in the design of ergonomically optimised workplaces for the start-up of the new BMW 3 Series.

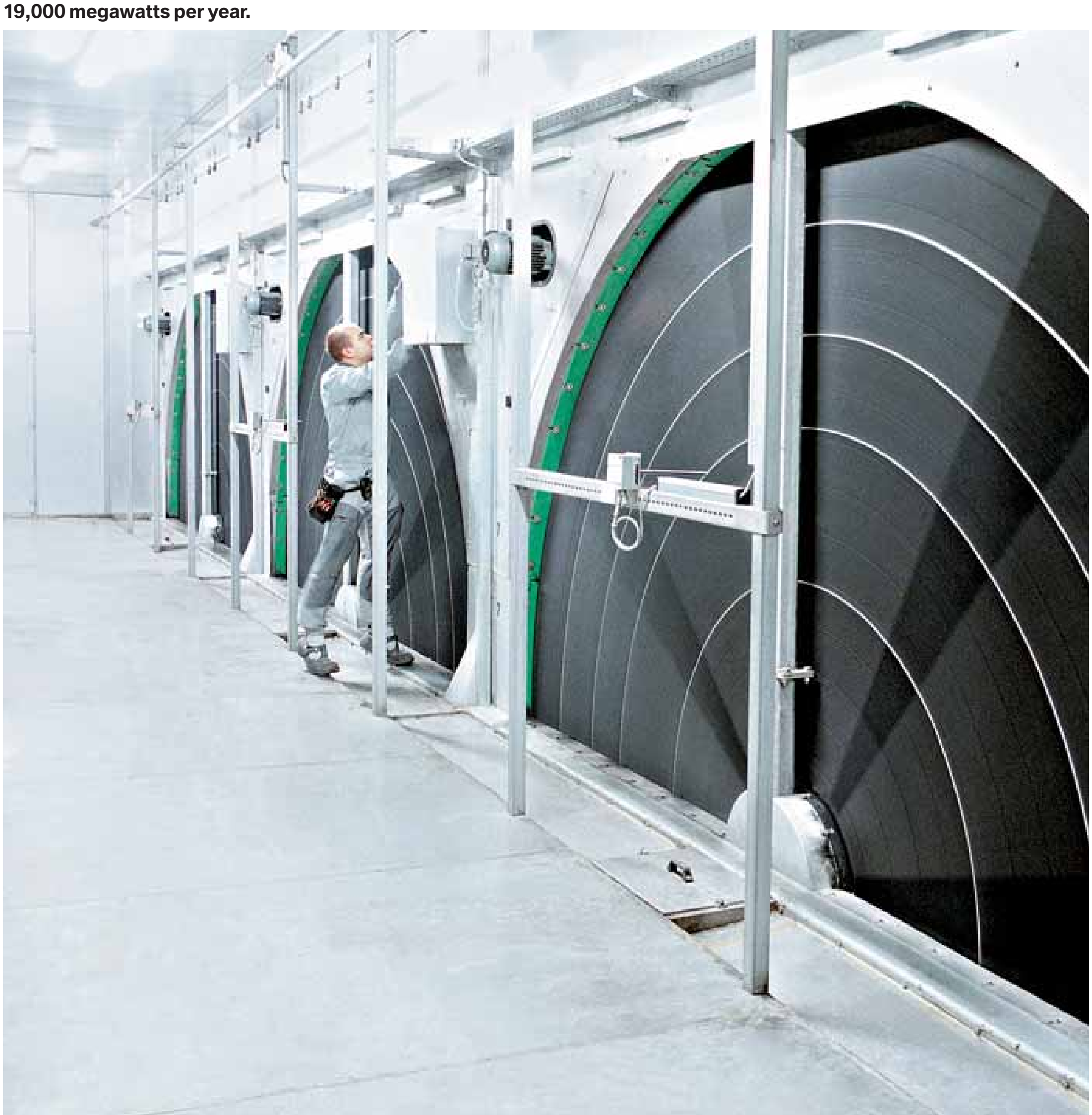
If necessary, older employees are also hired selectively. At the BMW plant in Leipzig, for example – the youngest plant in the BMW Group's worldwide production network – the oldest newcomer was 59 years old when he was hired. The Company encourages a healthy mix of young and experienced employees, of men and women who can use their individual capabilities both to their own and to the Company's advantage. In order to promote these abilities, the Company invests around euro 200 million a year in training and further education – a budget for education corresponding to that of a medium-sized university. And just as at a university, people are to be prepared for new tasks in new fields of knowledge. The BMW Group's "Qualitative Human Resources Planning" forecasts which skills will be in greatest demand and where which employees will be required in future. It thereby ensures that the employees' abilities are developed and promoted with foresight.

Today, these measures benefit employees and Company; in the competitive environment of tomorrow, however, they will be decisive for success. For then it would be far too late to react to demographic change. In contrast, anticipating it today simply means turning what seems to be a weakness into strength.

––– **Height-adjustable door assembly in the BMW plant in Munich: more than euro 25 million were invested in the ergonomic design of workplaces for the start-up of the new BMW 3 Series.**



––– Energy efficiency in the BMW plant in Leipzig: exhaust air from the paint shop is led through 20 heat wheels. The heat recovered is used to heat the halls, reducing energy requirements for the paint shop by around 19,000 megawatts per year.



Combining success and responsibility.
Being successful. Always living up to the claim of performing better. A tradition of setting standards with own solutions: for the BMW Group, this also applies to sustainability.

Ever since establishing an environmental protection unit in 1973 (the first in the automobile industry worldwide), the BMW Group has resolutely pursued an overall approach. For the Company, sustainability management means using resources efficiently, recognising risks and taking opportunities, acting responsibly towards society and thus enhancing reputation. In South Africa, for example, where the HIV virus is particularly widespread, the BMW Group supports infected employees and their families with all the necessary drugs and other measures. The comprehensive health programme not only makes life easier for those infected, but also enables them to continue to work at the BMW Group. Another continent, another example: in the Leipzig plant, the BMW Group's youngest production location, even the exhaust air from the factory halls is used. Twenty so-called heat wheels with 60 to 70 percent efficiency recover the heat from the exhaust air and use it to heat the fresh air, thereby helping to significantly reduce heating energy and emissions of CO_2. The BMW plant in Spartanburg, USA, uses methane gas from a nearby public landfill site to generate energy. Up to 25 percent of the plant's energy requirements are met by this gas from the decomposition of biological waste, which comes to the plant by a 15-kilometre pipeline. This system saves around 72,000 tons of CO_2 a year – a quantity corresponding to approximately 5,600 trips around the equator by car. Since 1980 the average water consumption per automobile produced in the entire BMW Group has been reduced by more than 80 percent – partly as a result of particularly environment-friendly powder-based clear paint technology. Analysts from the environmental agency Oekotrend confirm that the BMW Group has the most environmentally compatible automobile production in the industry.

All this reduces costs, eliminates risks, enhances brand image and creates lasting values – ecologically and economically. Values that are also required by the independent sustainability indexes. Thus, the BMW Group is the only company in the automobile industry to be represented in the Dow Jones Sustainability Index for the seventh time in succession. It is also listed as industry leader in the Corporate Responsibility Ranking by the Munich rating agency Oekom and in the FTSE4GoodEurope50, which means that independent experts recognise the unusual strength of the BMW Group in sustainability matters.

22 June 2005: The decision has been taken. For the first time in corporate history, the BMW Group is competing under its own management in Formula 1, the royal discipline of racing. Thus, the Company will also be able to take advantage of synergy effects between racing and series production. Formula 1 acts as a high-tech laboratory and technology accelerator. And it fits in perfectly with BMW brand values.

Start.


16
BMW

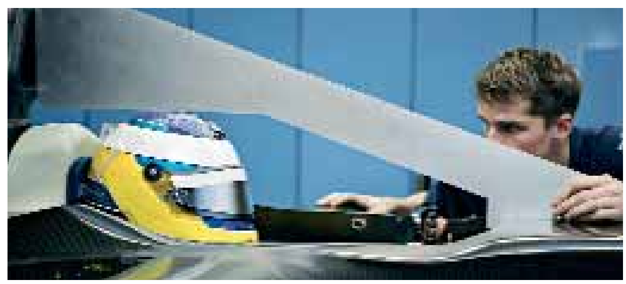
Start.

When the 2006 racing season opens, a racing team managed by BMW will for the first time go to the start in the Formula 1 World Championship. The BMW Group has been involved in Formula 1 racing as engine partner to a racing stall for six years. These years provided valuable experience, but they also showed that Formula 1 races cannot be won with just a good engine. With the launch of the BMW Sauber F1 Team, the BMW Group can now optimise all the success factors itself. First of all, however, the 2006 season will be a phase of development, cohesion and experience gathering for the BMW Sauber F1 Team.

Preparations for the new season are in full swing: more than 100 new employees are being hired at the location in Hinwil, Switzerland, the wind tunnel is being switched from one- to three-shift operation, the development and production facilities are being extended and an independent test team is being formed. The division of labour has been established: while the vehicles are built and the racing assignments fixed in the Zurich Oberland, the complete drive shaft and electronic systems are being developed, tested and produced in Munich. Thus, the Formula 1 commitment acts as a high-tech laboratory and technology accelerator for the entire Company. For example, the Formula 1 engineers in Munich work only a few hundred metres away from the BMW Group's Research and Innovation Centre (FIZ), so development engineers working on Formula 1 and series production engines can, and frequently do, compare notes.

With Nick Heidfeld (record to date: two second-place finishes, one pole position) and Jacques Villeneuve (eleven Grand Prix victories, 13 pole positions), the new team has two ambitious and experienced racing drivers in the cockpit. Together, these two Swiss residents have gained experience in 250 Grand Prix races. The third driver for the free practice and test drives is Robert Kubica, a highly promising young pilot from Poland.

The BMW Group's Formula 1 history goes back to the year 1952 and has so far included 200 starts, 19 Grand Prix wins and 32 pole positions. In 1983, Nelson Piquet won the Drivers World Championship; the greatest success – for the time being.



––– Preparations for the season’s start – test drives are made with the new racing car. The seating position is adjusted exactly for each driver.

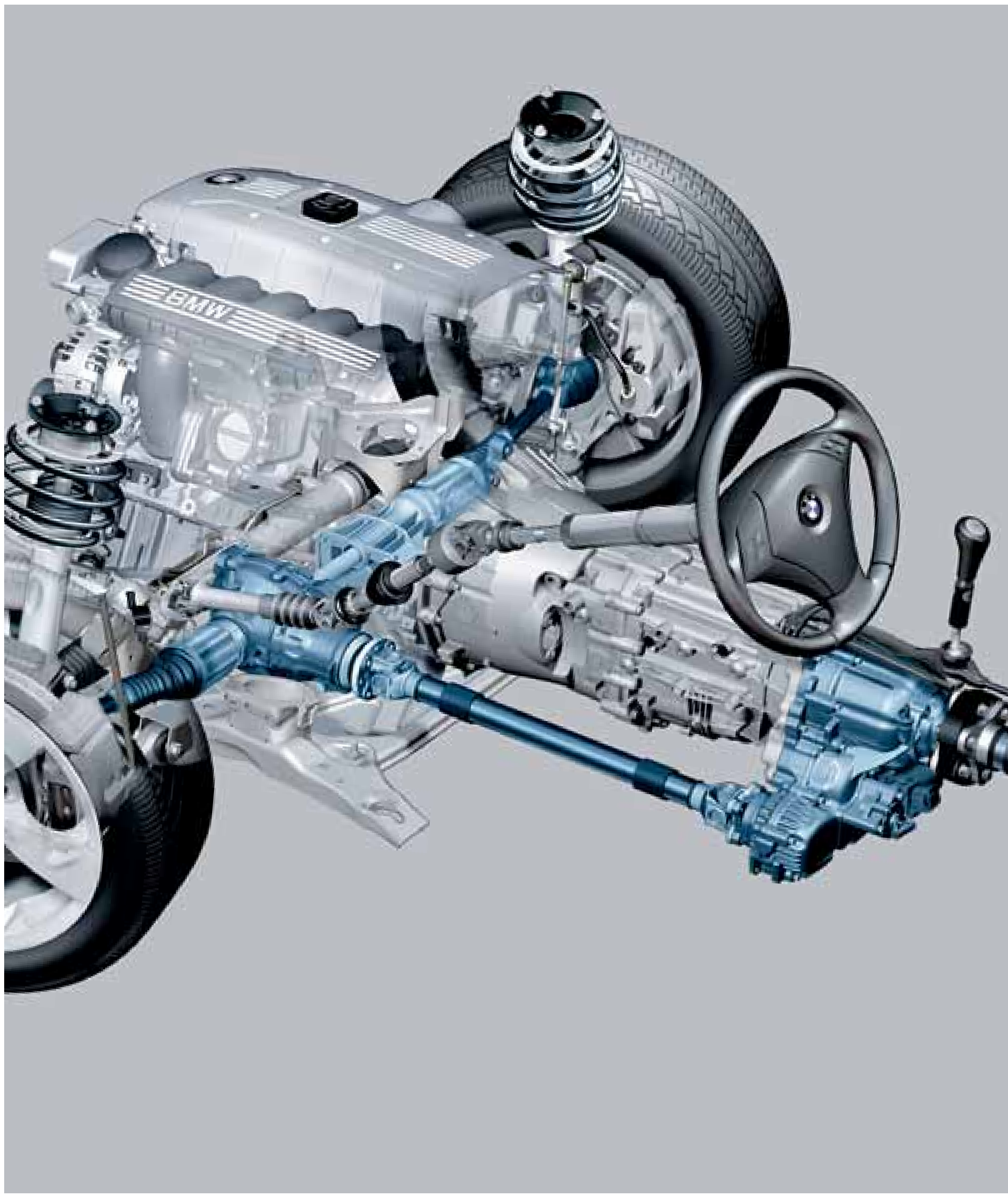
Formula 1 is a racing event associated with superlatives. No other sport regularly generates so much interest worldwide. Everything that is technically possible is tested to the limit – race by race.

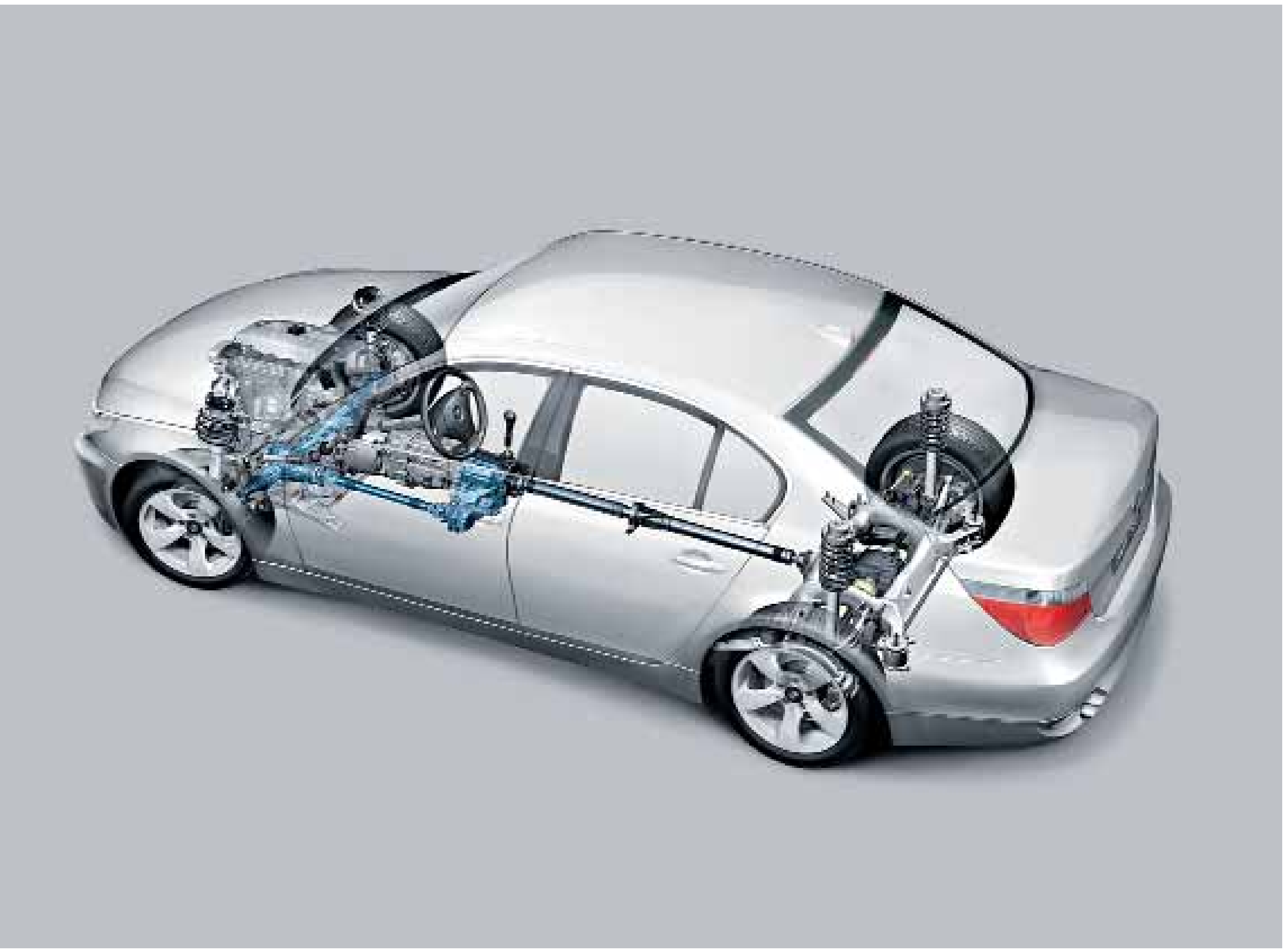
18	**Grand Prix races will be held in 2006**
1,138	**laps per driver will be clocked up in the 2006 season**
30	**tons of air cargo accompany the BMW Sauber F1 Team when it races overseas**
50	**degrees centigrade is the average cockpit temperature during a race**
24	**hours are needed to produce a tailor-made carbon seat**
4.2	**seconds are all it takes for a Formula 1 racing car to come to a halt from a speed of 300 km/h, i.e. the car is stationary in 170 metres**
5	***g* (earth acceleration) is the maximum power with which drivers are pressed into their belts during extreme braking manoeuvres**
1,000	**degrees centigrade is the temperature reached by the carbon-fibre brake discs during a race**
950	**degrees centigrade is the highest temperature measured on the exhaust of a Formula 1 vehicle**
8,000,000	**ignitions occur in a Formula 1 engine during a race of 300 km**
1,105	**individual components are needed for a BMW P86 eight-cylinder Formula 1 engine**
10,000	***g* (earth acceleration) is the force exerted on the pistons in the BMW P86 Formula 1 engine**
3	**tons is the maximum load per piston rod**

––– The engine – the heart of every Formula 1 vehicle – is at the rear. The most important change in the rules for the 2006 season is the reduction of the number of cylinders from ten to eight. The displacement permitted has also been decreased from 3,000 cc to 2,400 cc.

In 2005, the BMW Group once again demonstrated its leadership in technology and innovation with new models, new equipment and driver assistance systems.

Technology and Innovation


BMW



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xDrive ––1

The xDrive all-wheel drive system distributes the engine power to the four driven wheels in fractions of a second. If necessary, power is shifted not only between the front and rear axles, but also between the individual wheels, depending on where it is required. This increases driving dynamics, ensures maximum traction and can maintain the vehicle's directional stability in critical situations.

BMW Night Vision ––2

BMW Night Vision uses Far Infrared technology to cover an area way beyond the range of the headlamps (up to 300 metres). It detects mainly pedestrians, animals or objects radiating heat, which makes them stand out from their surroundings and show up brightly and clearly on the screen. Thus, drivers can very quickly check the screen for hazards – like looking in the rear view mirror – without taking their eyes off the road.

High-Beam Assistant ––3

The High-Beam Assistant ensures that the high beam is switched on automatically. A sensor at the front of the rear-view mirror monitors road traffic up to around 1,000 metres ahead. The system analyses the brightness and colour of the source of light in order to imitate as closely as possible the way drivers operate the high beam. As a result, high beam is used more frequently and correctly. This system also reduces strain on the driver and thus increases comfort and safety.

DSC with new safety and comfort functions

The latest generation of the suspension control system DSC (Dynamic Stability Control) offers a number of additional safety and comfort functions. The Hill Start Assist prevents the vehicle from rolling backwards when setting off uphill. In the event of sudden deceleration, Brake Standby applies the brake pads to the brake discs to shorten the braking distance in an emergency stop. In rain, the Rain Brake Support operates the brake at defined intervals – without the driver noticing and without the vehicle decelerating – in order to ensure optimum braking performance on wet road surfaces. When the brakes get very hot, Fading Compensation achieves the usual good braking performance. The Soft Stop function makes the vehicle come to a smooth halt by automatically decreasing the braking pressure at the end of the braking cycle. Finally, Trailer Stability Control monitors the swaying motion of a trailer and, if necessary, brings it back into line.

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BMW 1 Series

- --- All BMW 1 Series automobiles available with Sports Package, Adaptive Headlights and Telematics as options

BMW 130i – – 1 and 2

- --- Top model BMW 130i with highest-performance version of the three-litre straight-six petrol engine

BMW 3 Series – – 3 and 4

- --- New BMW 3 Series Touring available since September 2005
- --- Two new diesel engines (in the 318d and 330d) and one new petrol engine (in the 318i)
- --- Special model BMW 320si with high-revving four-cylinder power unit – basis of the motorsports version for the FIA World Touring Car Championship (WTCC) and other racing series. Limited edition of 2,600 vehicles
- --- xDrive all-wheel drive system as option for all six-cylinder models (Sedan and Touring)
- --- Latest generation of the suspension control system DSC stabilises the vehicle, for example, when a trailer starts to sway from side to side

BMW Z4 Roadster – – 5
--- New engines, newly designed details at front and rear as well as new metallic paints
--- Six-speed gearbox as standard for all models
--- Six-speed sport-automatic transmission as option for the Z4 Roadsters 3.0si and 2.5si

BMW 7 Series – – 6
--- BMW 745d – the world's most powerful and highest-revving series production vehicle with diesel engine
--- Long wheelbase version available for the first time with diesel engine (730Ld)
--- Driver assistance systems BMW Night Vision and High-Beam Assistant as options

BMW Z4 M Roadster – – 7 and 8
--- High-revving concept with outstanding performance
--- Huge thrust at all engine speeds due to optimised gear transmission
--- M differential lock for traction and road stability
--- Compound high-performance brakes, originally developed for racing

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BMW 5 Series

--- Two new eight-cylinder 4.8 and 4.0-litre petrol engines (BMW 550i and BMW 540i respectively)
--- New six-cylinder petrol engines for 523i, 525i and 530i
--- New diesel-engined models: 520d with four-cylinder diesel and 530d with new six-cylinder diesel
--- BMW Night Vision and High-Beam Assistant as options
--- Suspension control system DSC with safety and comfort functions
--- BMW 525xi, 530xi and 530xd with xDrive all-wheel drive system

BMW M5 – – 9 and 10

--- Most powerful series production BMW 5 Series of all time
--- Seven-speed SMG transmission, best power to weight ratio, exceptional handling and everyday driving qualities
--- Only V10 high-revving power unit in a series production sedan
--- Active safety due to racing sports brake system, electronic control systems and adapted chassis

BMW 6 Series

--- Increased performance with lower fuel consumption due to the new eight-cylinder, 4.8-litre petrol engine in the BMW 650i (Coupé and Convertible)
--- Suspension control system DSC with safety and comfort functions
--- BMW Night Vision and High-Beam Assistant as options

BMW M6 – – 11

--- Carbon roof – reduced weight and lower centre of gravity for more driving dynamics and a continued high level of safety
--- Sports car with everyday driving qualities – high degree of active and passive safety, tremendous performance and comfort

BMW X3

--- X3 2.0i – new entry-level petrol engine
--- 3.0-litre diesel engine with increased performance

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– – 2 and 3

– – 4

BMW HP2 Enduro – – 1

--- First model of a new, independent category of BMW motorcycle: high-performance vehicles designed for their special area of use and for perfection down to the last detail
--- Uncompromisingly sporty and large thoroughbred enduro
--- Currently the most powerful series production enduro available
--- Tailor-made for the needs of ambitious enduro riders
--- Development of the lightweight suspension based on marathon-rally experience
--- Consistent lightweight construction – 175 kg dry weight
--- A first worldwide: Air Damping System for rear wheel

BMW F 800 S – – 2

--- Entirely newly developed mid-range sports motorcycle
--- Great agility and perfect handling for riding fun
--- 800 cc two-cylinder inline engine with unique mass compensation
--- Low-maintenance and quiet toothed belt drive to the rear wheel
--- Three-way catalytic converter, digital engine electronics and ABS (anti-lock braking) as options

BMW F 800 ST – – 3

--- Sister model of the F 800 S
--- Dynamic mid-range sports tourer based on the same technology
--- Full trim, high windshield and particularly comfortable seating position for relaxed touring

BMW R 1200 GS Adventure – – 4

--- The enduro for globetrotters and adventurers, based on the R 1200 GS
--- Extreme range due to enlarged fuel tank
--- New windshield for more effective protection from wind and rain
--- Robust tank and engine protection hoops and extra-wide rider footrests
--- Equipped for a world tour ex factory

BMW R 1200 ST – – 5

--- Successor of the R 1150 RS – for touring enthusiasts with sports ambitions
--- Weight just under 230 kg – more agile and sportier

BMW R 1200 S – – 6

--- Sports motorcycle of uncompromising design with the most powerful series production flat-twin engine of all times
--- Light and stable aluminium and steel tubular frame structure
--- Aerodynamically optimised slim line
--- Sports suspension with optimum steering precision and directional stability
--- Powerful brake system with highly sensitive control and new, extremely compact ABS (anti-lock braking) as options

BMW R 1200 RT – – 7

--- Ergonomically perfect design for active touring – the standard for dynamic, comfortable and safe touring on two wheels
--- 16 percent more power and around 20 kg less weight than its predecessor

BMW K 1200 GT – – 8

--- Based on K1200 S technology: transverse four-cylinder engine, Duolever front wheel control, Paralever rear wheel control and, as option, Electronic Suspension Adjustment (ESA)
--- Highly dynamic and currently most powerful motorcycle in the tourer segment
--- Smooth development of engine power with powerful torque
--- Ideal for both sports performance and touring
--- Perfect protection from wind and rain for tourers and long-distance bikers
--- Individual ergonomic adjustment of the seating position for relaxed travel
--- Comprehensive range of special equipment for long journeys

BMW K 1200 R – – 9

--- Thoroughbred high-performance roadster completely without fairing, based on K1200 S technology
--- BMW Duolever front wheel control adapted to roadster characteristics for ever greater agility

– – 5 and 6

– – 7

– – 8 and 9

– – 1 and 2

– – 3 and 4

– – 5 and 6

MINI

--- More diesel power for MINI – higher-performance four-cylinder engine

--- MINI Cooper S with John Cooper Works GP Kit – limited edition of 2,000, increased performance and reduced weight

Park Lane – – 1 and 2

--- MINI Park Lane – luxurious and noble: Royal Grey Metallic paint, light alloy Bridge Spoke wheels, leather seats in pipe design and all sorts of exclusive details and equipment

Seven – – 3 and 4

--- MINI Seven – lifestyle-oriented. Solar Red Metallic paint, light alloy Delta Spoke wheels and a comprehensive range of equipment as standard

Checkmate – – 5 and 6

--- MINI Checkmate – sporty: 17-inch wheels, exclusive Space Blue paint, sport seats, sport suspension and a significantly extended range of basic equipment

Rolls-Royce Phantom – – 1, 2 and 3

- --- Rolls-Royce Phantom available with long wheelbase – 25 cm more legroom for passengers in the rear
- --- Partition between chauffeur and rear as option for Rolls-Royce Phantom with long wheelbase
- --- Special limited edition of 25 Rolls-Royce Phantom motor cars to mark the 80th birthday of the model name Phantom

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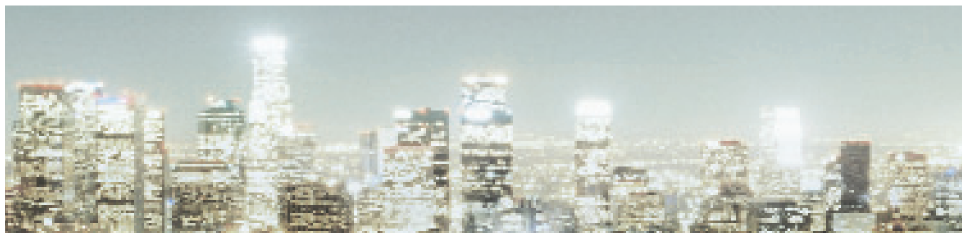
page 51 and 52 >>

The resolute implementation of its product and market initiative has moved the BMW Group to a new dimension. With the BMW, MINI and Rolls-Royce brands, the Company has three of the strongest premium brands in the automobile business. With these three brands and, in the meantime, their ten model series, the BMW Group addresses all the currently relevant premium segments on the international automobile markets.



Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
116i	1596	85	M5	S	10.5	5.9	7.5	181
116i (from 03/2006)	1596	85	M6	S	10.5	5.9	7.5	180
118i	1995	95	M5	S	10.1	5.7	7.3	176
118i	1995	95	A6	S	10.7	6.1	7.8	188
118i (from 03/2006)	1995	95	M6	S	10.3	5.6	7.3	176
120i	1995	110	M6	S	10.7	5.6	7.4	178
120i	1995	110	A6	S	11.0	6.2	7.9	190
130i	2996	195	M6	S	13.7	6.6	9.2	221
130i	2996	195	A6	S	13.9	6.8	9.4	226
118d	1995	90	M6	D	7.7	4.5	5.6	150
120d	1995	120	M6	D	7.7	4.6	5.7	152
120d	1995	120	A6	D	8.7	5.5	6.6	176
318i Sedan	1995	95	M6	S	10.0	5.7	7.3	175
318i Sedan	1995	95	A6	S	11.2	6.0	7.9	190
320i Sedan	1995	110	M6	S	10.7	5.6	7.4	178
320i Sedan	1995	110	A6	S	11.0	6.2	7.9	190
320si Sedan	1997	127	M6	S	12.8	6.6	8.9	214
325i Sedan	2497	160	M6	S	12.1	6.2	8.4	203
325i Sedan	2497	160	A6	S	12.9	6.7	9.0	218
330i Sedan	2996	190	M6	S	12.7	6.4	8.7	210
330i Sedan	2996	190	A6	S	12.9	6.8	9.0	216
318d Sedan	1995	90	M6	D	7.6	4.4	5.6	150
320d Sedan	1995	120	M6	D	7.8	4.5	5.7	153
320d Sedan	1995	120	A6	D	9.1	5.3	6.7	179
330d Sedan	2993	170	M6	D	8.9	5.1	6.5	174
330d Sedan	2993	170	A6	D	10.0	5.9	7.4	197
325xi Sedan	2497	160	M6	S	13.0	7.0	9.2	221
325xi Sedan	2497	160	A6	S	14.4	7.3	9.9	238
330xi Sedan	2996	190	M6	S	13.9	7.1	9.6	230
330xi Sedan	2996	190	A6	S	14.6	7.5	10.1	243
330xd Sedan	2993	170	M6	D	9.6	5.8	7.2	192
330xd Sedan	2993	170	A6	D	10.8	6.4	8.0	213
318i Touring	1995	95	M6	S	10.5	5.9	7.6	182
318i Touring	1995	95	A6	S	11.6	6.1	8.1	195
320i Touring	1995	95	M6	S	10.8	5.7	7.6	182
320i Touring	1995	110	A6	S	11.3	6.3	8.1	196
325i Touring	2497	160	M6	S	12.4	6.4	8.6	208
325i Touring	2497	160	A6	S	13.2	6.9	9.2	222
330i Touring	2996	190	M6	S	12.8	6.6	8.9	214
330i Touring	2996	190	A6	S	13.3	7.0	9.3	224
318d Touring	1995	90	M6	D	7.9	4.6	5.8	155
320d Touring	1995	120	M6	D	8.1	4.6	5.9	158
320d Touring	1995	120	A6	D	9.4	5.5	6.9	184
330d Touring	2993	170	M6	D	9.1	5.3	6.7	179
330d Touring	2993	170	A6	D	10.3	6.1	7.6	203
325xi Touring	2497	160	M6	S	13.3	7.1	9.4	226
325xi Touring	2497	160	A6	S	14.4	7.6	10.1	243
330xi Touring	2996	190	M6	S	14.0	7.3	9.8	235
330xi Touring	2996	190	A6	S	14.6	7.6	10.2	245
330xd Touring	2993	170	M6	D	9.8	6.0	7.4	197
330xd Touring	2993	170	A6	D	11.1	6.5	8.2	218
318Ci Coupé	1995	110	M5	S	10.4	5.7	7.4	180
318Ci Coupé	1995	110	A5	S	11.2	6.3	8.1	196
320Ci Coupé	2171	125	M5	S	12.2	6.9	8.9	213
320Ci Coupé	2171	125	A5	S	13.1	7.3	9.4	226
325Ci Coupé	2494	141	M5	S	12.8	6.9	9.0	217
325Ci Coupé	2494	141	A5	S	13.5	7.2	9.5	229

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
330Ci Coupé	2979	170	M6	S	12.8	6.9	9.1	218
330Ci Coupé	2979	170	A5	S	14.0	7.0	9.6	230
320Cd Coupé	1995	110	M6	D	7.9	4.5	5.7	153
320Cd Coupé	1995	110	A5	D	9.7	5.4	6.9	185
330Cd Coupé	2993	150	M6	D	9.1	5.2	6.6	177
330Cd Coupé	2993	150	A5	D	10.6	6.1	7.7	206
318Ci Convertible	1995	110	M5	S	10.8	6.1	7.8	190
318Ci Convertible	1995	110	A5	S	11.6	6.6	8.4	203
320Ci Convertible	2171	125	M5	S	12.8	7.4	9.4	225
320Ci Convertible	2171	125	A5	S	13.5	7.7	9.8	236
325Ci Convertible	2494	141	M5	S	13.2	7.5	9.6	230
325Ci Convertible	2494	141	A5	S	13.9	7.6	9.9	239
330Ci Convertible	2979	170	M6	S	13.4	7.3	9.6	229
330Ci Convertible	2979	170	A5	S	14.9	7.5	10.2	244
320Cd Convertible	1995	110	M6	D	8.5	5.0	6.3	167
330Cd Convertible	2993	150	M6	D	9.5	5.6	7.0	187
M3 Coupé	3246	252	M6	SP	20.4	9.3	13.4	323
M3 Convertible	3246	252	M6	SP	20.6	9.5	13.6	328
523i Sedan	2497	130	M6	S	12.1	6.4	8.5	205
523i Sedan	2497	130	A6	S	13.4	6.9	9.3	224
525i Sedan	2497	160	M6	S	12.4	6.5	8.7	210
525i Sedan	2497	160	A6	S	13.5	7.0	9.4	227
530i Sedan	2996	190	M6	S	12.6	6.6	8.8	212
530i Sedan	2996	190	A6	S	13.6	6.8	9.3	224
540i Sedan	4000	225	M6	S	16.2	8.0	11.0	264
540i Sedan	4000	225	A6	S	15.5	7.5	10.4	250
550i Sedan	4799	270	M6	S	16.4	8.0	11.1	267
550i Sedan	4799	270	A6	S	15.9	7.8	10.8	260
520d Sedan	1995	120	M6	D	8.0	4.7	5.9	158
520d Sedan	1995	120	A6	D	9.3	5.5	6.9	185
525d Sedan	2497	130	M6	D	9.3	5.3	6.7	179
525d Sedan	2497	130	A6	D	10.6	6.2	7.8	208
530d Sedan	2993	170	M6	D	9.4	5.2	6.7	179
530d Sedan	2993	170	A6	D	10.3	5.9	7.5	200
525xi Sedan	2497	160	M6	S	13.7	7.2	9.6	232
525xi Sedan	2497	160	A6	S	14.8	7.7	10.3	249
530xi Sedan	2996	190	M6	S	13.6	7.4	9.7	234
530xi Sedan	2996	190	A6	S	14.4	7.9	10.3	249
530xd Sedan	2993	170	M6	D	10.2	6.1	7.6	203
530xd Sedan	2993	170	A6	D	11.1	6.5	8.2	219
535d Sedan	2993	200	A6	D	10.9	6.3	8.0	211
523i Touring	2497	130	M6	S	12.1	6.7	8.7	210
523i Touring	2497	130	A6	S	13.7	7.1	9.5	230
525i Touring	2497	160	M6	S	12.5	6.8	8.9	215
525i Touring	2497	160	A6	S	13.5	7.2	9.5	229
525xi Touring	2497	160	M6	S	13.7	7.7	9.9	239
525xi Touring	2497	160	A6	S	14.7	7.9	10.4	251
530i Touring	2996	190	M6	S	13.1	6.9	9.2	222
530i Touring	2996	190	A6	S	13.3	7.3	9.5	230
530xi Touring	2996	190	M6	S	14.1	7.8	10.1	244
530xi Touring	2996	190	A6	S	14.6	8.1	10.5	253
550i Touring	4799	270	M6	S	17.0	8.3	11.5	276
550i Touring	4799	270	A6	S	16.6	8.2	11.3	272
520d Touring	1995	120	M6	D	8.3	4.8	6.1	162
520d Touring	1995	120	A6	D	9.3	5.5	6.3	185
525d Touring	2497	130	M6	D	9.7	5.6	7.0	187
525d Touring	2497	130	A6	D	10.9	6.5	8.0	213

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
BMW								
530d Touring	2993	170	M6	D	9.8	5.4	7.0	187
530d Touring	2993	170	A6	D	10.6	6.0	7.7	205
530xd Touring	2993	170	M6	D	10.6	6.3	7.9	211
530xd Touring	2993	170	A6	D	11.5	6.8	8.5	227
535d Touring	2993	200	A6	D	11.1	6.5	8.2	216
M5	4999	373	M7	SP	22.7	10.2	14.8	357
630i Coupé	2996	190	M6	S	13.1	6.7	9.0	216
630i Coupé	2996	190	A6	S	13.9	7.0	9.5	226
650i Coupé	4799	270	M6	S	17.6	8.6	11.9	286
650i Coupé	4799	270	A6	S	16.3	8.1	11.1	267
630i Convertible	2996	190	M6	S	13.6	7.3	9.6	229
630i Convertible	2996	190	A6	S	14.2	7.5	9.9	238
650i Convertible	4799	270	M6	S	19.1	9.3	12.9	310
650i Convertible	4799	270	A6	S	17.2	8.5	11.7	281
M6	4999	373	M7	SP	22.7	10.2	14.8	357
730i	2996	190	A6	SP	14.6	7.5	10.1	241
730Li	2996	190	A6	SP	14.6	7.5	10.1	242
740i	4000	225	A6	SP	16.3	8.2	11.2	267
740Li	4000	225	A6	SP	16.3	8.2	11.2	268
750i	4799	270	A6	SP	16.9	8.3	11.4	271
750Li	4799	270	A6	SP	16.9	8.3	11.4	272
760i	5972	327	A6	SP	20.2	9.5	13.4	325
760Li	5972	327	A6	SP	20.5	9.7	13.6	330
730d	2993	170	A6	D	11.3	6.4	8.2	216
730Ld	2993	170	A6	D	11.3	6.4	8.2	216
745d	4423	242	A6	D	13.5	7.2	9.5	251
X3 2.0i	1995	110	M6	S	13.1	7.1	9.3	223
X3 2.5i	2494	141	M6	S	15.6	8.7	11.2	272
X3 2.5i	2494	141	A5	S	17.1	9.0	11.9	289
X3 3.0i	2979	170	M6	S	16.0	8.7	11.4	276
X3 3.0i	2979	170	A5	S	17.4	9.1	12.1	293
X3 2.0d	1995	110	M6	D	9.6	5.9	7.2	191
X3 3.0d	2993	160	M6	D	10.3	6.5	7.9	210
X3 3.0d	2993	160	A6	D	11.2	7.1	8.6	229
X5 3.0i	2979	170	M6	S	17.8	9.7	12.7	307
X5 3.0i	2979	170	A5	S	18.1	9.9	12.9	312
X5 4.4i	4398	235	A6	SP	18.2	10.2	13.1	317
X5 4.8is	4799	265	A6	SP	18.7	10.5	13.5	324
X5 3.0d	2993	160	M6	D	11.4	7.0	8.6	229
X5 3.0d	2993	160	A6	D	12.0	8.0	9.4	250
Z4 2.0i	1995	110	M6	S	10.8	5.6	7.5	181
Z4 2.5i	2497	130	M6	S	11.8	6.1	8.2	197
Z4 2.5i	2497	130	A6	S	12.0	6.3	8.4	202
Z4 2.5si	2497	160	M6	S	12.0	6.3	8.4	202
Z4 2.5si	2497	160	A6	S	12.8	6.8	9.0	216
Z4 3.0si	2996	195	M6	S	12.6	6.3	8.6	207
Z4 3.0si	2996	195	A6	S	12.8	6.8	9.0	217
Z4 3.0si Coupé	2996	195	M6	S	13.0	6.5	8.9	213
Z4 3.0si Coupé	2996	195	A6	S	12.8	6.8	9.0	216
Z4 M Roadster	3246	252	M6	SP	18.2	8.6	12.1	292

Model	Displacement (cc)	Power output (kw)	Gearbox[1]	Fuel type[2]	Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions [g/km]
MINI								
One	1598	66	M5	S	9.6	5.2	6.8	164
One	1598	66	CVT	S	10.9	5.9	7.7	187
One D	1364	65	M6	D	5.8	4.3	4.8	129
Cooper	1598	85	M5	S	9.7	5.3	6.9	166
Cooper	1598	85	CVT	S	10.9	5.9	7.7	187
Cooper S	1598	125	M6	S	11.8	6.8	8.6	207
Cooper S JCW[3]	1598	154	M6	S	11.8	6.8	8.6	207
Cooper S JCW GP[4]	1598	160	M6	S	11.8	6.8	8.6	207
Cooper S	1598	125	A6	S	12.8	6.8	9.0	216
One Convertible	1598	66	M5	S	10.0	5.7	7.2	173
Cooper Convertible	1598	85	M5	S	10.1	5.7	7.3	175
Cooper Convertible	1598	85	CVT	S	11.2	6.0	7.9	189
Cooper S Convertible	1598	125	M6	S	11.8	7.1	8.8	211
Cooper S Convertible JCW[3]	1598	154	M6	S	11.8	7.1	8.8	211
Cooper S Convertible	1598	125	A6	S	13.1	6.9	9.2	221
Rolls-Royce								
Rolls-Royce Phantom	6.749	338	A6	S	24.6	11.0	15.9	338
Rolls-Royce Phantom Long wheel base	6.749	338	A6	S	24.6	11.0	16.8	387

1] Gearbox type:
M5 = manual shift 5-speed, M6 = manual shift 6-speed, A5 = automatic transmission 5-speed,
A6 = A5 = automatic transmission 6-speed, CVT = automatic transmission
2] Fuel type:
S = Super, SP Super plus, D = Diesel
3] John Cooper Works
4] John Cooper Works Grand Prix

Revised March 2006

Published by
Bayerische Motoren Werke
Aktiengesellschaft
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Germany
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