

# Interim Report to 30 June 2005

Q2



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Rolls-Royce  
Motor Cars Limited

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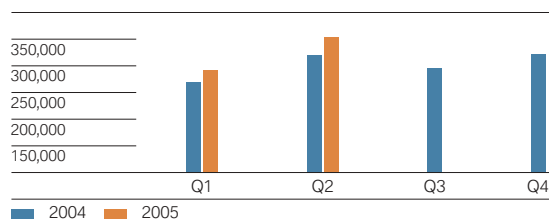
**BMW Group**

## The BMW Group – an Overview

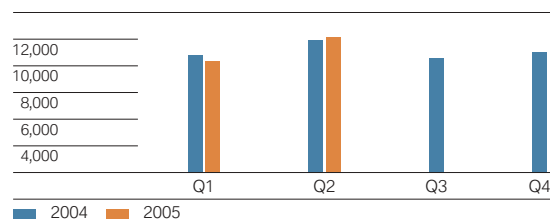
| BMW Group in figures                    |              | 2nd quarter<br>2005 | 2nd quarter<br>2004 | Change<br>in %   |
|---|--------------|---------------------|---------------------|------------------|
| <b>Vehicle production</b>               |              |                     |                     |                  |
| Automobiles                             | units        | 343,649             | 315,998             | 8.8              |
| Motorcycles                             | units        | 31,958              | 29,847              | 7.1              |
| <b>Deliveries to customers</b>          |              |                     |                     |                  |
| Automobiles                             | units        | 354,324             | 321,010             | 10.4             |
| Motorcycles                             | units        | 35,983              | 30,635              | 17.5             |
| <b>Workforce at end of quarter</b>      |              | <b>105,888</b>      | <b>105,388</b>      | <b>0.5</b>       |
| <b>Cash flow</b>                        | euro million | <b>1,522</b>        | <b>1,364</b>        | <b>11.6</b>      |
| <b>Revenues</b>                         | euro million | <b>12,159</b>       | <b>11,910</b>       | <b>2.1</b>       |
| <b>Profit before tax</b>                | euro million | <b>916</b>          | <b>1,084</b>        | <b>-15.5</b>     |
| Thereof:                                |              |                     |                     |                  |
| Automobiles                             | euro million | 808                 | 971                 | -16.8            |
| Motorcycles                             | euro million | 53                  | 44                  | 20.5             |
| Financial Services                      | euro million | 161                 | 136                 | 18.4             |
| Reconciliations                         | euro million | -106                | -67                 | -58.2            |
| <b>Income taxes</b>                     | euro million | <b>-253</b>         | <b>-413</b>         | <b>38.7</b>      |
| <b>Net profit</b>                       | euro million | <b>663</b>          | <b>671</b>          | <b>-1.2</b>      |
| <b>Earnings per share <sup>1)</sup></b> | euro         | <b>0.98/0.99</b>    | <b>0.99/1.00</b>    | <b>-1.0/-1.0</b> |

<sup>1)</sup> for common/preferred stock in accordance with IAS 33. In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

**Deliveries of automobiles**  
in units

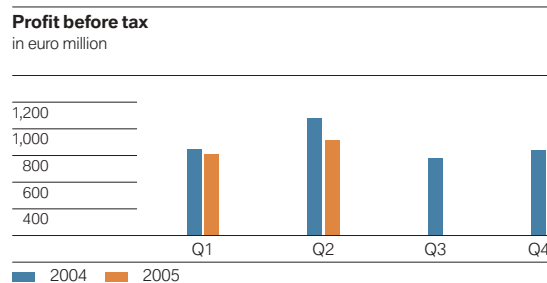


**Revenues**  
in euro million



| <b>BMW Group in figures</b>            |              | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 | Change<br>in %   |
|--|--------------|------------------------------|------------------------------|------------------|
| <b>Vehicle production</b>              |              |                              |                              |                  |
| Automobiles                            | units        | 645,402                      | 606,001                      | 6.5              |
| Motorcycles                            | units        | 57,938                       | 62,104                       | -6.7             |
| <b>Deliveries to customers</b>         |              |                              |                              |                  |
| Automobiles                            | units        | 646,531                      | 590,983                      | 9.4              |
| Motorcycles                            | units        | 57,287                       | 48,570                       | 17.9             |
| <b>Workforce at end of quarter</b>     |              | <b>105,888</b>               | <b>105,388</b>               | <b>0.5</b>       |
| <b>Cash flow</b>                       | euro million | <b>2,816</b>                 | <b>2,510</b>                 | <b>12.2</b>      |
| <b>Revenues</b>                        | euro million | <b>22,516</b>                | <b>22,715</b>                | <b>-0.9</b>      |
| <b>Profit before tax</b>               | euro million | <b>1,728</b>                 | <b>1,935</b>                 | <b>-10.7</b>     |
| Thereof:                               |              |                              |                              |                  |
| Automobiles                            | euro million | 1,510                        | 1,713                        | -11.9            |
| Motorcycles                            | euro million | 84                           | 72                           | 16.7             |
| Financial Services                     | euro million | 311                          | 268                          | 16.0             |
| Reconciliations                        | euro million | -177                         | -118                         | -50.0            |
| <b>Income taxes</b>                    | euro million | <b>-546</b>                  | <b>-741</b>                  | <b>26.3</b>      |
| <b>Net profit</b>                      | euro million | <b>1,182</b>                 | <b>1,194</b>                 | <b>-1.0</b>      |
| <b>Earnings per share<sup>1)</sup></b> | euro         | <b>1.75/1.76</b>             | <b>1.77/1.78</b>             | <b>-1.1/-1.1</b> |

1] for common/preferred stock in accordance with IAS 33. In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.



### BMW Group on course despite adverse factors

Thanks to a continuing rise in unit sales, the BMW Group's performance on the international car markets held up well during the second quarter 2005 despite difficult conditions, allowing the BMW Group to extend its lead in the premium segments of the international car markets. With 354,324 BMW, MINI and Rolls-Royce cars sold, the BMW Group delivered 10.4 % more cars to customers than in the same quarter last year. On a half-year basis, the BMW Group has therefore sold 646,531 cars, a 9.4 % increase compared to the first half of 2004.

The motorcycle business also saw significant volume growth. 35,983 BMW motorcycles were sold during the second quarter 2005, beating the equivalent figure for the same quarter last year by 17.5 %. A total of 57,287 BMW motorcycles was sold during the first half of 2005, 17.9 % more than during the first six months of 2004.

The Financial Services segment continued to grow during the second quarter 2005. The portfolio of lease and financing contracts increased to 1,962,178 contracts, 14.2 % more than one year earlier.

### Adverse effect of external factors on revenues and earnings

Group revenues for the second quarter 2005, at euro 12,159 million, were 2.1 % higher than in the second quarter 2004. On a half-year basis, group revenues fell by 0.9 % to euro 22,516 million. This development was attributable to the impact of exchange rate changes and product mix shifts in the Automobiles segment.

BMW Group's reported results continue to be affected adversely by external factors. The main negative factors continued to be the weak US dollar (despite some exchange rate improvements towards the end of the period), intense competition on the international car markets and above-average raw material prices.

The pre-tax profit for the second quarter 2005, at euro 916 million, was 15.5 % below the record

figure reported for the same quarter last year. The pre-tax profit for the first half of 2005 amounted to euro 1,728 million, a reduction of 10.7 % compared to the first six months of 2004.

The net profit for the second quarter 2005 fell by 1.2 % to euro 663 million, whilst the net profit for the first half of 2005 fell by 1.0 % to euro 1,182 million. This development was attributable primarily to the positive effect of changes in the tax expense in a number of countries and to tax reimbursements relating to earlier periods.

### Number of jobs virtually unchanged

The BMW Group had a worldwide workforce of 105,888 employees at 30 June 2005, 0.5 % more than one year earlier and 0.1 % less than at the end of 2004.

### International car markets still performing inconsistently

By contrast to the moderate growth rates recorded by the traditional car markets (USA, Japan and Western Europe) in 2004, the early months of 2005 saw a slight decrease in sales volumes on these markets; this decline was compensated for, however, during the six month period as a whole. Whereas new registrations in the USA and Japan increased by just more than 1 % during the first half of 2005, the registration figures for Western Europe were marginally down (–0.3 %) compared to the equivalent period last year. For the full year, these markets are only likely to record a low growth rate overall.

The number of new registrations in Germany in the first half of 2005 increased by 2.5 % compared to the same period last year. For the full year, however, it is likely that there will be, at most, a small increase. By contrast, it can be assumed that Asia and Latin America will record robust growth rates for the full year, albeit somewhat lower than the growth rates recorded in recent years.

**Expansion of model range continues to be in line with schedule**

With the launch of the revised BMW 7 Series and that of the BMW M6 during the second quarter 2005, the BMW Group has taken further major steps to implement its product and market offensive. The market introduction of the new BMW 3 Series Touring and of new engine versions for the BMW 1, 3, 5, 6 and 7 Series is expected to give further momentum to sales volumes, so that the number of cars sold during the full year is still forecast to increase by a high single digit percentage.

**Outlook confirmed again**

As announced at the beginning of the year, a number of adverse factors have arisen in 2005 as a result of the combination of intense market competition, the negative currency impact due to the weak US dollar and above-average raw material prices. Against the background of these factors, the BMW Group's unchanged aim for 2005 is to achieve approximately the high earnings level of 2004.

## Sales volume growth remains robust

The BMW Group's car sales volumes grew strongly both in the second quarter 2005 and in the first half of 2005. 354,324 BMW, MINI and Rolls-Royce brand cars were sold during the second quarter 2005, 10.4 % more than in the same quarter last year. In total, 646,531 cars were delivered to customers between January and June 2005. This represents an increase of 9.4 % compared to the first half of 2004.

As far as the BMW brand is concerned, the increase in sales volume was attributable primarily to the new models. 298,745 BMW brand cars were sold during the second quarter 2005, an increase of 9.3 % compared to the same quarter in 2004. The equivalent figure for the first half of 2005 was 538,132 cars, 8.6 % higher than the sales volume achieved during the first half of the previous year.

In the fifth year after its launch, the MINI continues to enjoy strong growth rates. The sales volume in the second quarter 2005 totalled 55,420 units, 16.9 % more than the number sold in the same quarter last year. 108,114 MINI brand vehicles were sold during the first half of 2005, an increase of 13.6 % compared to the corresponding period last year.

159 Rolls-Royce Phantoms were handed over to customers during the second quarter 2005, 20 fewer (–11.2 %) than in the same quarter last year. Between January and June 2005, 285 Rolls-Royce Phantoms were sold, 34 vehicles (–10.7 %) fewer than in the first half of 2004.

## Strong sales volume growth on nearly all markets

The car sales volume increase recorded by the BMW Group was achieved on almost all of the mar-

kets. 214,005 cars were sold in Western Europe during the second quarter 2005, an increase of 15.4 % compared to the second quarter 2004. The BMW Group sold a total of 390,289 cars in Western Europe during the first half of 2005, 12.0 % more than in the first six months of 2004.

In Germany, 82,348 cars were sold during the second quarter 2005, an increase of 7.6 % compared to the same quarter last year; on a half-year basis, 148,029 cars were sold (+8.1 %) on this market.

After Germany, the United Kingdom remains the BMW Group's second biggest market in Western Europe. Car sales on this market during the second quarter 2005 increased by 17.2 % to 37,954 units. The BMW Group sold 74,859 cars in the United Kingdom in the first half of 2005, an increase of 7.3 % compared to the first half of 2004.

The number of unit sales also rose sharply on almost all of the other European markets. Compared to the first half of 2004, the sales volume increased in the first half of 2005 to 47,578 units (+15.2 %) in Italy, 28,197 units (+25.2 %) in Spain and to 27,140 units (+18.5 %) in France.

In North America, the BMW Group's sales volume for the first half of 2005 totalled 155,716 units, 1.3 % above the level achieved during the first half of 2004. This figure includes 144,987 cars sold to customers in the USA, an increase of 0.8 % compared to the first half of 2004.

In Asia, the BMW Group sold 50,098 cars during the first six months of 2005, thus registering an increase of 4.5 % compared to the corresponding period in 2004. Japan remains the market with the largest volume in this region: 28,083 BMW Group vehicles were sold there between January and June 2005, 9.2 % more than in the corresponding period last year.

| Automobiles                 |              | 2nd quarter<br>2005 | 2nd quarter<br>2004 | Change<br>in % |
|-----------------------------|--------------|---------------------|---------------------|----------------|
| Production                  | units        | 343,649             | 315,998             | 8.8            |
| Deliveries to customers     | units        | 354,324             | 321,010             | 10.4           |
| Revenues                    | euro million | 11,911              | 11,515              | 3.4            |
| Profit before tax           | euro million | 808                 | 971                 | –16.8          |
| Workforce at end of quarter |              | 98,748              | 98,553              | 0.2            |

The Chinese markets (China, Hong Kong, Taiwan) also developed positively. On a half-year basis, the sales volume rose by 3.2 % to 13,864 units, whereby the increase in the second quarter was 12.3 % (7,810 units).

#### **BMW 1 Series and BMW 3 Series Sedan in great demand**

Demand for the BMW 1 Series, which has expanded the BMW brand range with a compact class vehicle, remains high. As the only car in its class with rear-wheel drive, the BMW 1 Series offers a particularly dynamic driving experience. 74,786 BMW 1 Series cars were sold during the first six months of 2005. Since its market introduction in September 2004, more than 114,000 units have already been sold.

The new model of the BMW 3 Series Sedan has been particularly well received on the market. Since market introduction in March 2005 (Europe), April 2005 (Asia) and May 2005 (USA), 69,385 units had been sold to customers by the end of June – more than a third of the total unit sales of the BMW 3 Series during the period. Including sales of the predecessor model, 127,951 units of the BMW 3 Series Sedan were sold during the first half of 2005, 6.1 % more than in the corresponding period last year. As expected, the sales volume of the BMW 3 Series has fallen in connection with the model change; 195,693 units were sold during the first half of 2005, 19.1 % fewer than in the corresponding period last year.

The new BMW 3 Series Touring model will be introduced onto the markets from September 2005 onwards. 27,465 units (–33.4 %) of the present model were sold during the first half of 2005.

In addition, 17,642 (–45.5 %) BMW 3 Series Coupé and 17,900 (–28.7 %) BMW 3 Series Con-

vertible were delivered to customers between January and June 2005.

Demand for the new BMW 5 Series Touring, which was introduced onto the markets in May 2004, is particularly high. 25,860 units (including 414 of the predecessor model) were sold to customers during the first half of 2005, an increase of 152.4 % compared to the first half of 2004. The sales volume of the BMW 5 Series Sedan in the first half of 2005 fell to 87,227 units, a decrease of 15.8 % compared to the corresponding period last year. With a total of 113,087 units, approximately the same number of BMW 5 Series cars were handed over to customers between January and June 2005 as in the corresponding period last year (–0.7 %).

Market feedback on the revised BMW 7 Series range has been very positive, with more than 8,190 units of the revised model sold by the end of June 2005. Overall, the sales volume of the BMW 7 Series during the first half of 2005 totalled 20,126 units (–15.0 %). With sales of 3,077 units during the first half of 2005 in Germany, the BMW 7 Series enhanced its position as leader in the overall contracting segment for large-sized luxury sedans.

11,979 BMW 6 Series cars were delivered to customers worldwide during the first half of 2005, 13.3 % more than in the corresponding period last year, with the BMW 6 Series Coupé (6,051 units) and the BMW 6 Series Convertible (5,928 units) each accounting for approximately half of the total.

With 16,353 BMW Z4 cars sold during the first half of 2005, the sales volume of this roadster was 30.0 % below that achieved during the corresponding period last year.

The Sports Activity Vehicle BMW X3 was introduced onto the markets at the beginning of 2004. The sales volume of this model during the first half

| <b>Automobiles</b>      |              | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 | Change<br>in % |
|-------------------------|--------------|------------------------------|------------------------------|----------------|
| Production              | units        | 645,402                      | 606,001                      | 6.5            |
| Deliveries to customers | units        | 646,531                      | 590,983                      | 9.4            |
| Revenues                | euro million | 21,865                       | 21,259                       | 2.9            |
| Profit before tax       | euro million | 1,510                        | 1,713                        | –11.9          |

of 2005 totalled 58,206 units, an increase of 74.9 % compared to the first half of 2004.

Even though the BMW X5 is now in its sixth year of production, unit sales remained almost at the high 2004 levels: 47,862 vehicles (–1.1 %) were sold during the first half of 2005.

### **Over 108,000 MINIs sold during the first half of 2005**

The MINI continues to enjoy unabated success. 108,114 MINI brand cars were sold during the first half of 2005, 13.6 % more than in the corresponding period last year. The MINI Convertible, introduced onto the markets in mid-2004 has particularly contributed to the on-going success story: 25,482 units were delivered to customers during the first half of 2005.

Based on engine versions, the MINI Cooper accounts for the largest share of sales volume. In total, 49,600 units were delivered to customers between January and June 2005. Units sales of the MINI Cooper S and the MINI One (including the One D) totalled 28,584 (+ 27.2 %) and 29,930 (+ 6.4 %) respectively.

### **Special limited edition of the Rolls-Royce Phantom**

The first Rolls-Royce Phantom was presented 80 years ago. To commemorate this anniversary, a special limited edition of 25 of the current version of the Rolls-Royce Phantom has been created. 285 Rolls-Royce Phantoms were handed over to customers during the first half of 2005, 34 fewer than in the corresponding period last year (–10.7 %). 159 Rolls-Royce Phantoms were sold during the second quarter 2005, 20 fewer (–11.2 %) than the comparable figure for the second quarter 2004.

### **Car production volumes increased further**

The BMW Group manufactured 343,649 cars during the second quarter 2005, an increase of 8.8 % compared to the second quarter 2004. This comprises

290,558 (+ 7.0 %) BMW, 52,946 (+19.3 %) MINI and 145 (–10.5 %) Rolls-Royce brand cars.

The total production volume of the BMW Group during the first half of 2005 increased to 645,402 units, 6.5 % more than in the corresponding period last year. 542,287 BMW brand cars (+5.7 %), 102,837 MINI brand cars (+10.8 %) and 278 Rolls-Royce Phantoms (–30.0 %) were manufactured during the period.

### **Adverse impact of external factors on revenues and earnings**

Revenues of the Automobiles segment for the second quarter 2005 increased by 3.4 % to euro 11,911 million, and thus at a slower rate than the increase in sales volume. This was attributable mainly to the impact of exchange rate changes and product mix shifts. The picture is similar on a half-year basis, with revenues increasing by 2.9 % to euro 21,865 million.

As a consequence of the various adverse external factors already highlighted on various occasions during the year to date and as a result of product mix shifts primarily caused by model changes, the Automobiles segment's profit before taxes was below the level reported for the equivalent quarter and half-year periods last year. Segment profit for the second quarter fell by 16.8 % to euro 808 million: for the first half of 2005 it fell by 11.9 % to euro 1,510 million.

### **Workforce virtually unchanged**

At 30 June 2005, the Automobiles segment had a workforce of 98,748 employees, 0.2 % more than one year earlier.



### Motorcycle business back on growth course

After the sales volume decline recorded in 2004, the Motorcycles segment returned to the growth course of previous years, achieving significant sales volume increases on both a quarterly and half-year basis. 35,983 BMW motorcycles were delivered to customers during the second quarter 2005, 17.5% more than in the same quarter last year.

On a half-year basis, motorcycle sales increased to 57,287 units and thus surpassed the equivalent figure for the previous year by 17.9%. Good contributions were made in particular by the K 1200 S, R 1200 GS and R 1200 RT models, all of which have been newly introduced as part of the product initiative.

Sales volume growth was achieved in virtually all markets, even though conditions on the international motorcycle markets continued to be inconsistent. Whereas the general trend in the USA and Japan is positive, the European markets have developed inconsistently.

18,663 BMW motorcycles were sold in Europe during the second quarter 2005, 24.8% more than in the same quarter last year. The sales volume in Europe on a half-year basis totalled 29,358 units (+25.2%).

Particularly sharp sales volume growth rates were recorded in Spain (+55.2%) and in the United Kingdom (+32.0%) during the second quarter 2005. The legislative framework in both of these markets had a positive impact on the number of motorcycles sold.

In Germany, the largest single market for BMW motorcycles, 9,168 units were sold during the second quarter, an increase of 5.4% compared to the decrease of 6.9% registered by the market as a whole. Overall therefore, 14,690 BMW motorcycles were sold in Germany during the first six months of 2005.

The BMW Group's motorcycle business in the USA continued to grow during the second quarter 2005. 4,315 BMW motorcycles were handed over to customers during this period, 11.3% more than in the second quarter 2004. Overall, the sales volume in the USA during the first half of 2005 increased by 10.3% to 6,865 units.

### Best-selling model R 1200 GS

With a sales volume of 9,127 units during the second quarter 2005, the R 1200 GS was able to maintain its position as the best-selling BMW motorcycle. This model is followed by the R 1200 RT (5,900 units) and the F 650 GS (4,289 units including the Dakar version).

### New high-performance enduro HP2 available from autumn onwards

Following on from the introduction of the new K 1200 R in June 2005, the high-performance enduro HP2 will become available in September 2005. 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.

| Motorcycles                 |              | 2nd quarter<br>2005 | 2nd quarter<br>2004 | Change<br>in % |
|-----------------------------|--------------|---------------------|---------------------|----------------|
| Production                  | units        | 31,960              | 29,847              | 7.1            |
| Deliveries to customers     | units        | 35,983              | 30,635              | 17.5           |
| Revenues                    | euro million | 423                 | 299                 | 41.5           |
| Profit before tax           | euro million | 53                  | 44                  | 20.5           |
| Workforce at end of quarter |              | 2,878               | 2,994               | -3.9           |

### Motorcycle production volume up on quarterly basis

31,960 BMW motorcycles were manufactured at the Berlin plant during the second quarter 2005, an increase of 7.1 % compared to the same quarter last year. A total of 57,940 motorcycles left the Berlin plant during the first six months, 6.7 % fewer than in the corresponding period last year. The decrease on a half-year basis was mainly attributable to new production start-ups during the first quarter 2005.

### Segment revenues and earnings increased

Revenues of the Motorcycles segment for the second quarter 2005 rose sharply to euro 423 million and thus surpassed the equivalent figure for the same quarter last year by 41.5 %. Segment revenues for the first half of the year amounted to euro 741 million, also well above the comparable figure for the previous year (+ 27.5 %). The above-average growth rate was due primarily to changes in the product mix.

Segment profit before tax for the second quarter 2005 improved by 20.5 % to euro 53 million and for the first half of 2005 it improved by 16.7 % to euro 84 million.

At 30 June 2005, the Motorcycles segment's workforce comprised 2,878 employees, 3.9 % fewer than one year earlier.

| Motorcycles             |              | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 | Change<br>in % |
|-------------------------|--------------|------------------------------|------------------------------|----------------|
| Production              | units        | 57,940                       | 62,104                       | -6.7           |
| Deliveries to customers | units        | 57,287                       | 48,570                       | 17.9           |
| Revenues                | euro million | 741                          | 581                          | 27.5           |
| Profit before tax       | euro million | 84                           | 72                           | 16.7           |

### Financial services business enjoys continuous growth

The Financial Services segment, whose products supplement the comprehensive range of services relating to cars offered by the BMW Group, continues to perform well. The positive development is reflected in the growth of the business volume (based on balance sheet carrying amounts) which stood at euro 36,802 million at 30 June 2005, an increase of 17.1% compared to the end of the first half of 2004. At 30 June 2005, a total of 1,962,178 credit or lease contracts were in place with dealers or retail customers, 14.2% more than one year earlier. At the same time, the proportion of new cars of the BMW Group leased or financed by the Financial Services segment increased during the first half of 2005 to 41.2% compared to 39.6% in the equivalent period last year.

### Strong growth of retail customer business

New business with credit or lease contracts is the main focus of financial service activities. Compared to the equivalent period last year, a growth rate of 12.1% was achieved in this area in the first half of 2005, with the value of new contracts amounting to euro 11,450 million. This corresponds to 435,523 new contracts, 11.5% more than in the first half of 2004, and includes 236,889 contracts (+11.7%) signed during the second quarter 2005. Particularly high growth rates were achieved with new lease contracts, accounting for 37.6% of all new contracts compared to 34.0% in the first half of 2004. This reflects the success of new customer-friendly products such as BMW Service Leasing in Germany,

which incorporates the provision of various basic services such as maintenance and insurance into a standard lease. This product has been a great success with BMW 1 Series customers and was recently extended to the BMW 3 Series.

144,852 new financing contracts for used cars were signed during the first half of 2005, 12.5% more than in the same period last year.

As a result of the positive performance with new business, the total portfolio of managed contracts also increased. At 30 June 2005, 1,790,969 contracts were in place worldwide with retail customers, 14.4% more than one year earlier, whereby the increase was generated across all regions at similar rates.

### Dealer financing further expanded

The Financial Services segment also expanded its involvement in the area of dealer financing. In addition to financing vehicles, the segment also provides financing for real estate and equipment, thus actively supporting the dealer network. The managed volume at 30 June 2005 stood at euro 6,235 million, 18.1% higher than one year earlier.

### Fleet business with high growth rates

The fleet business is operated by Alphabet, a subgroup of entities currently operating in twelve European markets and in Australia. Alphabet is a full-service provider and is currently achieving some of the fastest growth rates seen in the pan-European leasing market. At 30 June 2005, the contract portfolio covered 118,003 units giving a growth rate of 45.4%.

| Financial Services                  |              | 2nd quarter<br>2005 | 2nd quarter<br>2004 | Change<br>in % |
|-------------------------------------|--------------|---------------------|---------------------|----------------|
| New contracts with retail customers |              | 236,889             | 212,141             | 11.7           |
| Revenues                            | euro million | 2,383               | 2,057               | 15.8           |
| Profit before tax                   | euro million | 161                 | 136                 | 18.4           |
| Workforce at end of quarter         |              | 3,030               | 2,743               | 10.5           |

### Deposit business continues to generate high cash inflows

The growth of banking activities has also contributed to the overall fine performance of the Financial Services segment. Inflows to deposit accounts in Germany and the USA continued unabated, so that the managed volume increased to euro 5,867 million, 30.8 % higher than one year earlier. The number of customer accounts rose during the same period by 39.3 % to 406,517 accounts.

In the area of funds business, the net cash inflow during the first half of 2005 increased pleasingly to euro 47.1 million mainly as a result of the issue of a further tranche of the combined product Save & Invest. Compared to the first half of 2004, this represents a growth rate of 175.9 %. The number of customer accounts rose by 39.2 % to 22,808.

### New insurance business grows strongly

Insurance business with retail customers also continued to grow during the first half of 2005. 98,093 new insurance contracts were signed during the period, surpassing the number signed during the first half of 2004 by 31.2 %. Between them, entities of the Financial Services segment worldwide have a portfolio of 417,626 insurance contracts at 30 June 2005. This is mainly the result of combining lease or credit contracts with insurance products, thus giving

the customer the opportunity to obtain financial services on a one-stop basis.

### Awards for BMW Financial Services in North America

BMW Financial Services won two awards in North America during the second quarter 2005, underlining the excellent work being performed by the Group's national companies in this region. The company in Canada came out on top of a wide-ranging "dealer satisfaction" questionnaire which was carried out nationally. The US national company was selected as one the best employers with between 251 and 1,000 employees.

### Earnings increased further

In line with the general positive trend, the profit before tax of the Financial Services segment for the second quarter 2005 increased by 18.4 % to euro 161 million. On a half-year basis, the segment profit before tax increased by 16.0 % to euro 311 million.

At the end of the second quarter 2005, the Financial Services segment had 3,030 employees, 10.5 % more than one year earlier.

| Financial Services                  |              | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 | Change<br>in % |
|-------------------------------------|--------------|------------------------------|------------------------------|----------------|
| New contracts with retail customers |              | 435,523                      | 390,509                      | 11.5           |
| Business volume <sup>1)</sup>       | euro million | 36,802                       | 31,429                       | 17.1           |
| Revenues                            | euro million | 4,518                        | 4,022                        | 12.3           |
| Profit before tax                   | euro million | 311                          | 268                          | 16.0           |

<sup>1)</sup> leased products plus receivables from sales financing (per Group balance sheet)

## BMW stock in the second quarter 2005

The stock markets benefited from a stronger US dollar during the second quarter 2005. Whereas the exchange rate at the end of the first quarter had been close to US dollar 1.30 to one euro, by the end of the second quarter the rate had changed to approximately US dollar 1.21. The US dollar's value against the euro therefore increased by 6.6% during the quarter, thus providing some momentum to both the German stock index and the automotive sector.

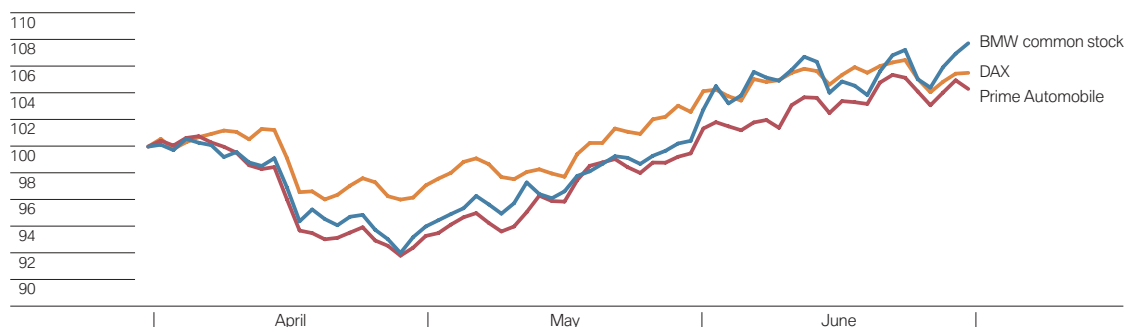
Compared to its level at the end of the first quarter, the German stock index (DAX) rose by 237.51 points or 5.5% to stand at 4,586.28 points at 30 June 2005. The index has therefore risen by 6.9% since the beginning of the year.

Rising oil prices held down the performance of the Prime Automobile Performance Index, so that the increase in the sector index was slightly lower than that of the market as a whole. The Prime Automobile Performance Index closed at 380.54 points at 30 June 2005. This represents an increase of 4.3% compared to its level at the end of the previous quarter and one of 8.5% compared to its level at the beginning of 2005.

By contrast, BMW common stock was able to continue the upwards trend seen in the first quarter and performed significantly better than the market as a whole. It closed at the end of the second quarter at euro 37.73, 7.6% higher than at 31 March 2005 and 11.8% higher than at the beginning of the year.

### Development of BMW stock compared to stock exchange indices

(Index: 31 March 2005 = 100)



### Earnings performance

The earnings performance during the second quarter and the first half of 2005 was, as predicted for the full year 2005, affected by a number of adverse factors. The negative currency impact caused by unfavourable transfer exchange rates, the additional cost of raw materials and more intense competition meant that the record levels achieved in the previous year could not be repeated.

The change in reported profit after tax was affected by the reduction of tax rates in a number of tax jurisdictions and by tax reimbursements relating to prior years. Furthermore, as a result of a renewed assessment of recoverability, deferred tax assets were recognised in the second quarter on tax losses available for carryforward outside Germany.

### Earnings performance for the second quarter 2005

Group revenues increased by 2.1 % to euro 12,159 million. External revenues of the Automobiles segment were 1.7 % lower than in the same quarter last year. External revenues of the Motorcycles and Financial Services segments increased by 40.9 % and 16.3 % respectively for the same quarters. Revenues from other activities of the Group amounted to euro 28 million and related mainly to the softlab Group: the comparable figure for the second quarter 2004 was euro 20 million.

Cost of sales amounted to euro 9,314 million, whereby the increase was 1.0 percentage points higher than the increase in revenues. The gross profit fell accordingly by 1.1 % compared to the second quarter 2004. The gross profit percentage was 23.4 % (second quarter 2004: 24.2 %). The gross profit of industrial operations fell by 2.0 percentage points to 21.1 % and that of financial operations fell by 0.7 percentage points to 12.0 %.

Sales and administrative costs increased by 2.1 % compared to the same quarter last year and

represent 10.2 % (second quarter 2004: 10.1 %) of revenues.

Research and development costs increased by 5.2 % compared to the second quarter 2004 and represent 5.1 % (second quarter 2004: 5.0 %) of revenues. Research and development costs include amortisation of capitalised development costs amounting to euro 185 million (second quarter 2004: euro 150 million). Total research and development costs for the second quarter 2005 amounted to euro 781 million (second quarter 2004: euro 638 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. For the second quarter 2005, this gives a research and development expenditure ratio of 6.4 % (second quarter 2004: 5.4 %).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 765 million (second quarter 2004: euro 619 million). The increase reflects the effect of the start of operations at the Leipzig plant and the introduction of new products, since depreciation expense is recognised after the start of production.

The positive net amount from other operating income and expenses increased compared to the same quarter last year, mainly as a result of the fact that a number of items affecting last year's result did not occur during the quarter.

The financial result fell again compared to the corresponding period of the previous year. This was mainly attributable to the fair value loss on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, which reduced the other financial result for the second quarter 2005 by euro 57 million (second quarter 2004: euro 39 million). The increase in the negative fair value of the option resulted from 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 improved by euro 115 million during the second quarter 2005. This increase, however, is recognised directly in equity and does not offset the negative fair value change of the option. Within the financial result, the loss from investments increased by euro 1 million and net interest expense increased by euro 11 million.

As a result of the specific factors described above, the profit before tax fell by 15.5 % compared to the second quarter 2004. The income tax expense was lower than in the same quarter last year, resulting in an effective tax rate of 27.6 % (second quarter 2004: 38.1 %).

The BMW Group recorded a net profit of euro 663 million for the second quarter 2005, euro 8 million or 1.2 % below the result for the same quarter last year. The post-tax return on sales was 5.5 % (second quarter 2004: 5.6 %).

In the second quarter, the Group generated earnings per share of common stock of euro 0.98 (second quarter 2004: euro 0.99) and earnings per share of preferred stock of euro 0.99 (second quarter 2004: euro 1.00).

#### **Earnings performance for the first half of 2005**

On a half-year basis, group revenues fell by 0.9 % to euro 22,516 million as a result of exchange rate factors. External revenues of the Automobiles segment were 3.9 % lower than in the corresponding period last year. External revenues of the Motorcycles and Financial Services segments increased by 28.0 % and 10.4 % respectively for the corresponding period. Revenues from other activities of the Group amounted to euro 50 million and related mainly to the softlab Group: the comparable figure for revenues from other activities of the Group for the previous year was euro 41 million.

Cost of sales amounted to euro 17,228 million, whereby the decrease was 0.2 percentage points

lower than the decrease in revenues. The gross profit therefore fell by 1.6 % compared to the first half of 2004. The gross profit percentage, at 23.5 %, was 0.2 percentage points lower than in the first six months of 2004. The gross profit of industrial operations fell by 1.1 percentage points and that of financial operations fell by 0.3 percentage points.

Sales and administrative costs increased by 3.7 % compared to the corresponding period last year and represent 10.4 % (first half-year 2004: 10.0 %) of revenues.

Research and development costs increased by 6.9 % compared to the first half of 2004 and represent 5.4 % (first half-year 2004: 5.0 %) of revenues. They include amortisation of capitalised development costs amounting to euro 353 million (first half-year 2004: euro 293 million). Total research and development costs for the first half of 2005 amounted to euro 1,425 million (first half-year 2004: euro 1,259 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for the first half of 2005 was 6.3 % (first half-year 2004: 5.5 %).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 1,478 million (first half-year 2004: euro 1,190 million). The increase reflects the effect of the start of operations at the Leipzig plant and the introduction of new products, since depreciation expense is recognised after the start of production.

The positive net amount from other operating income and expenses also increased on a six-month basis, mainly as a result of the fact that a number of items affecting last year's result did not occur during the period.

The financial result fell again compared to the corresponding period of the previous year, mainly as a result of lower net gains on financial instruments.

The fair value loss on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, reduced net financial income by euro 56 million (first half-year 2004: euro 104 million). The market value of the BMW Group's investment in Rolls-Royce plc improved by euro 124 million during the first half of 2005. This increase, however, is recognised directly in equity and does not offset the negative fair value change of the option. Within the financial result, income from investments decreased by euro 34 million and net interest expense increased by euro 4 million.

The profit before tax fell by 10.7 % compared to the same period last year. The income tax expense was lower than in the corresponding period last year, resulting in an effective tax rate of 31.6 % (first half-year 2004: 38.3 %).

The BMW Group recorded a net profit of euro 1,182 million for the first half of 2005, euro 12 million or 1.0 % below the result for the first half of 2004. The post-tax return on sales was 5.2 % (first half-year 2004: 5.3 %).

For the first half of 2005, the Group generated earnings per share of common stock of euro 1.75 (first half-year 2004: euro 1.77) and earnings per share of preferred stock of euro 1.76 (first half-year 2004: euro 1.78).

#### Earnings performance by segment

Revenues of the Automobiles segment for the second quarter 2005 increased by 3.4 %, whereas

the segment result fell by 16.8 % due to the external factors described above. Segment revenues for the first half of 2005 increased by 2.9 % and the segment result for this period fell by 11.9 %.

Revenues of the Motorcycles segment increased sharply (+ 41.5 %) in the second quarter, mainly as a result of product mix shifts. The segment result for the quarter was up by 20.5 %. Segment revenues for the first half of 2005 increased by 27.5 % and the segment result improved by 16.7 % compared to the corresponding period last year.

Revenues of the Financial Services segment for the second quarter 2005 increased by 15.8 %. As a result of the higher business volume, the segment profit before tax was 18.4 % higher than the figure reported for the second quarter 2004. On a half-yearly basis, segment revenues increased by 12.3 % and the segment result was 16.0 % ahead of the equivalent figure for the first half of 2004.

Reconciliations to the Group profit from ordinary activities were again negative in the second quarter 2005, with a net expense of euro 106 million; this represented an increase of euro 39 million compared to the same quarter last year. This was mainly attributable to the fair value loss on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, and to fair value losses on financial instruments. The net expense from reconciliations in the first half of 2005 increased by euro 59 million to euro 177 million.

| <b>Revenues by segment<br/>in the 2nd quarter</b><br>in euro million | Revenues<br>with third parties |               | Revenues with<br>other segments |          | Total<br>revenues |               |
|--|--------------------------------|---------------|---------------------------------|----------|-------------------|---------------|
|  | 2005                           | 2004          | 2005                            | 2004     | 2005              | 2004          |
| Automobiles  | 9,700                          | 9,863         | 2,211                           | 1,652    | 11,911            | 11,515        |
| Motorcycles  | 420                            | 298           | 3                               | 1        | 423               | 299           |
| Financial Services   | 2,011                          | 1,729         | 372                             | 328      | 2,383             | 2,057         |
| Reconciliations  | 28                             | 20            | -2,586                          | -1,981   | -2,558            | -1,961        |
| <b>Group</b>   | <b>12,159</b>                  | <b>11,910</b> | <b>-</b>                        | <b>-</b> | <b>12,159</b>     | <b>11,910</b> |



| <b>Revenues by segment for the period from 1 January to 30 June</b><br>in euro million | Revenues with third parties |               | Revenues with other segments |          | Total revenues |               |
|--|-----------------------------|---------------|------------------------------|----------|----------------|---------------|
|  | 2005                        | 2004          | 2005                         | 2004     | 2005           | 2004          |
| Automobiles  | 17,883                      | 18,614        | 3,982                        | 2,645    | 21,865         | 21,259        |
| Motorcycles  | 737                         | 576           | 4                            | 5        | 741            | 581           |
| Financial Services   | 3,846                       | 3,484         | 672                          | 538      | 4,518          | 4,022         |
| Reconciliations  | 50                          | 41            | -4,658                       | -3,188   | -4,608         | -3,147        |
| <b>Group</b>   | <b>22,516</b>               | <b>22,715</b> | <b>-</b>                     | <b>-</b> | <b>22,516</b>  | <b>22,715</b> |

### Financial position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the first halves of 2004 and 2005, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to those disclosed in the balance sheet.

The Group's cash inflow from operating activities during the first half of 2005, at euro 5,485 million, was at a similar level to that generated during the corresponding period last year (euro 5,510 million).

The cash outflow for investing activities for the six-month period, at euro 4,806 million, was euro

191 million lower than in the previous year. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities increasing by euro 11 million. Payment of the final sales price instalment relating to the sale of Land Rover increased cash inflow for the first half of 2005 by euro 1,000 million. Cash outflow in conjunction with the net investment in leased products and receivables from sales financing increased by euro 557 million. 114.1% (first half-year 2004: 110.3%) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The sub-group cash flow statement for industrial operations shows a significantly

| <b>Profit before tax by segment</b><br>in euro million | 2nd quarter<br>2005 | 2nd quarter<br>2004 | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 |
|--|---------------------|---------------------|------------------------------|------------------------------|
| Automobiles  | 808                 | 971                 | 1,510                        | 1,713                        |
| Motorcycles  | 53                  | 44                  | 84                           | 72                           |
| Financial Services                                     | 161                 | 136                 | 311                          | 268                          |
| Reconciliations  | -106                | -67                 | -177                         | -118                         |
| <b>Profit before tax</b>                               | <b>916</b>          | <b>1,084</b>        | <b>1,728</b>                 | <b>1,935</b>                 |
| Income taxes   | -253                | -413                | -546                         | -741                         |
| <b>Net profit</b>                                      | <b>663</b>          | <b>671</b>          | <b>1,182</b>                 | <b>1,194</b>                 |

greater coverage, namely 530.1 % (first half-year 2004: 278.7 %). As expected, the cash flow statement of the financial operations sub-group shows that cash inflow from operating activities does not cover cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing.

Cash inflow from financing activities includes inflows of euro 2,102 million from bond issues (first half-year 2004: euro 2,761 million) and outflows from repayments of euro 1,243 million (first half-year 2004: euro 1,619 million). The cash outflow of euro 179 million from financing activities during the first half of 2005 was attributable primarily to the decrease in financial liabilities.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group, the various cash flows resulted in an increase in cash and cash equivalents of euro 536 million (first half-year 2004: euro 816 million).

Net interest-bearing assets relating to industrial operations (including receivables from the financial operations sub-group) amounted to euro 5,082 million at 30 June 2005. This represents an increase of euro 2,450 million since 31 December 2004. Net interest-bearing assets relating to industrial operations comprise cash and cash equivalents (euro 2,570 million), marketable securities relating to industrial operations (euro 2,101 million) and receivables from the financial operations sub-group (euro 1,879 million) less financial liabilities relating to industrial operations. Excluding interest and currency derivatives, the latter amounts to euro 1,468 million.

### **Change in presentation of the Group balance sheet**

For the purposes of preparing the interim group financial statements, the BMW Group has applied revised IAS 1 (Presentation of Financial Statements), amended as part of the Improvement Project, since the first quarter 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 has resulted in a changed presentation of the Group balance sheet (see also Note [4]).

### **Net assets position**

The balance sheet total of the BMW Group increased by euro 3,480 million or 5.2 % compared to 31 December 2004. Excluding the effect of currency fluctuations, the increase would have been only 1.5 %. The main factors behind the increase on the assets side of the balance sheet were receivables from sales financing (+9.2 %), cash and cash equivalents (+25.2 %) and leased products (+26.0 %). By contrast, financial assets decreased by 37.0 %. On the equity and liabilities side of the balance sheet, the increase was due to the increase in financial liabilities (+6.0 %) and other liabilities (+17.8 %).

The increase in investments was due mainly to the stock-market price of Rolls-Royce plc shares. At 30 June 2005, this was still higher than the average purchase cost paid by the BMW Group. The value of the investment in Rolls-Royce plc, London, increased by euro 124 million during the first half of 2005. The increase was recognised directly in other accumulated equity.

Leased products increased by euro 1,948 million. Excluding the effect of currency fluctuations, the increase would have been euro 820 million lower.

The euro 2,126 million decrease in financial assets was largely due to the fact that the amount recognised for derivative financial instruments was euro 1,545 million lower than at 31 December 2004. By contrast, marketable securities increased by euro 269 million.

Group equity increased primarily as a result of the net profit for the period. Within group equity, accumulated other equity decreased by euro 598 million. This reduction resulted in part from the lower fair values of derivative financial instruments, net of deferred taxes (net decrease of euro 1,038 million). In the opposite direction, changes in the fair value of marketable securities and translation differences recognised directly in equity increased other accumulated equity by euro 166 million and euro 274 million respectively. Treasury shares acquired in conjunction with employee share schemes reduced equity by euro 13 million. Although equity increased overall by euro 152 million or 0.9 % during the first half of 2005, the group equity ratio fell by 1.1 per-

centage points to 24.9%, since the 5.2% increase in the balance sheet total was more pronounced than the increase in equity. The equity ratio for industrial operations was 42.8% (31 December 2004: 44.9%) and that for financial operations was 10.6% (31 December 2004: 9.7%).

Other provisions amounted to euro 5,703 million, similar to the level at 31 December 2004. Financial liabilities increased during the first half of 2005 mainly as a result of the increase in bonds (+ euro 1,350 million) and liabilities from customer deposits (+ euro 672 million).

Deferred income, included in sundry liabilities, increased by euro 284 million.

## BMW Group Group and sub-group Income Statements for the 2nd quarter

| in euro million   | Notes | Group        |              | Industrial operations <sup>1)</sup> |              | Financial operations <sup>1)</sup> |            |
|---|-------|--------------|--------------|-------------------------------------|--------------|------------------------------------|------------|
|   |       | 2005         | 2004         | 2005                                | 2004         | 2005                               | 2004       |
| Revenues  | [5]   | 12,159       | 11,910       | 12,362                              | 11,836       | 2,423                              | 2,126      |
| Cost of sales   | [6]   | –9,314       | –9,032       | –9,752                              | –9,107       | –2,132                             | –1,856     |
| <b>Gross profit</b>   |       | <b>2,845</b> | <b>2,878</b> | <b>2,610</b>                        | <b>2,729</b> | <b>291</b>                         | <b>270</b> |
| Sales and administrative costs                                    | [7]   | –1,236       | –1,211       | –1,123                              | –1,113       | –117                               | –103       |
| Research and development costs                                    | [8]   | –623         | –592         | –623                                | –592         | –                                  | –          |
| Other operating income and expenses                               | [9]   | 123          | 64           | 111                                 | 53           | –                                  | 3          |
| <b>Profit before financial result</b>                             |       | <b>1,109</b> | <b>1,139</b> | <b>975</b>                          | <b>1,077</b> | <b>174</b>                         | <b>170</b> |
| Financial result  | [10]  | –193         | –55          | –148                                | –95          | –25                                | 49         |
| <b>Profit before tax</b>  |       | <b>916</b>   | <b>1,084</b> | <b>827</b>                          | <b>982</b>   | <b>149</b>                         | <b>219</b> |
| Income taxes  | [11]  | –253         | –413         | –220                                | –380         | –51                                | –80        |
| <b>Net profit</b>   |       | <b>663</b>   | <b>671</b>   | <b>607</b>                          | <b>602</b>   | <b>98</b>                          | <b>139</b> |
| <b>Earnings per share of common stock</b> in euro                 | [12]  | 0.98         | 0.99         |                                     |              |                                    |            |
| <b>Earnings per share of preferred stock<sup>2)</sup></b> in euro | [12]  | 0.99         | 1.00         |                                     |              |                                    |            |

1) before consolidation of transactions between the sub-groups

2) In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

**BMW Group**  
**Group and sub-group Income Statements**  
**for the period from 1 January to 30 June**

| in euro million   | Notes | Group        |              | Industrial operations <sup>1)</sup> |              | Financial operations <sup>1)</sup> |            |
|---|-------|--------------|--------------|-------------------------------------|--------------|------------------------------------|------------|
|   |       | 2005         | 2004         | 2005                                | 2004         | 2005                               | 2004       |
| Revenues  | [5]   | 22,516       | 22,715       | 22,656                              | 21,883       | 4,690                              | 4,148      |
| Cost of sales   | [6]   | -17,228      | -17,341      | -17,771                             | -16,923      | -4,099                             | -3,613     |
| <b>Gross profit</b>   |       | <b>5,288</b> | <b>5,374</b> | <b>4,885</b>                        | <b>4,960</b> | <b>591</b>                         | <b>535</b> |
| Sales and administrative costs                                    | [7]   | -2,349       | -2,266       | -2,134                              | -2,065       | -224                               | -208       |
| Research and development costs                                    | [8]   | -1,221       | -1,142       | -1,221                              | -1,142       | -                                  | -          |
| Other operating income and expenses                               | [9]   | 212          | 90           | 187                                 | 79           | 7                                  | -11        |
| <b>Profit before financial result</b>                             |       | <b>1,930</b> | <b>2,056</b> | <b>1,717</b>                        | <b>1,832</b> | <b>374</b>                         | <b>316</b> |
| Financial result  | [10]  | -202         | -121         | -167                                | -160         | -3                                 | 57         |
| <b>Profit before tax</b>  |       | <b>1,728</b> | <b>1,935</b> | <b>1,550</b>                        | <b>1,672</b> | <b>371</b>                         | <b>373</b> |
| Income taxes  | [11]  | -546         | -741         | -491                                | -647         | -127                               | -138       |
| <b>Net profit</b>   |       | <b>1,182</b> | <b>1,194</b> | <b>1,059</b>                        | <b>1,025</b> | <b>244</b>                         | <b>235</b> |
| <b>Earnings per share of common stock</b> in euro                 | [12]  | 1.75         | 1.77         |                                     |              |                                    |            |
| <b>Earnings per share of preferred stock<sup>2)</sup></b> in euro | [12]  | 1.76         | 1.78         |                                     |              |                                    |            |

1) before consolidation of transactions between the sub-groups

2) In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

## BMW Group Group and sub-group Balance Sheets

| <b>Assets</b><br>in euro million                                 | Notes | Group         |               | Industrial operations <sup>1)</sup> |               | Financial operations <sup>1)</sup> |               |
|--|-------|---------------|---------------|-------------------------------------|---------------|------------------------------------|---------------|
|  |       | 30.6.2005     | 31.12.2004    | 30.6.2005                           | 31.12.2004    | 30.6.2005                          | 31.12.2004    |
| Intangible assets  | [13]  | 3,980         | 3,758         | 3,956                               | 3,739         | 24                                 | 19            |
| Property, plant and equipment                                    | [14]  | 10,807        | 10,724        | 10,787                              | 10,703        | 20                                 | 21            |
| Leased products  | [15]  | 9,450         | 7,502         | 232                                 | 221           | 11,919                             | 9,450         |
| Investments accounted for<br>using the equity method             | [16]  | 75            | 65            | 75                                  | 65            | –                                  | –             |
| Other investments  | [16]  | 808           | 704           | 792                                 | 685           | 16                                 | 19            |
| Receivables from sales financing                                 | [17]  | 16,462        | 15,737        | –                                   | –             | 16,462                             | 15,737        |
| Financial assets   | [18]  | 679           | 1,236         | 134                                 | 193           | 545                                | 1,043         |
| Deferred tax   | [19]  | 402           | 296           | 522                                 | 191           | –1,351                             | –1,012        |
| Other assets   | [20]  | 641           | 581           | 618                                 | 849           | 323                                | 366           |
| <b>Non-current assets</b>  |       | <b>43,304</b> | <b>40,603</b> | <b>17,116</b>                       | <b>16,646</b> | <b>27,958</b>                      | <b>25,643</b> |
| Inventories  | [21]  | 6,770         | 6,467         | 6,763                               | 6,458         | 7                                  | 9             |
| Trade receivables  |       | 2,004         | 1,868         | 1,947                               | 1,820         | 57                                 | 48            |
| Receivables from sales financing                                 | [17]  | 10,890        | 9,317         | –                                   | –             | 10,890                             | 9,317         |
| Financial assets   | [18]  | 2,948         | 4,517         | 2,363                               | 3,254         | 585                                | 1,263         |
| Current tax  | [19]  | 346           | 291           | 297                                 | 261           | 49                                 | 30            |
| Other assets   | [20]  | 1,969         | 2,224         | 2,737                               | 2,217         | 731                                | 800           |
| Cash and cash equivalents  |       | 2,664         | 2,128         | 2,570                               | 1,997         | 94                                 | 131           |
| <b>Current assets</b>  |       | <b>27,591</b> | <b>26,812</b> | <b>16,677</b>                       | <b>16,007</b> | <b>12,413</b>                      | <b>11,598</b> |
| <b>Total assets</b>  |       | <b>70,895</b> | <b>67,415</b> | <b>33,793</b>                       | <b>32,653</b> | <b>40,371</b>                      | <b>37,241</b> |
| Total assets adjusted for<br>asset backed financing transactions |       | 66,478        | 63,146        | –                                   | –             | 35,954                             | 32,972        |

1) before consolidation of transactions between the sub-groups

| <b>Equity and liabilities</b><br>in euro million                              | Notes | Group         |               | Industrial operations <sup>1]</sup> |               | Financial operations <sup>1]</sup> |               |
|---|-------|---------------|---------------|-------------------------------------|---------------|------------------------------------|---------------|
|   |       | 30.6.2005     | 31.12.2004    | 30.6.2005                           | 31.12.2004    | 30.6.2005                          | 31.12.2004    |
| Subscribed capital  |       | 674           | 674           |                                     |               |                                    |               |
| Capital reserves  |       | 1,971         | 1,971         |                                     |               |                                    |               |
| Revenue reserves  |       | 15,264        | 14,501        |                                     |               |                                    |               |
| Accumulated other equity  |       | -227          | 371           |                                     |               |                                    |               |
| Treasury shares   |       | -13           | -             |                                     |               |                                    |               |
| <b>Equity</b>   | [22]  | <b>17,669</b> | <b>17,517</b> | <b>14,464</b>                       | <b>14,647</b> | <b>4,296</b>                       | <b>3,613</b>  |
| Pension provisions  |       | 2,859         | 2,703         | 2,835                               | 2,680         | 24                                 | 23            |
| Other provisions  | [23]  | 3,508         | 2,991         | 3,273                               | 2,938         | 235                                | 53            |
| Deferred tax  | [24]  | 2,451         | 2,596         | 1,651                               | 1,800         | 562                                | 601           |
| Financial liabilities   | [25]  | 16,565        | 15,667        | 1,106                               | 1,117         | 15,459                             | 14,550        |
| Other liabilities   | [26]  | 1,543         | 1,358         | 1,143                               | 1,046         | 1,044                              | 1,195         |
| <b>Non-current provisions and liabilities</b>                                 |       | <b>26,926</b> | <b>25,315</b> | <b>10,008</b>                       | <b>9,581</b>  | <b>17,324</b>                      | <b>16,422</b> |
| Other provisions  | [23]  | 2,195         | 2,662         | 2,106                               | 2,423         | 137                                | 287           |
| Current tax   | [24]  | 749           | 497           | 626                                 | 406           | 123                                | 91            |
| Financial liabilities   | [25]  | 16,207        | 15,264        | 535                                 | 463           | 15,672                             | 14,801        |
| Trade payables  |       | 3,813         | 3,376         | 3,565                               | 3,070         | 248                                | 306           |
| Other liabilities   | [26]  | 3,336         | 2,784         | 2,489                               | 2,063         | 2,571                              | 1,721         |
| <b>Current provisions and liabilities</b>                                     |       | <b>26,300</b> | <b>24,583</b> | <b>9,321</b>                        | <b>8,425</b>  | <b>18,751</b>                      | <b>17,206</b> |
| <b>Total equity and liabilities</b>   |       | <b>70,895</b> | <b>67,415</b> | <b>33,793</b>                       | <b>32,653</b> | <b>40,371</b>                      | <b>37,241</b> |
| Total equity and liabilities adjusted for asset backed financing transactions |       | 66,478        | 63,146        | -                                   | -             | 35,954                             | 32,972        |

1] before consolidation of transactions between the sub-groups

## BMW Group Group and sub-group Cash Flow Statements for the period from 1 January to 30 June

| in euro million   | Group          |                |
|---|----------------|----------------|
|   | 2005           | 2004           |
| Net profit  | 1,182          | 1,194          |
| Depreciation of leased products   | 1,656          | 1,345          |
| Depreciation and write-downs on intangible assets,<br>property, plant and equipment and other investments | 1,478          | 1,190          |
| Change in provisions  | 263            | 708            |
| Change in deferred tax  | 146            | 394            |
| Change in net current assets and other items  | 760            | 679            |
| <b>Cash inflow from operating activities</b>  | <b>5,485</b>   | <b>5,510</b>   |
| Investment in intangible assets and property, plant and equipment   | – 1,570        | – 1,559        |
| Net investment in leased products and receivables from sales financing                                    | – 4,096        | – 3,539        |
| Final sales price instalment from the sale of Land Rover  | 1,000          | –              |
| Other   | – 140          | 101            |
| <b>Cash outflow from investing activities</b>   | <b>– 4,806</b> | <b>– 4,997</b> |
| <b>Cash inflow/outflow from financing activities</b>  | <b>– 179</b>   | <b>276</b>     |
| <b>Effect of exchange rate and changes in composition of group on cash<br/>and cash equivalents</b>       | <b>36</b>      | <b>27</b>      |
| <b>Change in cash and cash equivalents</b>  | <b>536</b>     | <b>816</b>     |
| Cash and cash equivalents at 1 January  | 2,128          | 1,659          |
| <b>Cash and cash equivalents at 30 June</b>   | <b>2,664</b>   | <b>2,475</b>   |



| Industrial operations |               | Financial operations |               |  |
|-----------------------|---------------|----------------------|---------------|--|
| 2005                  | 2004          | 2005                 | 2004          |  |
| 1,059                 | 1,025         | 244                  | 235           | Net profit   |
| 2                     | 3             | 1,354                | 1,187         | Depreciation of leased products  |
| 1,455                 | 1,182         | 23                   | 8             | Depreciation and write-downs on intangible assets, property, plant and equipment and other investments |
| 262                   | 735           | 10                   | -27           | Change in provisions   |
| 137                   | 445           | 80                   | -8            | Change in deferred tax   |
| 806                   | 682           | 53                   | 43            | Change in net current assets and other items   |
| <b>3,721</b>          | <b>4,072</b>  | <b>1,764</b>         | <b>1,438</b>  | <b>Cash inflow from operating activities</b>   |
| -1,544                | -1,551        | -26                  | -8            | Investment in intangible assets and property, plant and equipment                                      |
| -13                   | -8            | -4,083               | -3,531        | Net investment in leased products and receivables from sales financing                                 |
| 1,000                 | -             | -                    | -             | Final sales price instalment from the sale of Land Rover   |
| -145                  | 98            | 5                    | 3             | Other  |
| <b>-702</b>           | <b>-1,461</b> | <b>-4,104</b>        | <b>-3,536</b> | <b>Cash outflow from investing activities</b>  |
| <b>-2,458</b>         | <b>-1,826</b> | <b>2,279</b>         | <b>2,102</b>  | <b>Cash inflow/outflow from financing activities</b>   |
| <b>12</b>             | <b>3</b>      | <b>24</b>            | <b>24</b>     | <b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>        |
| <b>573</b>            | <b>788</b>    | <b>-37</b>           | <b>28</b>     | <b>Change in cash and cash equivalents</b>   |
| 1,997                 | 1,247         | 131                  | 412           | Cash and cash equivalents at 1 January   |
| <b>2,570</b>          | <b>2,035</b>  | <b>94</b>            | <b>440</b>    | <b>Cash and cash equivalents at 30 June</b>  |

## BMW 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 |                 |               |
| <b>31 December 2003</b>         | <b>674</b>         | <b>1,971</b>     | <b>12,671</b>    | <b>-720</b>              | <b>-146</b>                                     | <b>1,700</b>                     | <b>-</b>        | <b>16,150</b> |
| Acquisition of treasury shares  | -                  | -                | -                | -                        | -   | -                                | -11             | -11           |
| Dividends paid                  | -                  | -                | -392             | -                        | -   | -                                | -               | -392          |
| Translation differences         | -                  | -                | -                | 122                      | -   | 43                               | -               | 165           |
| Financial instruments           | -                  | -                | -                | -                        | 200   | -711                             | -               | -511          |
| Net profit January to June 2004 | -                  | -                | 1,194            | -                        | -   | -                                | -               | 1,194         |
| <b>30 June 2004</b>             | <b>674</b>         | <b>1,971</b>     | <b>13,473</b>    | <b>-598</b>              | <b>54</b>                                       | <b>1,032</b>                     | <b>-11</b>      | <b>16,595</b> |
| <b>31 December 2004</b>         | <b>674</b>         | <b>1,971</b>     | <b>14,501</b>    | <b>-763</b>              | <b>62</b>                                       | <b>1,072</b>                     | <b>-</b>        | <b>17,517</b> |
| Acquisition of treasury shares  | -                  | -                | -                | -                        | -   | -                                | -13             | -13           |
| Dividends paid                  | -                  | -                | -419             | -                        | -   | -                                | -               | -419          |
| Translation differences         | -                  | -                | -                | 169                      | -   | 105                              | -               | 274           |
| Financial instruments           | -                  | -                | -                | -                        | 166   | -1,038                           | -               | -872          |
| Net profit January to June 2005 | -                  | -                | 1,182            | -                        | -   | -                                | -               | 1,182         |
| <b>30 June 2005</b>             | <b>674</b>         | <b>1,971</b>     | <b>15,264</b>    | <b>-594</b>              | <b>228</b>                                      | <b>139</b>                       | <b>-13</b>      | <b>17,669</b> |

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2005**  
**Accounting Principles and Policies**

[1] Basis of preparation The consolidated financial statements of BMW AG at 31 December 2004 were drawn up in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, and valid at the balance sheet date. The interim Group financial statements (interim report) at 30 June 2005, which have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting), have been drawn up using, in all material respects, the same accounting methods as in the 2004 Group financial statements. Necessary changes resulting from the application of new or revised Standards are explained in Note [4]. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which are mandatory at 30 June 2005 have also been applied. The interim report also complies with German Accounting Standard No. 6 (GAS 6) – Interim Financial Reporting – issued by the German Accounting Standards Committee e.V. (GASC). The interim Group financial statements have neither been audited nor reviewed by the group auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

Further information about the Group's accounting principles and policies is contained in the BMW Group financial statements at 31 December 2004. The Group currency is the euro. All amounts are disclosed in millions of euros (euro million) unless stated otherwise.

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 interim 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 financial operations. Financial operations include financial services and the activities of the Group financing companies. The operating interest income and expense of financial operations are included in revenues and cost of sales respectively. The holding

companies BMW (UK) Holdings Ltd., Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, BMW (US) Holding Corp., Wilmington, Del., 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 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 Financial Statements and Accounting for Investments in Subsidiaries) and the interpretation 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. The balance sheet value of the assets sold at 30 June 2005 totalled euro 4.4 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.

|   |  |   |
|---|--|---|
| [2] Consolidated companies  | <p>The BMW Group financial statements at 30 June 2005 include, besides BMW AG, 42 German and 135 foreign subsidiaries. This includes 17 special securities funds and 21 trusts, almost all of which are used for asset backed financing. The group reporting entity is unchanged from the first quarter.</p> <p>Compared to the first half of 2004, the Group and sub-Group income statements include the following entities for the first time: axentiv AG, Darmstadt, arcensis GmbH, Stuttgart, BMW España Finance S.L., Madrid, BMW Malta Ltd., Valletta, BMW Malta Finance Ltd., Valletta, BMW Automotive</p>  | <p>(Ireland) Ltd., Dublin, Parkhaus Oberwiesenfeld GmbH, Munich, Gesellschaft für Vermietung und Verwaltung von Kraftfahrzeugen mbH, Munich, and seven trusts. Austin Rover International Services S.A., Lausanne, Rover Service Center Corp., Tokyo, two trusts and one special securities fund are no longer included in the group reporting entity.</p> <p>The changes in the composition of the Group do not have a material impact on the earnings performance, financial position and net assets of the Group.</p>  |
| [3] New financial reporting rules   | <p>The IASB has published the following revisions and amendments to existing Standards during the second quarter 2005:</p> <ul style="list-style-type: none"> <li>– Amendment to IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions)</li> <li>– Amendment to IAS 39 (The Fair Value Option)</li> <li>– Amendments to IFRS 1 and IFRS 6 (First-time Adoption of International Financial Reporting</li> </ul>  | <p>Standards and Exploration for and Evaluation of Mineral Resources)</p> <p>The amendment to IAS 39 is mandatory from 1 January 2006 onwards. The amendments to IFRS 1 and IFRS 6 are only applicable for first-time adopters and are therefore not relevant to the BMW Group financial statements.</p>  |
| [4] Changes to the second quarter and the first half-year 2004 interim financial statements | <p>The main changes for the BMW Group arise from the application of IAS 1 (Presentation of Financial Statements), which has been amended as part of the “Improvement Project”. 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 analysed into their constituent parts and presented accordingly.</p> | <p>The main changes were due to the following reclassifications:</p> <ul style="list-style-type: none"> <li>– receivables from sales financing, financial assets and other assets are classified on the basis of the current/non-current distinction.</li> <li>– prepayments are reclassified to other assets.</li> <li>– 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.</li> <li>– deferred income is reclassified to other liabilities.</li> <li>– deferred tax assets and liabilities are not classified as current in accordance with applicable rules.</li> </ul> |

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2005**  
**Notes to the Income Statement**

[5] Revenues Revenues by activity comprise the following:

| in euro million                                  | 2nd quarter<br>2005 | 2nd quarter<br>2004 | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 |
|--|---------------------|---------------------|------------------------------|------------------------------|
| Sales of products and related goods              | 10,043              | 10,088              | 18,497                       | 19,052                       |
| Income from lease instalments                    | 791                 | 614                 | 1,516                        | 1,276                        |
| Sales of products previously leased to customers | 731                 | 686                 | 1,365                        | 1,387                        |
| Interest income on loan financing                | 402                 | 360                 | 785                          | 683                          |
| Other income                                     | 192                 | 162                 | 353                          | 317                          |
| <b>Revenues</b>                                  | <b>12,159</b>       | <b>11,910</b>       | <b>22,516</b>                | <b>22,715</b>                |

Group revenues reported for the second quarter 2005 include revenues of euro 2,011 million (second quarter 2004: euro 1,729 million) relating to financial services business. Group revenues reported for the first half of 2005 include revenues of euro 3,846 mil-

lion (first half-year 2004: euro 3,484 million) relating to financial services business.

An analysis of revenues by business segment and geographical region is shown in the segment information on page 35.

[6] Cost of sales Cost of sales for the second quarter includes euro 1,805 million (second quarter 2004: euro 1,511 million) relating to financial services business. For the

period from 1 January to 30 June 2005, cost of sales includes euro 3,426 million (first half-year 2004: euro 3,068 million) relating to financial services business.

[7] Sales and administrative costs Sales costs in the second quarter amounted to euro 1,003 million (second quarter 2004: euro 1,015 million) and for the period from 1 January to 30 June 2005 to euro 1,928 million (first half-year 2004: euro 1,899 million). They comprise mainly marketing, advertising and sales personnel costs.

Administrative costs in the second quarter amounted to euro 233 million (second quarter 2004: euro 196 million), and in the first half of 2005 to euro 421 million (first half-year 2004: euro 367 million). These comprise expenses for administration which are not attributable to development, production or sales functions.

[8] Research and development costs Research and development costs in the second quarter of euro 623 million (second quarter 2004: euro 592 million) comprise all research costs and development costs not recognised as assets as well as amortisation of capitalised development costs amounting to euro 185 million (second quarter

2004: euro 150 million). For the period from 1 January to 30 June 2005, research and development costs amounted to euro 1,221 million (first half-year 2004: euro 1,142 million). This includes amortisation on capitalised development costs of euro 353 million (first half-year 2004: euro 293 million).

[9] Other operating income and expenses Other operating income in the second quarter amounted to euro 215 million (second quarter 2004: euro 195 million). For the period from 1 January to 30 June 2005, it amounted to euro 401 million (first half-year 2004: euro 389 million). Other operating

expenses in the second quarter amounted to euro 92 million (second quarter 2004: euro 131 million). For the period from 1 January to 30 June 2005, other operating expenses amounted to euro 189 million (first half-year 2004: euro 299 million).

[10] Financial result

| in euro million         | 2nd quarter<br>2005 | 2nd quarter<br>2004 | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 |
|-------------------------|---------------------|---------------------|------------------------------|------------------------------|
| Result on investments   | -2                  | -1                  | 14                           | 48                           |
| Net interest expense    | -67                 | -56                 | -124                         | -120                         |
| Other financial result  | -124                | 2                   | -92                          | -49                          |
| <b>Financial result</b> | <b>-193</b>         | <b>-55</b>          | <b>-202</b>                  | <b>-121</b>                  |

The increase in the net financial expense was attributable primarily to fair value losses on derivative financial instruments.

[11] Income taxes Taxes on income comprise the following:

| in euro million      | 2nd quarter<br>2005 | 2nd quarter<br>2004 | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 |
|----------------------|---------------------|---------------------|------------------------------|------------------------------|
| Current tax expense  | 78                  | 158                 | 338                          | 356                          |
| Deferred tax expense | 175                 | 255                 | 208                          | 385                          |
| <b>Income taxes</b>  | <b>253</b>          | <b>413</b>          | <b>546</b>                   | <b>741</b>                   |

The decrease in current tax expense resulted principally from the reduction of tax rates in a number of tax jurisdictions and from tax reimbursements relating to prior years. In addition, as a result of a renewed assessment of recoverability, deferred tax assets were recognised in the second quarter on tax

losses available for carryforward outside Germany. For the above reasons, the effective tax rate for the second quarter 2005 was 27.6% (second quarter 2004: 38.1%); the effective tax rate for the first half of 2005 was 31.6% (first half-year 2004: 38.3%).

[12] Earnings per share The computation of earnings per share is based on the following figures:

|   |                         | 2nd quarter<br>2005 | 2nd quarter<br>2004 | 1 January to<br>30 June 2005 | 1 January to<br>30 June 2004 |
|---|-------------------------|---------------------|---------------------|------------------------------|------------------------------|
| Net profit  | euro million            | 663                 | 671                 | 1,182                        | 1,194                        |
| Profit attributable to common stock                     | euro million (rounded)  | 612                 | 619                 | 1,091                        | 1,101                        |
| Profit attributable to preferred stock                  | euro million ( rounded) | 51                  | 52                  | 91                           | 93                           |
| Average number of<br>common stock shares outstanding    | number                  | 622,227,918         | 622,227,918         | 622,227,918                  | 622,227,918                  |
| Average number of<br>preferred stock shares outstanding | number                  | 51,731,162          | 52,196,162          | 51,731,162                   | 52,196,162                   |
| <b>Earnings per share of common stock</b>               | euro                    | <b>0.98</b>         | <b>0.99</b>         | <b>1.75</b>                  | <b>1.77</b>                  |
| <b>Earnings per share of preferred stock</b>            | euro                    | <b>0.99</b>         | <b>1.00</b>         | <b>1.76</b>                  | <b>1.78</b>                  |

In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year. 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 of the reporting periods.

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2005**  
**Notes to the Balance Sheet**

- [13] Intangible assets      Intangible assets comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 30 June 2005 amounted to euro 3,699 million (31 December 2004: euro 3,495 million). Capital expenditure for development costs in the first half of 2005 amounted to euro 557 million (first half-year 2004: euro 410 million). Amortisation amounted to euro 353 million (first half-year 2004: euro 293 million).
- [14] Property, plant and equipment      Capital expenditure for property, plant and equipment in the first six months of 2005 was euro 1,005 million (first half-year 2004: euro 1,152 million). The depreciation expense for the same period amounted to euro 1,087 million (first half-year 2004: euro 870 million).
- [15] Leased products      Additions to leased products and depreciation thereon amounted to euro 3,402 million (first half-year 2004: euro 2,434 million) and euro 604 million (first half-year 2004: euro 428 million) respectively. Disposals amounted to euro 1,670 million (first half-year 2004: euro 1,546 million). The translation of foreign currency financial statements resulted in a net translation gain of euro 820 million (first half-year 2004: euro 158 million).  
The increase in the carrying amount of leased assets is attributable mainly to financial services business on the American market and a positive currency translation impact.
- [16] Investments accounted for using the equity method and Other investments      Investments accounted for using the equity method relate to interests in joint ventures.  
Other investments relate primarily to investments in non-consolidated subsidiaries and to equity investments in other entities.
- [17] Receivables from sales financing      Receivables from sales financing totalling euro 27,352 million (31 December 2004: euro 25,054 million) relate to credit financing for retail customers and dealers and to finance leases.  
Receivables from sales financing include euro 16,462 million (31 December 2004: euro 15,737 million) with a remaining term of more than one year.  
The increase in receivables from sales financing was due to the expansion of business, in particular in Germany, the USA and the United Kingdom.

[18] Financial assets      Financial assets comprise:

| in euro million                            | 30.6.2005    | 31.12.2004   |
|--|--------------|--------------|
| Interest and currency derivatives          | 1,129        | 2,674        |
| Marketable securities and investment funds | 2,101        | 1,832        |
| Loans to third parties                     | 88           | 1,045        |
| Other                                      | 309          | 202          |
| <b>Financial assets</b>                    | <b>3,627</b> | <b>5,753</b> |
| thereof non-current                        | 679          | 1,236        |
| thereof current                            | 2,948        | 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.

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

[19] Income tax assets

Income tax assets can be analysed as follows:

| 30 June 2005<br>in euro million | Maturity<br>within one year | Maturity<br>later than<br>one year | Total      |
|---------------------------------|-----------------------------|------------------------------------|------------|
| Deferred tax                    | –                           | 402                                | 402        |
| Current tax                     | 346                         | –                                  | 346        |
| <b>Income tax assets</b>        | <b>346</b>                  | <b>402</b>                         | <b>748</b> |

| 31 December 2004<br>in euro million | Maturity<br>within one year | Maturity<br>later than<br>one year | Total      |
|-------------------------------------|-----------------------------|------------------------------------|------------|
| Deferred tax                        | –                           | 296                                | 296        |
| Current tax                         | 291                         | –                                  | 291        |
| <b>Income tax assets</b>            | <b>291</b>                  | <b>296</b>                         | <b>587</b> |

[20] Other assets

| in euro million   | 30.6.2005    | 31.12.2004   |
|---|--------------|--------------|
| Other taxes   | 290          | 376          |
| Receivables from subsidiaries                                   | 764          | 842          |
| Receivables from other companies in which an investment is held | 290          | 275          |
| Prepayments   | 562          | 543          |
| Sundry other assets   | 704          | 769          |
| <b>Other assets</b>   | <b>2,610</b> | <b>2,805</b> |
| thereof non-current   | 641          | 581          |
| thereof current   | 1,969        | 2,224        |

[21] Inventories

Inventories comprise the following:

| in euro million                      | 30.6.2005    | 31.12.2004   |
|--------------------------------------|--------------|--------------|
| Raw materials and supplies           | 620          | 617          |
| Work in progress, unbilled contracts | 1,051        | 978          |
| Finished goods                       | 4,232        | 3,991        |
| Goods for resale                     | 867          | 881          |
| <b>Inventories</b>                   | <b>6,770</b> | <b>6,467</b> |

[22] Equity

The Group Statement of Changes in Equity is shown on page 26.

**Treasury shares**

During the first half of 2005, the BMW Group acquired 465,000 shares of BMW stock at an average price of euro 27.45 per share. It is intended to issue

these shares to employees during the financial year 2005 at a reduced price in conjunction with an employee share scheme. The shares involved are shares of preferred stock which will be subject to a vesting period of four years.



[23] Other Provisions Other provisions, at euro 5,703 million (31 December 2004: euro 5,653 million), are at a similar level to the end of 2004 and include primarily personnel-related obligations and obligations for on-going operational expenses.

Current provisions at 30 June 2005 amounted to euro 2,195 million (31 December 2004: euro 2,662 million).

[24] Income tax liabilities

| 30 June 2005<br>in euro million | Maturity<br>within one year | Maturity<br>later than<br>one year | Total        |
|---------------------------------|-----------------------------|------------------------------------|--------------|
| Deferred tax                    | –                           | 2,451                              | 2,451        |
| Current tax                     | 743                         | 6                                  | 749          |
| <b>Income tax liabilities</b>   | <b>743</b>                  | <b>2,457</b>                       | <b>3,200</b> |

| 31 December 2004<br>in euro million | Maturity<br>within one year | Maturity<br>later than<br>one year | Total        |
|-------------------------------------|-----------------------------|------------------------------------|--------------|
| Deferred tax                        | –                           | 2,596                              | 2,596        |
| Current tax                         | 493                         | 4                                  | 497          |
| <b>Income tax liabilities</b>       | <b>493</b>                  | <b>2,600</b>                       | <b>3,093</b> |

Current tax liabilities of euro 749 million (31 December 2004: euro 497 million) comprises euro 549 million (31 December 2004: euro 427 million) for tax

provisions and euro 200 million (31 December 2004: euro 70 million) for taxes payable.

[25] Financial liabilities

Financial liabilities comprise all obligations of the BMW Group relating to financing activities and comprise:

| in euro million                              | 30.6.2005     | 31.12.2004    |
|--|---------------|---------------|
| Bonds  | 13,798        | 12,448        |
| Liabilities to banks                         | 3,446         | 3,790         |
| Liabilities from customer deposits (banking) | 5,773         | 5,101         |
| Commercial paper                             | 3,840         | 4,059         |
| Asset backed financing transactions          | 4,417         | 4,269         |
| Interest and currency derivatives            | 540           | 382           |
| Other  | 958           | 882           |
| <b>Financial liabilities</b>                 | <b>32,772</b> | <b>30,931</b> |
| thereof non-current                          | 16,565        | 15,667        |
| thereof current                              | 16,207        | 15,264        |

Other financial liabilities relate primarily to obligations recognised under finance leases.

[26] Other liabilities    Other liabilities comprise the following items:

| in euro million   | 30.6.2005    | 31.12.2004   |
|---|--------------|--------------|
| Other taxes   | 431          | 321          |
| Social security   | 162          | 123          |
| Advance payments from customers                               | 338          | 290          |
| Deposits received   | 164          | 156          |
| Liabilities to subsidiaries                                   | 38           | 46           |
| Liabilities to other companies in which an investment is held | –            | 2            |
| Deferred income   | 1,860        | 1,576        |
| Sundry other liabilities                                      | 1,886        | 1,628        |
| <b>Other liabilities</b>                                      | <b>4,879</b> | <b>4,142</b> |
| thereof non-current   | 1,543        | 1,358        |
| thereof current   | 3,336        | 2,784        |

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2005**  
**Other disclosures**

[27] Explanatory  
comments to segment  
information

The activities of the various segments are described  
in the Group financial statements of BMW AG at  
31 December 2004.

Segment information for the second quarter  
2005 is as follows:

| Segment information<br>by business segment<br>in euro million | Automobiles |        | Motorcycles |      | Financial Services |       | Reconciliations |        | Group  |        |     |
|---|-------------|--------|-------------|------|--------------------|-------|-----------------|--------|--------|--------|-----|
|   | 2005        | 2004   | 2005        | 2004 | 2005               | 2004  | 2005            | 2004   | 2005   | 2004   |     |
| Revenues with third parties                                   | 9,700       | 9,863  | 420         | 298  | 2,011              | 1,729 | 28              | 20     | 12,159 | 11,910 |     |
| Inter-segment revenues  | 2,211       | 1,652  | 3           | 1    | 372                | 328   | -2,586          | -1,981 | -      | -      |     |
| Total revenues  | 11,911      | 11,515 | 423         | 299  | 2,383              | 2,057 | -2,558          | -1,961 | 12,159 | 11,910 |     |
| Profit before financial result                                | 887         | 1,032  | 55          | 45   | 164                | 123   | 3               | -61    | 1,109  | 1,139  |     |
| Result from<br>equity method accounting                       | -4          | -2     | -           | -    | -                  | -     | -               | -      | -4     | -2     |     |
| Other net financial expenses                                  | -75         | -59    | -2          | -1   | -3                 | 13    | -109            | -6     | -189   | -53    |     |
| Profit before tax   | 808         | 971    | 53          | 44   | 161                | 136   | -106            | -67    | 916    | 1,084  |     |
| Return on sales   | %           | 6.8    | 8.4         | 12.5 | 14.7               | 6.8   | 6.6             | -      | -      | 7.5    | 9.1 |

Segment information for the first half of 2005 is as follows:

| Segment information<br>by business segment<br>in euro million | Automobiles |        | Motorcycles |      | Financial Services |       | Reconciliations |        | Group  |        |     |
|---|-------------|--------|-------------|------|--------------------|-------|-----------------|--------|--------|--------|-----|
|   | 2005        | 2004   | 2005        | 2004 | 2005               | 2004  | 2005            | 2004   | 2005   | 2004   |     |
| Revenues with third parties                                   | 17,883      | 18,614 | 737         | 576  | 3,846              | 3,484 | 50              | 41     | 22,516 | 22,715 |     |
| Inter-segment revenues  | 3,982       | 2,645  | 4           | 5    | 672                | 538   | -4,658          | -3,188 | -      | -      |     |
| Total revenues  | 21,865      | 21,259 | 741         | 581  | 4,518              | 4,022 | -4,608          | -3,147 | 22,516 | 22,715 |     |
| Profit before financial result                                | 1,619       | 1,769  | 87          | 74   | 325                | 253   | -101            | -40    | 1,930  | 2,056  |     |
| Result from<br>equity method accounting                       | -1          | 17     | -           | -    | -                  | -     | -               | -      | -1     | 17     |     |
| Other net financial expenses                                  | -108        | -73    | -3          | -2   | -14                | 15    | -76             | -78    | -201   | -138   |     |
| Profit before tax   | 1,510       | 1,713  | 84          | 72   | 311                | 268   | -177            | -118   | 1,728  | 1,935  |     |
| Return on sales   | %           | 6.9    | 8.1         | 11.3 | 12.4               | 6.9   | 6.7             | -      | -      | 7.7    | 8.5 |

## Financial calendar

|                                     |                 |
|-------------------------------------|-----------------|
| Interim Report to 30 September 2005 | 3 November 2005 |
| Annual Report 2005                  | 15 March 2006   |
| 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 |

## Contacts

### Business Press

Telephone +49 89 382-2 33 62  
+49 89 382-2 41 18  
Fax +49 89 382-2 44 18  
E-mail [presse@bmwgroup.com](mailto:presse@bmwgroup.com)

### Investor Relations

Telephone +49 89 382-2 42 72  
+49 89 382-2 53 87  
Fax +49 89 382-2 44 18  
E-mail [ir@bmwgroup.com](mailto:ir@bmwgroup.com)

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Further information about the BMW Group is available online at [www.bmwgroup.com](http://www.bmwgroup.com).  
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Bayerische Motoren Werke  
Aktiengesellschaft  
80788 Munich  
Germany  
Telephone +49 89 382-0