Annual Report 2004

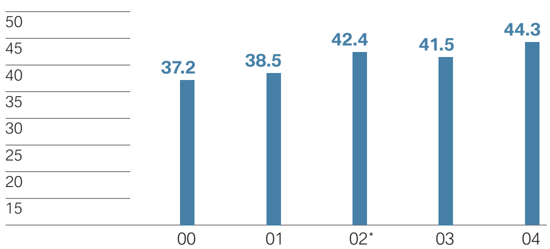
Setting the course,
extending the lead.

Rolls-Royce
Motor Cars Limited

BMW Group

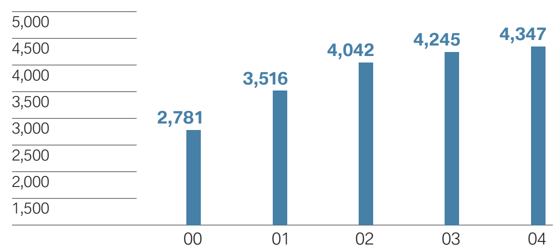
Facts and figures 2004.

BMW Group Revenues
in euro billion

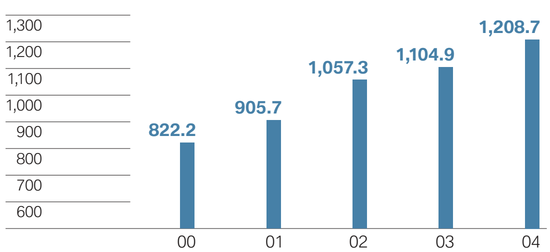


* reclassified after harmonisation of internal and external reporting systems

BMW Group Capital expenditure
in euro million

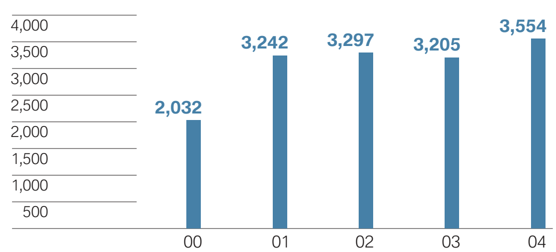


BMW Group Deliveries of automobiles*
in thousand



* adjusted for Rover/Land Rover

BMW Group Profit from ordinary activities
in euro million



BMW Group in figures

	2000	2001	2002	2003	2004	Change in %
Vehicle production						
BMW	834,519	904,335	930,221	944,072	1,059,978	12.3
MINI	–	42,395	160,037	174,366	189,492	8.7
Rolls-Royce	–	–	–	502	875	74.3
Motorcycles[1]	74,397	90,478	93,010	89,745	93,836	4.6
Deliveries to customers						
BMW	822,181	880,677	913,225	928,151	1,023,583	10.3
MINI	–	24,980	144,119	176,465	184,357	4.5
Rolls-Royce	–	–	–	300	792	164.0
Motorcycles[2]	74,614	84,713	92,599	92,962	92,266	– 0.7
Workforce at end of year[3]	93,624	97,275	101,395	104,342[4]	105,972	1.6

in euro million	2000	2001	2002	2003	2004	Change in %
Revenues	37,226	38,463	42,411[5]	41,525	44,335	6.8
Capital expenditure	2,781	3,516	4,042	4,245	4,347	2.4
Depreciation and amortisation	2,435	2,159	2,143	2,370	2,672	12.7
Cash flow	3,779	4,202	4,374	4,490	5,167	15.1
Profit from ordinary activities	2,032	3,242	3,297	3,205	3,554	10.9
Net profit	1,209	1,866	2,020	1,947	2,222	14.1

1] excluding C1, total production of the C1 to 2002: 33,489 units
2] excluding C1, sales volume to 2003: 32,859 units
3] figures exclude suspended contracts of employment, employees in the work and non-work phases of pre-retirement part-time arrangements and low income earners
4] after adjusting for disposals and transfers of group companies, the comparable number of employees was 104,250 employees at 31 December 2003
5] reclassified after harmonisation of internal and external reporting systems

During the financial year 2004, which has been the BMW Group's most successful year to date, the Supervisory Board monitored the Board of Management's governance of business and stood by in an advisory capacity. The Board of Management kept the Supervisory Board informed on a regular, timely and comprehensive basis. The Supervisory Board discussed decisions of fundamental importance to the enterprise with the Board of Management.

In five joint meetings, and on the basis of written and oral reports provided by the Board of Management, the Supervisory Board thoroughly reviewed the BMW Group's financial situation, performance, business policies, risk situation and risk management system and discussed the results with the Board of Management.

Throughout the year, the Chairman of the Supervisory Board was consulted by the Chairman of the Board of Management on important corporate and strategic matters.

The Supervisory Board kept a close and supportive watch on the on-going product and market initiative throughout 2004. The Supervisory Board welcomes the expansion of the product range into those premium segments of the international automobile markets which are relevant for the BMW Group. With the introduction of new models such as the BMW X3 Sports Activity Vehicle, the BMW 1 Series, the BMW 6 Series Convertible and

Joachim Milberg, Chairman of the Supervisory Board the MINI Convertible, the Group has succeeded in gaining access to new customer groups, thus laying the foundation for continued sales volume growth. The Supervisory Board also devoted time to the Group's third premium brand, the Rolls-Royce, which recorded a sharp rise in sales volume in its first full year of production. The Supervisory Board fully supports the Board of Management in its strategy of focusing on premium segments, thus setting the scene for further growth.

The Supervisory Board also kept itself fully informed on the progress of the Group's activities in China. The opening of a joint venture plant in Shenyang in conjunction with the Chinese partner, Brilliance China Automotive Holdings Ltd., is another major step for the BMW Group's strategy in Asia. The expansion of the European Union has also created new perspectives for the BMW Group in Eastern Europe.

The Supervisory Board also discussed the development of the euro against the US dollar and other major currencies. It also obtained detailed information about the situation on international commodity markets and discussed, together with the Board of Management, the potential effect on the business of the BMW Group and its suppliers.

The Board of Management regularly informed the Supervisory Board about the performance, financial position, personnel situation and corporate strategy of the BMW Group. The Supervisory Board also discussed the pleasing performance of the Financial Services segment.

It also reviewed the performance of the Motorcycles segment, whose business continues to be affected by difficult economic conditions and a continuing reluctance on the part of customers to spend.

The Board of Management also reported regularly to the Supervisory Board on how construction of the new BMW plant in Leipzig, and preparations for the start of production there, are progressing.

The Supervisory Board also discussed with the Board of Management the issue of the increasing trend towards tougher specifications for emissions and vehicle safety and the effect that this trend has on the BMW Group's business. The Supervisory Board looked particularly closely at the potential offered by alternative engine concepts. The effect of divergent national standards in the area of emissions and vehicle safety on operations and current development projects was also a topic of discussion.

The Group's long-term corporate strategy was discussed at length with the Board of Management and approved at the Supervisory Board's meeting held in December. The budget for the financial year 2005 was also approved at that meeting.

At the meeting held on 7 December 2004, the Supervisory Board and the Board of Management dealt with Corporate Governance issues, culminating in the two boards issuing a Declaration of Compliance pursuant to §161 AktG confirming the BMW Group's compliance with the German Corporate Governance Code (in the unchanged version from 4 July 2003). The mandatory requirements of the German Corporate Governance Code have been complied with, as in the past, except for a few divergences (see page 115).

The Presiding Board of the Supervisory Board reviewed the current business performance, medium to long-term aspects of business development and the annual forecast of the BMW Group at its regular meetings. The Presiding Board also discussed pending corporate governance issues such as the audit of the effectiveness of the Group's internal controls and questions relating to the Declaration of Compliance issued by the Supervisory Board and the Board of Management. These issues were dealt with at three meetings. In addition, the Presiding Board convened at two meetings in its function as Audit Committee and four meetings in its function as Personnel Committee. The statutory Mediation Committee (§27 (3) of the Law on Worker Participation) did not need to convene during the financial year 2004.

The financial statements of Bayerische Motoren Werke Aktiengesellschaft, the Group financial statements for the year ended 31 December 2004 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion.

The Audit Committee reviewed the abovementioned statements carefully on 28 February 2005. The Supervisory Board also examined the documents submitted by the Board of Management and discussed them with the Board of Management. The long-form audit reports of KPMG were made available to all members of the Supervisory Board. The independent auditors attended the Audit Committee meeting on 28 February 2005 and the meeting of the Supervisory Board at which the financial statements were examined on 10 March 2005, and reported on the main results of their audit.

The Supervisory Board concurred with the results of the external audit and approved the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2004 prepared by the Board of Management. The Company financial statements are therefore adopted.

The Board of Management's proposal to use the unappropriated profit available for distribution was reviewed by the Supervisory Board. The Supervisory Board concurs with the proposal submitted by the Board of Management. After the final result of the review by the Supervisory Board, no objections were raised.

The Supervisory Board thanked the Board of Management and employees for all their commitment which has paid off again in an exceptionally successful financial year.

The composition of the Supervisory Board changed as follows during the financial year 2004:

At the end of the Annual Shareholders' Meeting on 13 May 2004, the employee representatives, Dr. phil. Karin Benz-Overhage, Hans Glas and Ernst Rehmeier and the shareholder representatives, Prof. Dr. Bernd Fahrholz and Dr.-Ing. Dieter Soltmann, ceased to be members of the Supervisory Board. The Supervisory Board thanked the departing members for their steadfast contribution over many years.

In consideration of the age-limit applicable for the Supervisory Board and for the sake of leadership continuity, Volker Doppelfeld has not put himself forward for re-election as Chairman of the Supervisory Board; he will, however, continue to serve on the Supervisory Board as a member.

Volker Doppelfeld has been a member of the Supervisory Board since 1998, as Deputy Chairman in 1998 and then as Chairman for five years. His period of office coincides with the BMW Group's successful strategy of reorientation which he helped to shape in his function as Chairman of the Supervisory Board. The Supervisory Board thanked Volker Doppelfeld for all of the work performed.

Bertin Eichler (Executive Board member of IG Metall), Werner Eisgruber (member of the Works Council for the Dingolfing site) and Anton Ruf (Head of Technological Integration) were all elected to the Supervisory Board by the Workers' Delegates at a meeting held on 2 March 2004. At the Annual Shareholders' Meeting held on 13 May 2004, Franz Haniel (Managing Director of Giesecke & Devrient GmbH) and Wolfgang Mayrhuber (Chairman of the Managing Board of Deutsche Lufthansa AG) were elected to the Supervisory Board as shareholder representatives.

After the Annual Shareholders' Meeting on 13 May 2004, the Supervisory Board appointed Prof. Dr.-Ing. Dr. h.c. Dr.-Ing. E.h. Joachim Milberg as the Chairman of the Supervisory Board. Furthermore, the Supervisory Board elected Manfred Schoch as first Deputy Chairman and Stefan Quandt, Konrad Gottinger and Dr. Hans-Dietrich Winkhaus as additional Deputy Chairmen. The newly elected Presiding Board also acts as the Audit Committee and the Personnel Committees, both of which were constituted at the meeting on 13 May 2004.

Munich, 10 March 2005
The Supervisory Board

Joachim Milberg
Chairman

Group Management Report. The BMW Group has achieved new records for car sales volume, revenues and earnings in 2004 as a result of its product and market initiative. The product range has been expanded further and new important sales markets and target groups opened up.

A review of the Financial Year: New records for sales volume, revenues and earnings

The BMW Group continued the successful course of previous years in 2004. Despite adverse global economic conditions, the Group is able to report new highs for car sales volume, revenues and earnings. The year 2004 has therefore been the most successful in the Group's history.

The group profit from ordinary activities also rose sharply on the back of strong growth in car sales volume, and, at euro 3,554 million, surpassed the previous year's result by 10.9 %. The pre-tax return on sales in 2004 was 8.0 % (2003: 7.7 %).

The Automobiles segment reports a profit from ordinary activities of euro 3,159 million for 2004, a 14.4 % improvement over the previous year.

The reported results of the Motorcycles segment in 2004 have been affected by the substantial level of up-front expenditure incurred to introduce new models and by persisting unfavourable market conditions. The profit from ordinary activities of the Motorcycles segment was euro 31 million, 38.0 % below the figure reported for 2003.

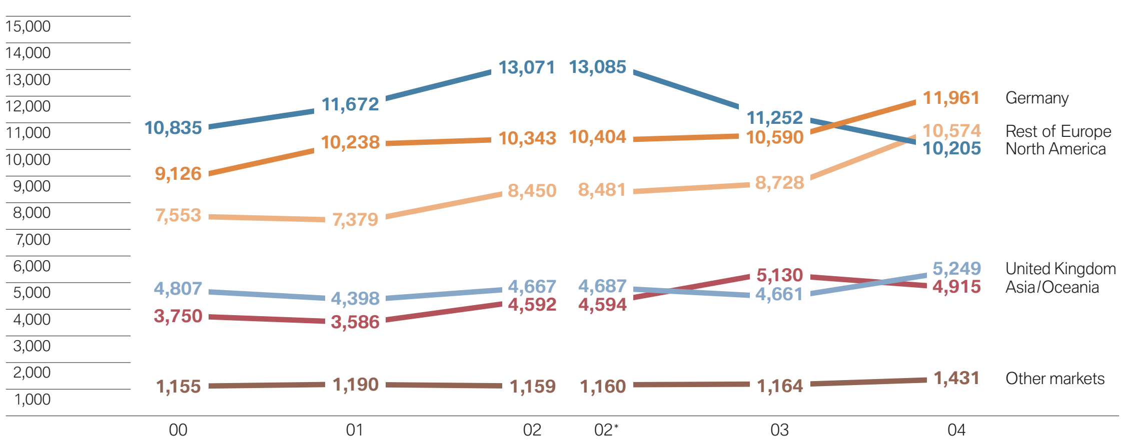
The Financial Services segment continued to see sharp growth, a development which was matched by a very pleasing improvement in earnings. At euro 515 million, the segment's profit from ordinary activities was 13.9 % higher than in the previous year.

The group net profit for 2004, at euro 2,222 million, was also a new record, beating the previous year's figure by 14.1 %.

Proposed dividend increase

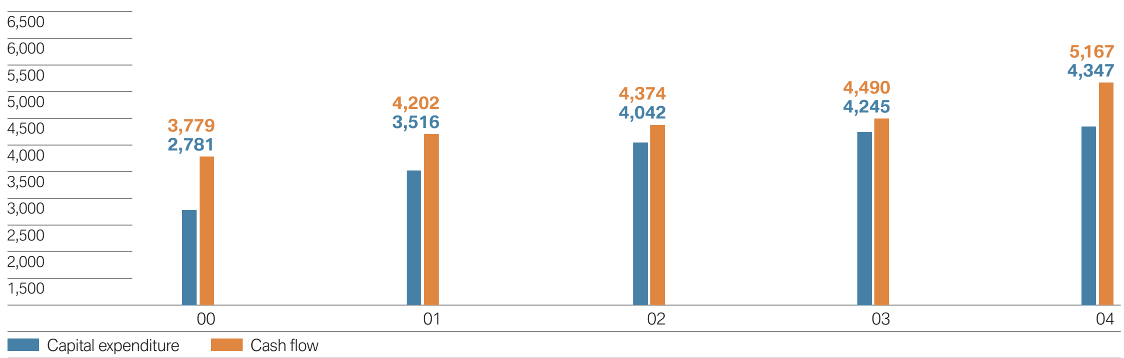
The Board of Management and Supervisory Board propose to the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG, amounting to euro 419 million, to pay a dividend of euro 0.62 for each share of common stock (2003: euro 0.58) and euro 0.64 for each share of preferred stock (2003: euro 0.60). Share capital entitled to receive dividends amounts to euro 673.5 million (622.2 million shares of common stock and 51.3 million shares of preferred stock, each with a nominal value of euro 1).

BMW Group Revenues by region
in euro million



*reclassified after harmonisation of internal and external reporting systems

BMW Group capital expenditure and cash flow
in euro million



Higher revenues despite currency impact
Group revenues in 2004, at euro 44,335 million, were 6.8% ahead of the previous year and hence a new high for the BMW Group. The weakness of the US dollar against the euro continued to have an adverse impact on reported revenues; in the USA in particular, revenues in euro terms were well below the previous year despite the fact that a new sales volume record was set. Worldwide, however, this effect was more than compensated by the sharp increase in the number of cars sold. Adjusted for changes in exchange rates, revenues of the BMW Group would have risen by 9.2% compared to the previous year.

Revenues of the Automobiles segment increased by 11.0% to euro 42,544 million and thus even faster than the growth in sales volume. By contrast, revenues of the Motorcycles segment fell by 2.5% to euro 1,029 million as a result of the currency impact and lower volumes brought about by prevailing market conditions and model life-cycles. Revenues of the Financial Services segment for 2004 amounted to euro 8,226 million, an increase of 8.5% compared to the previous year.

Capital expenditure remains at a high level
The BMW Group invested euro 3,226 million in property, plant and equipment and intangible assets in 2004. In addition, development expenditure of euro 1,121 million has been recognised as assets in accordance with IAS 38, so that total capital expenditure for 2004 amounted to euro 4,347 million, equivalent to an increase of 2.4% compared to the previous year.

The main emphasis of capital expenditure in 2004 was the construction of the new BMW plant in Leipzig and expansion of the sales network. In addition, extensive measures were taken and up-front expenditure incurred to expand capacities for new models going into production at existing plants.

At 39.8%, the proportion of development costs recognised as assets is still relatively low for the industry (2003: 38.9%).

Including capitalised development costs, the capital expenditure ratio (i.e. the ratio of capital expenditure to group revenues) was 9.8% in 2004, and was thus below the record ratio reported for the previous year (10.2%).

Cash flow for the year, at euro 5,167 million, increased sharply (15.1%) and, as in previous years, exceeded capital expenditure.

Divergent performance by the world's economies in 2004

The global economy grew at a robust pace in 2004. Triggered by strong growth in the USA and Asia, the recovery of the global economy picked up strength in the early part of 2004, only to slow down as the year progressed. One major reason for this was the sharp rise in raw material prices, in particular for crude oil, resulting in lower consumer purchasing power and higher input costs for companies. From a global perspective, these adverse factors outweighed the benefits generated in economies which export raw materials.

Overall, the US economy expanded rapidly in 2004. After particularly strong growth in the first quarter, economic activity fell back to a more moderate growth rate. The gross domestic product of the USA grew on average by 4.4% in 2004 (provisional official estimate).

The hesitant recovery which had begun to take effect in the euro zone in mid-2003 continued in 2004, albeit at a modest pace. Exports provided the main momentum for growth, whereas domestic demand remained sluggish.

Germany's economic recovery in 2004 initially reflected relatively solid growth rates, only to see them tail off perceptibly in the second half of the year as global economic dynamism weakened. The German economy benefited primarily from export business, whereas private consumption again declined. Overall, Germany's gross domestic product grew by 1.6% in 2004.

Those countries which joined the EU in May 2004 registered robust economic growth, whereby momentum also weakened here somewhat in the second half of the year.

Worldwide, Asia remains the region with the strongest growth rates. South East Asian economies and China, in particular, contributed to strong growth in this region. The Chinese gross domestic product grew in 2004 by 9.5% compared to the previous year. The more restrictive money and credit policy, imposed by the Chinese Government in the course of the year, has so far only marginally cooled the economy. The Japanese economy also grew more strongly in 2004 than expected thanks to strong growth at the beginning of the year, only to lose momentum perceptibly as the year progressed.

Automobile markets in 2004

The worldwide demand for cars increased moderately in 2004 compared to the previous year. The three main traditional markets (Japan, the USA and Western Europe) only registered small sales volume increases. By contrast, the number of cars sold in Mercosur countries and in the majority of the Asian markets climbed significantly.

The number of light vehicles sold in the USA in 2004 rose by a good 1% to 16.9 million units. Once again, imported vehicles registered faster growth than domestic manufacturers, so that the market share held by US manufacturers continued to decline.

In Western Europe, the number of newly registered passenger cars increased in 2004 by approximately 2% to 14.5 million units. After three years of declining volumes, the industry was again able to achieve positive growth rates. Amongst the major European markets, Spain recorded a sharp growth of almost 10%, whereas new registrations in Germany, France and Italy were only marginally up and the figure for the United Kingdom fell just short of the previous year.

Most of the Asian car markets developed positively. The total number of new registrations in Japan again increased slightly compared to 2003. The dynamism of growth on China's car market slowed down noticeably in 2004 compared to previous years; at 17%, however, the growth rate for passenger cars was still robust. The main exception to the overall positive development in the Asian region was the car market in South Korea where the high debt levels of private households held down overall consumer spending.

Sales of new cars continued to recover in Latin American markets. The number of light vehicles sold in Brazil rose by 10% to almost 1.5 million units. The recovery in Argentina continued in 2004 after the slump in unit sales at the beginning of the decade: the number of light vehicles sold in 2004 almost doubled.

Rigorous implementation of product and market initiative

The BMW Group continued to pursue its strategy of expanding the range of vehicles and is now represented in all of the relevant premium segments of the international car markets with the BMW, MINI and Rolls-Royce brands.

Following on from the market launch of the BMW 6 Series Coupé and BMW X3 in January, the Group began sales of the BMW 6 Series Convertible in spring 2004. The new BMW 5 Series Touring was presented to the general public in May and, in September 2004, the new BMW 1 Series made its successful debut in the compact category, a new segment for the BMW brand. The BMW Group also introduced the first BMW Convertible with a diesel engine in autumn in the form of the new BMW 320Cd Convertible. The new BMW M5, the most powerful 5 Series car in the history of the BMW brand, was also presented in autumn 2004 and will be available from April 2005 onwards. More new models have been presented in the first few months of 2005, namely the new BMW 3 Series, the revised BMW 7 Series and the new BMW M6, all of which will become available in the course of 2005.

The model range of the MINI brand was broadened in 2004 by the addition of the MINI Convertible, which is now available with three engine options.

The Rolls-Royce brand celebrated its 100th anniversary in 2004 and, to mark the occasion, launched a special centenary model of the Rolls-Royce Phantom, limited to 35 cars. In spring 2004, Rolls-Royce Motor Cars also unveiled the Rolls-Royce Centenary Experimental Car, the 100EX.

Sales volume well above previous year's level in virtually all markets

In total, 1,208,732 BMW, MINI and Rolls-Royce brand cars were sold during 2004, an increase of 9.4% compared to the previous year.

The USA continued to be the market with the largest sales volume, with a total of 296,521 cars sold in 2004, 7.0% more than in the previous year. No European premium automobile manufacturer sold more vehicles in the USA in 2004 than the BMW Group.

The BMW Group's sales volume in Western Europe rose to 707,012 units (+10.8%).

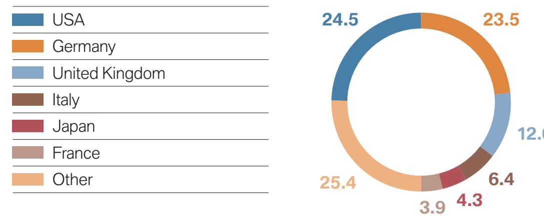
Whilst the overall car market in Germany grew by just one percent in 2004 compared to the previous year, the BMW Group was able to increase its sales volume in this market to 283,586 units (+10.9%).

The BMW Group has more than doubled its sales volume in the United Kingdom over the past five years. The number of cars sold by the BMW Group in the United Kingdom in 2004 rose by 8.0% to 145,272 units. The BMW Group increased car sales in all other European markets and thus managed to buck the weak trend registered in several countries. For example, the BMW Group increased its sales volume in Italy to 77,248 units (+15.3%) and in France to 46,773 units (+9.4%), despite the fact that the total number of sales sold in these markets stagnated. Amongst its European markets, the BMW Group registered the highest growth rate in Greece where the number of cars sold rose by 57.9% to 6,640 units.

The number of BMW, MINI and Rolls-Royce brand cars sold in Asia in 2004 rose by 2.5 % to 95,360 units. More than one half of the BMW Group's sales volume in this region was accounted for by Japan, where 51,838 cars were sold, 6.5 % more than in 2003.

The number of cars sold by the BMW Group on the Chinese markets (China, Hong Kong and Taiwan) fell by 10.2 % to 24,321 units in 2004, whereas in the previous year, the Group had still been registering very high growth rates in these markets. This was primarily attributable to government measures taken to cool the economy in China, resulting temporarily in lower demand. The BMW Group nevertheless expects to record above-average sales volume growth rates on the Chinese markets in the coming years.

BMW Group – key automobile markets 2004
as a percentage of sales volume



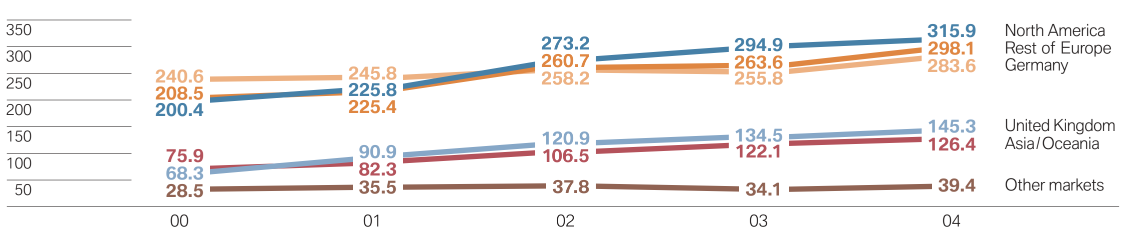
BMW brand crosses the one-million threshold

With 1,023,583 cars sold in 2004, the BMW brand exceeded the one-million threshold for the first time, an increase of 10.3 % compared to the previous year. At the same time, there has never been a year in which so many new BMW models have been launched onto the market in a single year.

Demand for the newly presented models has been particularly pleasing. For example, 39,247 BMW 1 Series cars were sold on the European markets between September 2004 and the year-end.

The fourth generation of the BMW 3 Series has been the most successful series in the group's history: more than three million new cars have been sold in the period from 1998, when the current series' predecessor was launched, up to the end of 2004. The new BMW 3 Series Sedan, which will be available from March 2005 onwards, will continue this success story. A total of 449,732 BMW 3 Series cars was sold worldwide in 2004, 14.9 % less than in the previous year, the reduction being attributable to model life-cycle factors. The Sedan remains the most popular 3 Series model, with 235,251 cars sold (–13.8 %) in 2004. The BMW 3 Series Touring recorded a 6.0 % reduction in 2004, with 77,064 units sold. The sales volume of the BMW 3 Series

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



*adjusted for Rover/Land Rover

Coupé in 2004 totalled 57,968 units (–13.0%). In the same period, the number of BMW 3 Series Convertible and BMW 3 Series Compact vehicles sold totalled 40,341 units (–14.9%) and 39,108 units (–34.2%) respectively.

More BMW 5 Series were delivered to customers in 2004 than ever before: 229,598 units of the BMW 5 Series models were sold, 23.8% more than in the previous year. In the first full year of sale since its launch in July 2003, 191,361 units of the BMW 5 Series Sedan were sold, an increase of 22.6% over the previous year. In May 2004, the new BMW 5 Series Touring was introduced, initially in Europe, and by the end of the year, 31,342 units had been delivered to customers. Including 6,895 units of the predecessor model sold before the year-end, the total sales volume for the BMW 5 Series Touring in 2004 reached 38,237 units (+30.3%).

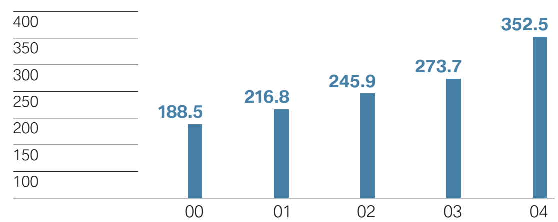
Demand for the new BMW 6 Series Coupé and Convertible models, launched in January and March respectively, remains strong. 12,332 of the 6 Series Coupé and 8,708 of the 6 Series Convertible had been sold by the end of the year. In 2005, the M6 model will round off BMW's range of Coupés with a particularly powerful model.

The worldwide sales volume of the 7 Series was 47,689 units (–17.6%) in 2004, the fourth year of production. In Germany, the BMW 7 Series has now moved into first place in the luxury class and, with 7,671 new vehicle registrations, is the market leader in the segment for large sedans.

Demand for the BMW X5, now in its fifth full year of production is also gratifyingly strong; with 104,988 units (–0.5%) sold in 2004, the sales volume remained stable at a high level. More than 433,000 units of this Sports Activity Vehicle have been sold since its market launch in 1999.

The BMW X3 was introduced onto the market in January 2004 and by the end of the year, 92,248 units had been delivered to customers.

Deliveries of BMW diesel automobiles
in 1,000 units



38,483 BMW Z4 Roadster were sold in 2004, 18.2% less than in the previous year.

The proportion of diesel-powered BMW brand cars continues to grow steadily. One in three new BMW brand cars worldwide is now equipped with a diesel engine. In some markets, in particular in Europe, the proportion of diesels is significantly higher; in Italy, France and Spain, for example, the proportion is 86%, 85% and 71% respectively. In Germany, almost one half of all new BMW brand cars were powered by a diesel engine.

The combination provided by a continual reduction in the level of emissions and significantly enhanced performance is one of the main factors behind the success of BMW diesel vehicles. It is envisaged that the use of particle filters will become a standard feature of all BMW diesel vehicles; at present, however, the availability of particle filters is still limited. They have been incorporated into all BMW 5 Series diesels since March 2004. Since then, they are being successively incorporated as a standard feature into all BMW diesel vehicles which require them to comply with EU4 emission rules. In BMW vehicles which already comply with EU4 standards, the particle filter is an optional extra.

Successful market launch for the MINI Convertible

Altogether, sales of MINI brand cars rose to 184,357 units in 2004, an increase of 4.5% compared to the previous year. Sales of the starter model MINI One went up by 6.8% to 47,641 units, bolstered by the sales volume of the diesel version, MINI One D, with 16,726 units sold. The MINI Cooper remained the best-selling MINI model, with a sales volume of 77,532 units (–11.3%). The top model, the MINI Cooper S, achieved a sales volume of 40,443 units (–9.0%).

The MINI Convertible was launched in July 2004 and is now available with three engine options. A total of 18,741 units had been sold by the end of the year.

The strongest market for the MINI brand is the United Kingdom (43,485 units), followed by the USA (36,032 units) and Germany (27,442 units).

100 years of Rolls-Royce motor cars

The Rolls-Royce Phantom is the world's indisputable market leader in the super-luxury segment. Rolls-Royce Motor Cars handed over 792 Rolls-Royce Phantoms to customers in 2004. A special centenary model, limited to 35 cars, was created to celebrate the 100th anniversary of the Rolls-Royce brand. The experimental 100EX vehicle, a four-seat convertible study, was also presented in 2004, and aroused a great deal of public interest. As a result of the positive response, serial production of a four-seat Rolls-Royce Convertible is now planned. Like the Rolls-Royce Phantom, this new motor car will use aluminium-space-frame chassis technology and will be powered by a V12 engine.

Difficult economic conditions persist for the motorcycles industry

Despite the positive expectations predicted by market observers at the beginning of the year, the international motorcycles markets performed disappointingly in 2004. Although the global market for motorcycles with engines larger than 50 cc. grew by 6.5% compared to the previous year, the growth was limited mainly to specific markets, such as the USA, Italy and Spain.

Contrary to the original assumption that the motorcycle market in Germany would stabilise, the total market volume declined for the fifth year in succession (–8.3%), mainly as a consequence of the weak economy and the related reluctance of consumers to spend.

The number of registrations in the above-mentioned markets increased in 2004, with the particularly pronounced increases in Italy (+12.8%) and Spain (+51.3%) influencing the overall market picture. By contrast, many of the European markets continued to stagnate or even contract.

The overall market in the USA grew by 8.4% in 2004, whereby it was principally manufacturers from the USA and Japan which registered growth; few of the European manufacturers were able to benefit from the expansion of the market.

Most of the Asian motorcycle markets contracted in 2004. For example, there were 3.6% fewer registrations in Japan than in the previous year. Whereas most dealers outside Asia had hardly been affected by market contractions in previous years, they were no longer able to escape the effects of this trend fully in 2004.

Transitional year for the Motorcycles segment

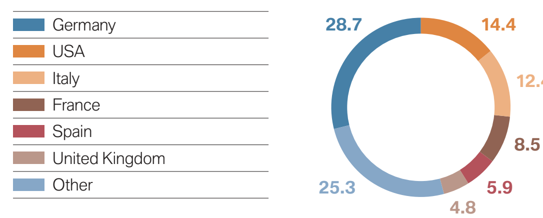
The difficult economic conditions on the international markets also affected the BMW Group's motorcycles business in 2004. With a sales volume of 92,266 units, the record figure set in 2003 was missed by just 0.7%, the first time in eleven years that the previous year's sales volume had not been surpassed. This development can be attributed primarily to model life-cycle factors relating to the existing Boxer models which were not fully offset by the rise in sales of single cylinder models. The launch of the new K 1200 S brought about the expected revival in demand in the fourth quarter 2004;

due to a delay in the start of production, however, this momentum could not be translated immediately into sales volume growth.

The various markets performed very inconsistently in 2004. The markets providing the best growth rates for the BMW Group in 2004 were Spain (5,404 units, +27.9%), the United Kingdom (4,462 units, +6.1%) and France (7,869 units, +7.0%). By contrast, significant reductions were registered in the USA (13,323 units, –12.9%) and Japan (2,737 units, –11.7%).

In Germany, the largest market for BMW motorcycles, the BMW Group was able to resist the effect of the market contraction and remains the market leader. With a sales volume of 26,485 units, the previous year's figure was beaten by 0.4%, so that BMW's market share for motorcycles in the 50 cc. class upwards, rose to 19.5%.

BMW Group – key motorcycle markets 2004
as a percentage of sales volume



Top-selling model R 1200 GS

The new R 1200 GS, which heralded the start of the Motorcycle segment's new product initiative, has successfully established itself in the market and heads the list of top-selling BMW motorcycles in 2004, with 18,968 units sold in the period from the start of sales in March 2004 up to the end of the year. The F 650 GS (including the Dakar version) finished second with 14,478 units sold. Third place was achieved by the R 1150 RT, of which 12,358 units were sold in 2004, which will be the model's last full year.

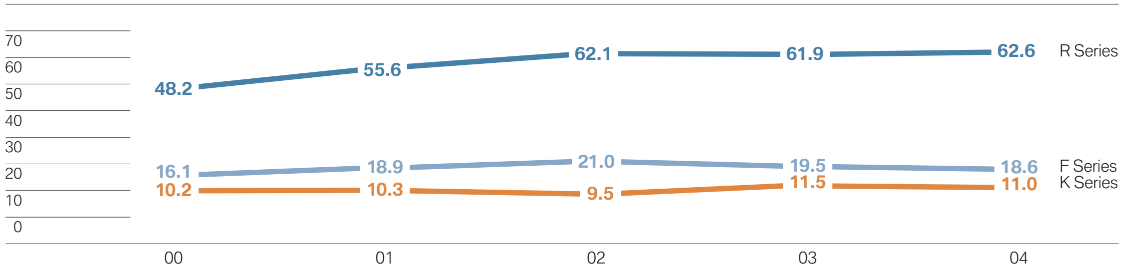
Numerous production start-ups in the Motorcycles segment

Motorcycle production at the Berlin plant in 2004 was fully engaged with the product initiative, in particular the start of production of the new models, K 1200 S and R 1200 RT as well as some life-cycle impulses for the single cylinder models and for the K 1200 LT. In response to the great success of the new R 1200 GS, the production volume of this model was increased as a short-term measure with the aid of additional production shifts in summer 2004. Overall, 93,836 BMW motorcycles were manufactured at the Berlin plant in 2004, 4.6% more than in the previous year.

Promising new products in 2005

In 2005, the BMW Group will rigorously pursue its strategy of launching new products for the Motorcycles segment. The new travel touring bike, the R 1200 RT, was launched at the beginning of the year and the R 1200 ST (the successor model to the R 1150 RS) will follow a few months later. The K 1200 R, which received much acclaim at the INTERMOT trade fair, will become available to customers during the second half of 2005.

Motorcycles segment: Deliveries by series
in 1,000 units



General economic conditions relating to financial services business

Financial services business in 2004 benefited from the improvement in the global economy and the resulting tighter monetary policies imposed by some central banks. The US Federal Reserve Bank increased key lending rates in moderate steps from 1% to 2.25%; interest rates were also increased, for example, in the United Kingdom and Switzerland. By contrast, the European Central Bank and the Japanese Reserve Bank did not change key interest rates in 2004. Interest yield curves (in particular the US dollar yield curve), which were steep at the beginning of the year, became much flatter by the year-end, extremely so in the case of the United Kingdom. With money market interest rates increasing in the USA, albeit at a much slower pace, five-year capital market interest rates rose, whereas those for ten and thirty year periods remained virtually at the levels of one year earlier.

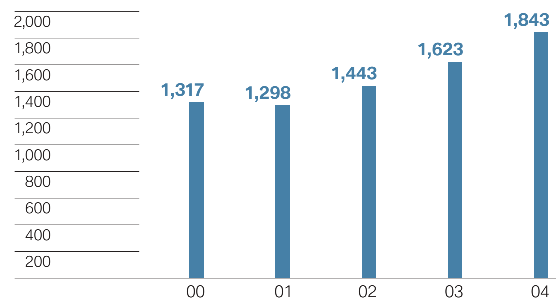
The financial services sector reacted to the resulting pressure on margins by further measures to optimise processes and improve efficiency. The availability of funds on the money and capital markets further exacerbated the intensely competitive situation.

Continuing growth for the Financial Services segment

The Financial Services segment was again able to expand business successfully for another year in succession. The business volume of the segment in balance sheet terms rose by 13.6% to euro 32,556 million. The proportion of new cars of the BMW Group leased or financed by the Financial Services segment increased by 3.7 percentage points to 42.0%.

At the year-end, a total of 1,843,399 credit or lease contracts were in place with dealers or retail customers, 13.5% more than one year earlier.

Contract portfolio of BMW Financial Services
in 1,000 units



Regional expansion continued

The Financial Services segment pushed ahead with its regional expansion. In the course of the year, for example, eight new ventures, based on cooperation agreements, started their operations in Europe, Asia and America. The Financial Services segment now sells its products through 24 group entities and 24 cooperation arrangements, and is therefore represented in 48 countries.

Sharp increase in retail customer business

In total, 817,597 new contracts were signed with retail customers in 2004, 15.1% more than in 2003. The number of new contracts significantly surpassed the previous year's figure, both in the area of lease contracts (+29.6%) and credit contracts (+8.5%). As a result of the faster growth of lease business, mainly relating to the higher number of contracts for new vehicles manufactured by the BMW Group, lease business now accounts for 35.4% of all customer retail business. The Financial Services segment also registered a 15.8% increase in the financing of used cars, with the majority of new contracts relating to used BMW brand cars.

Overall, the total number of new financing contracts with retail customers in 2004 rose worldwide to euro 20,759 million, a 19.1% increase over the previous year.

The number of retail customer contracts under management was increased in all regions and stood at 1,675,772 contracts at the end of 2004, 13.7% more than one year earlier. The contract portfolio increased in Germany, the rest of Europe, the Americas and Asia by 13.8%, 14.1%, 14.4% and 10.9% respectively.

101,222 contracts relating to the financing of vehicles of other manufacturers were in place with retail customers at 31 December 2004, an increase of 9.4% compared to the end of the previous year.

Further growth for dealer financing business

The number of dealer financing contracts in place at the end of 2004 stood at 167,627, 12.4% more than one year earlier. Overall, the Financial Services segment provides services to 2,583 dealers. The total average volume of dealer financing contracts in 2004 rose by 19.8% to euro 5,305 million. BMW Financial Services has thus been able to strengthen its position as the leading financial partner for the BMW Group's dealer organisation.

Sharp rise in the volume of deposits

Deposit business continued to grow strongly in 2004. The average deposit volume for 2004 was euro 4,626 million which was 22.1% higher than the average achieved in the previous year. The main contributing factors behind this positive development were the attractive terms and conditions offered for online call deposits and savings accounts in Germany. The total number of customer accounts rose worldwide by 47.2% during the year to stand at 374,279 accounts at 31 December 2004.

Fund business also progressed well and generated high net cash flows. In particular, the combined product "Save & Invest" generated a solid increase in net cash flows. There were 19,791 customer securities accounts at 31 December 2004 (+43.1%). Net cash flows for all investment funds amounted to euro 42.2 million, 33.9% more than in the previous year.

The number of BMW credit card customers in 2004 increased by 7.1% to 285,930. Following the introduction of the BMW credit card programme in Australia, Spain and Thailand, the BMW Card can now be obtained in eight countries.

Related insurance products

At present, the Financial Services segment offers insurance products such as car and credit insurance in 24 markets. These policies are normally entered into in parallel to credit and lease contracts. BMW Financial Services acts as agent, working closely with local and international insurance companies. In 2004, 383,939 insurance contracts were in place, 14.9% more than in the previous year.

Fleet business with growth trend

The BMW Group provides fleet services via its Alphabet subsidiary which operates in twelve European markets and in Australia. Business was further expanded in 2004. At the year-end, the contract portfolio covered 99,046 units giving a growth rate of 28.9% compared to the previous year. The average growth rate for new business over the last five years has been 33.2%, so that Alphabet is now one of the fastest growing full-service providers in this market segment.

Evenly-balanced risk situation

Credit risk was again reduced in 2004. The ratio for bad debts in 2004, at 0.41%, fell by 5 base points compared to the previous year. The main contributing factor was the continued development and implementation of risk management instruments. The interest rate risk is managed using a risk-return approach. Diversified value-at-risk, as measured by the Financial Services segment to quantify the interest rate risk*, increased from euro 32.9 million to euro 55.4 million.

Further increase in workforce
The BMW Group had a workforce of 105,972 employees at the end of 2004, 1.6% more than one year earlier. Adjusted for transfers and disposals of group entities, the BMW Group therefore created 1,722 new jobs in 2004, of which more than three quarters were in Germany. The workforce here increased by 1.8% to 80,005 employees. The BMW Group recruited almost 2,000 new employees for the BMW Leipzig plant, many of whom worked for training purposes at other BMW locations during 2004.

Increase in number of apprentice positions
The number of apprentices working for the BMW Group went up again in 2004. At present, 4,464 young people are learning a profession with the BMW Group, 3.7% more than one year earlier. The apprentice ratio, i.e. the proportion of apprentices to the total workforce, is 5%. In the last three years alone, the BMW Group has created more than 600 new apprentice positions worldwide. Numerous starter programmes for high-school leavers and university graduates are also available for people starting their career with the BMW Group.

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

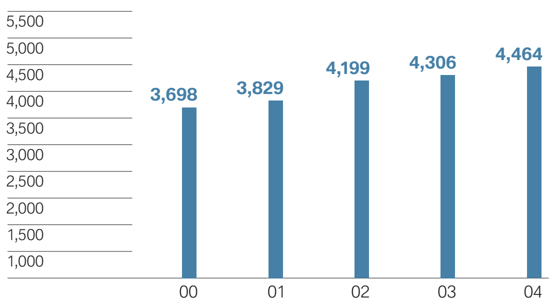
Extensive training measures
The BMW Group invested nearly euro 232 million (2003: euro 196 million) in prime and further training for its employees. This means that approximately 3.2% (2003: 2.8%) of total personnel expenditure related to training, thus preparing employees for future challenges and ensuring that they have the right skills.

Innovative technologies used in the area of personnel management
In conjunction with its “excellence in Human Resources” (eHR) programme, the BMW Group is taking advantage of modern technologies to improve personnel management. As an example, the employee portal “Network” was introduced as part of this programme in March 2004. This allows employees to access their own personnel data and obtain individualised information, thus avoiding expensive and time-consuming administrative processes. By the end of 2004, some 64,000 employees were already using the new portal, and all employees at the group’s German locations will have access by mid-2005.

BMW Group employees	31.12.2004	31.12.2003	Change in %
Automobiles [1]	99,043	97,711	1.4
Motorcycles	2,918	2,954	–1.2
Financial Services	2,841	2,476	14.7
Other [1]	1,170	1,109	5.5
thereof Software	(1,108)	(1,045)	6.0
BMW Group [1]	**105,972**	**104,250**	**1.7**
unadjusted	105,972	104,342	1.6

1] workforce at the end of 2003 adjusted for transfers and disposals of group entities

BMW Group apprentices at 31 December



The search for new employees is now supported by a new online recruiting system. External and internal candidates are, amongst other options, offered the opportunity of placing their application in a so-called "recruitment pool" and to update their application on an ongoing basis. The new system has gone down extremely well and since going online in April, some 209,000 external applications had been registered by the end of 2004. The ratio of applications received online has risen steadily; in December 2004, for example, 82 % of all applications were submitted online.

Qualitative personnel planning linked more closely to long-term business forecasts

The integration of qualitative personnel planning into the group's long-term business forecasts was intensified in 2004. The BMW Group is therefore now in a position to identify, plan and manage the skills and qualifications of its employees even more accurately than before and to align these at an early stage to its future needs. By incorporating personnel issues into strategic and corporate decisions on an enterprise-wide basis, measures affecting changes in the level or structure of the workforce can be identified and implemented at an early stage and with more targeted effect. In short, this enterprise-wide approach opens up further potential for finding optimal solutions by using available resources more efficiently.

Sharp increase in car production volume

The BMW Group set a new record for car production volume in 2004 in its worldwide production network, thus laying the basis for the sharp increase in sales volume. Overall, 1,250,345 BMW, MINI and Rolls-Royce brand cars were manufactured in 2004 (+11.7 %).

Once again, it was the BMW brand which faced the most challenging situation. As a result of the implementation of the product and market initiative, numerous production start-ups for new models had to be managed in the BMW plants in 2004. Flexible work-time arrangements, further process optimisation and, above all, the commitment of the group's employees, all made their contribution to allowing these challenges to be surmounted.

In total, 1,059,978 BMW brand cars were manufactured worldwide in 2004, a production volume increase of 12.3 % compared to the previous year. In addition, 189,492 MINI brand cars left the Oxford plant, 8.7 % more than in 2003.

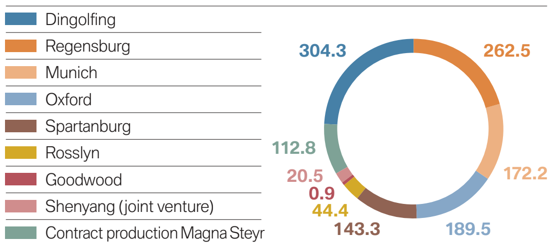
Furthermore, 875 Rolls-Royce Phantoms were manufactured by Rolls-Royce Motor Cars in Goodwood, Great Britain, an increase of 74.3 % over the previous year.

The challenges posed by the product and market initiative dominated activities in 2004 in nearly all of the BMW Group's production sites.

In 2004, the BMW plant in Dingolfing surpassed the annual production mark of 300,000 units for the first time. A total of 304,254 BMW 5 Series, 6 Series and 7 Series cars left the plant, the highest number for any of the BMW Group's locations.

The increase was particularly noteworthy since the Dingolfing plant had to cope with several new start-ups, including that of the BMW 5 Series Touring with three engine options and that of the new six-cylinder engine generation for the BMW 6 Series Coupé and 6 Series Convertible. Also in 2004, as part of a euro 160 million project, the centralised spare parts distribution centre in Dingolfing was extended to supply the BMW worldwide dealer organisation.

Automobile production of the BMW Group by plant 2004
in 1,000 units



The focus of the BMW plant in Munich in 2004 was the start of production of the new BMW 3 Series Sedan, which resulted in the most extensive modification projects to date for the assembly and chassis construction areas. The new BMW 3 Series went into production in Munich in December 2004; the other 3 Series plants in Regensburg, Leipzig and Rosslyn (South Africa) will follow suit in February and March 2005 onwards. Despite the modifications to production facilities and the related interruption of production in January, more than 172,000 BMW cars left the Munich plant in 2004. In the meantime, more than seven million BMWs have been manufactured at the Munich plant. In addition to the full range of V8 and V12 engines, the new ten-cylinder engine for the BMW M5 and the BMW M6 is also manufactured in Munich. Both of these vehicles will be available to customers from April 2005 onwards.

Substantial expansion measures were completed at the Regensburg plant for the start of production of the new BMW 1 Series; since 2001 the Group has invested approximately euro 500 million in these modifications. The paint-shop, for example, has been completely rebuilt. As at the Dingolfing plant, robots now also apply powder-based clear paint to car bodies in the Regensburg plant using electrostatic technology. The BMW Group is currently the only manufacturer in the world to embrace environmental-friendly powder-based clear paint technology, requiring neither water nor solvents.

Work on the new BMW plant in Leipzig is progressing in line with plan; operational tests to date indicate that equipment and processes are already performing well. BMW 3 Series cars will be manufactured at the new location from March 2005 onwards. The new plant will be opened in May 2005, at which stage Leipzig will officially become part of the BMW Group's international production network, which will then comprise 22 locations in twelve countries.

Since production of the current BMW 3 Series was started in 1998, more than 250,000 cars have been manufactured at the BMW plant in Rosslyn, South Africa. The 250,000th vehicle, a BMW 330i, came off the production line in August 2004.

Production of the BMW X5 4.8is, the most powerful version of this highly successful model, started at the U.S. Spartanburg plant in April 2004. Extensive modification work was commenced at this site towards the year-end and will be continued in the coming years. This involves the conversion of the assembly area from two separate assembly lines for the BMW X5 and Z4 models into a single assembly line so as to maximise production flexibility.

The new plant in Shenyang, North China, constructed in conjunction with the distribution and production joint venture with the Chinese partner, Brilliance Automotive Holdings, was officially opened in May 2004. Due to tighter availability of credit as a consequence of economic measures and the resulting reluctance on the part of customers to spend, the production volume of the joint venture was increased at a slower pace than originally planned. The medium-term aim of an annual production volume of 30,000 BMW cars remains unchanged.

More than 112,000 BMW X3 were manufactured in 2004 by the BMW Group's cooperation partner, Magna Steyr Fahrzeugtechnik, Graz, Austria. The range of engines available with this Sports

Activity Vehicle was further extended in September with the start of production of the X3 2.0i.

In recent years, the BMW Group has invested approximately euro 100 million in the BMW plant in Landshut to construct a magnesium foundry; the new facilities commenced operation in 2004. The group has therefore created the necessary capacities for serial production of the magnesium-aluminium composite crank case for the new BMW straight-six cylinder Otto engine. A further euro 10 million has been invested to construct a new production building in Landshut for replacement engine production. A logistical and assembly system aimed at maximum flexibility and two newly designed cold engine test benches represent the heart of the new facilities. Specialists for replacement engine production are therefore capable of setting up and testing up to 1,200 engine versions. The number of engine versions will continue to rise as a consequence of the recent expansion of the BMW model range.

The BMW Group has been manufacturing petrol and diesel engines in Steyr, Austria, for 25 years; almost three billion euro have been invested so far in this location. The largest engine plant of the BMW Group is also where BMW diesel engines are developed. During this anniversary year, the most extensive single construction project at this site to date was completed with the opening of a new 37,000 m^2 production hall, expanding the size of the site by approximately one third. Flexible processing centres allow a high degree of product and capacity versatility.

A total of 146,000 engines was manufactured at the Hams Hall engine factory in England in 2004 and delivered to the BMW plants in Regensburg, Munich, Leipzig and Rosslyn. This means that total engine production at this location since January 2001 edged towards the half-million mark. As the plant responsible for the production of all BMW four-cylinder petrol engines with a capacity of between 1.6 and 2.0 litres, Hams Hall has contributed to the on-going success story of the BMW 3 Series as well as to the successful start of the BMW 1 Series. Preparations are now underway to equip the factory for the production of a new series of four-cylinder engines to be used in future MINI vehicles.

In April 2004, production of the MINI Convertible commenced at the MINI plant in Oxford. The integration of the new model into existing production facilities reflects the high degree of flexibility of the Oxford plant, since the body in white, painting and assembly work for the Convertible is all performed on the same production lines as for other MINI models. Thanks to flexible work-time models and on-going improvements in production processes, the capacity of the Oxford plant has been increased continually since the beginning of MINI production in 2001, from the original annual production volume of 100,000 units to a new high level of approximately 189,000 units in 2004. For this reason, the 500,000th MINI rolled off the production line in Oxford in August 2004 after only three years of operations.

Production of the Rolls-Royce Phantom in Goodwood, England, increased sharply in 2004, allowing British manufacturing to demonstrate its tradition of high standards and flexibility, particularly when it comes to personalised specifications, which are requested by approximately 60% of customers.

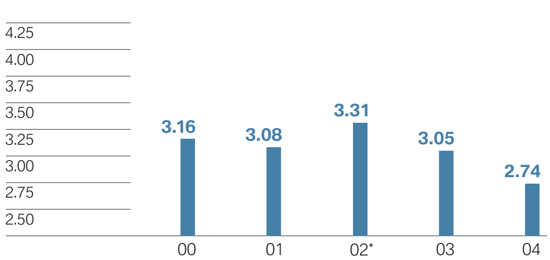
2004 certification audit successfully completed
All of the plants of the BMW Group are certified on the basis of uniform quality and environmental standards. In addition, environmental-care management systems are tailored to the specific requirements of each location. The 2004 monitoring audit, confirming the Group's worldwide ISO certification for quality and environmental care, was completed successfully. Specialist external auditors reaffirmed the high standard of processes achieved at all of the Group's locations. The auditors concluded that some of the processes adopted by the Group fit into the category of "best practice".

Well-prepared for emission trading
The preparations to set up an emissions trading system for companies in the European Union were completed in 2004. The BMW Group is directly affected by the new regulations at each of its major European production sites (with rated thermal input exceeding 20 MW). Thanks to modern and energy-efficient concepts, such as combined heat and power systems, the BMW Group has been able to achieve a balance between forecasted CO_2 emissions and available emission rights.

Implementation of the EU End-of-life Vehicle Directive
Implementation of the EU End-of-life Vehicle Directive has followed on seamlessly from the BMW Group's own comprehensive recycling concept. The EU Directive requires car manufacturers to take back, free-of-charge, all vehicles registered for the first time after 1 July 2002. From 2007 onwards, this requirement is extended to all vehicles. The BMW Group is committed to cooperating with small and medium-sized recycling operators to establish the necessary infrastructure for recycling throughout the 25 European Union member states. In order to create the ideal conditions for the subsequent environmentally-compatible recycling of BMW Group products, new vehicle generations are being developed with recycling requirements specifically in mind. One example of this is the new BMW 3 Series, whose pyrotechnical components (such as airbags) can be quickly, and therefore cheaply, neutralised, thus avoiding their time-consuming disassembly. All models of the BMW Group are already capable of being recycled economically and almost in their entirety. A comprehensive description of the activities relating to "Design for Environment" can be found in the BMW Group's latest Sustainable Value Report (www.bmwgroup.com/sustainability).

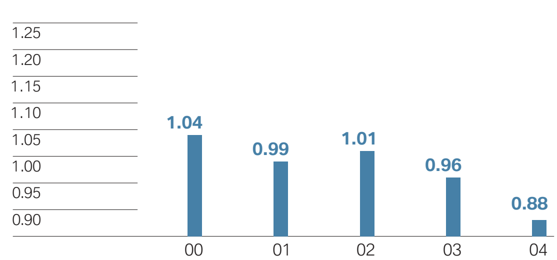
Research and development with a clear target of innovation
Reliability and quality stand at the forefront of the development process. The aim is to achieve further advances and reduce the complexity of individual systems by means of new technologies – but without diminishing innovation or relinquishing useful functions.

Energy consumed per unit produced
in MWh



*higher energy intensity through continuing conversion to environmentally friendly water-based and powder-based painting technology.

CO_2 emissions per unit produced
in tons



Preparations for new engines and vehicle models were the main focus of research and development for the BMW Group in 2004. The aim of "Efficient Dynamism" is to balance the contradictory targets of more power, comfort and safety on the one hand and lower consumption and emissions on the other.

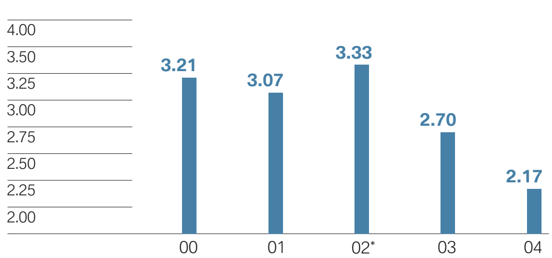
Development of the new straight-six cylinder Otto engine, which became ready for serial production in 2004, has been the most complex and costly engine project in the history of the BMW Group. The use of innovative materials, such as the magnesium-aluminium composite crank case, means that the new engine is seven percent lighter than its predecessor and thus the world's lightest six-cylinder engine. The ability to infinitely adjust variable valve opening times (VALVETRONIC), which is now a feature of all new BMW petrol engines (except M-engines), also optimises the torque curve and reduces consumption in the new six-cylinder engine. Many other innovations, such as an electrical water pump and a volume-flow controlled oil pump, have come to fruition and, by comparison to the equivalent values for the predecessor, have helped to reduce consumption by twelve percent whilst increasing performance, also by twelve percent. This engine has been presented initially in the BMW 630i and is expected to be utilised widely across the various BMW series models.

The development of variable twin turbo technology (multi-stage turbo charging) enables the 3.0 litre diesel engine to generate 200 kW (272 bhp). A control circuit consisting of two series-connected turbochargers is controlled by a specially developed electronic system. This engine is by far the most powerful diesel engine in its class. It runs extremely smoothly, thus ensuring comfort at the highest level; consumption and emissions are exemplary, with a particle filter integrated as a standard feature.

In the case of the V10 engine, which has been specially developed for the BMW M5 and BMW M6, the BMW Group has embraced the technological principles, production processes and materials used for the BMW WilliamsF1 racing car engine. The crank case is particularly warp resistant and has been designed with a view to achieving the lowest weight possible. The V10, with a capacity of five litres, generates 373 kW (507 bhp) and is currently the most powerful engine in a series model of the BMW Group (for the M5 and M6: fuel consumption of 22.7 l/100 km (urban) and 10.2 l/100 km (extra-urban), combined 14.8 l/100 km; combined CO_2 emission of 357 g/km). Running at a maximum of 8,250 revolutions per minute, this ten-cylinder engine is venturing into a region reserved, until fairly recently, for pure racing car engines.

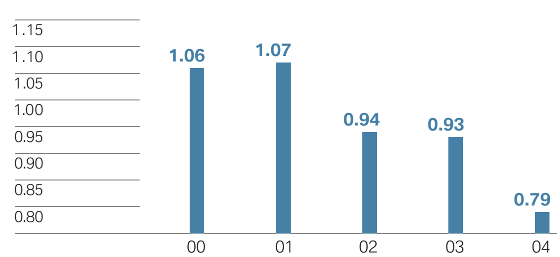
The new BMW 1 Series has a host of new technical features such as serial RunFlat tyres with a tyre defect indicator (TDI), a Brake Force Display and a display showing the remaining running times of parts subject to wear and tear. The concept of using an engine which is built in lengthways in combination with a rear-drive axle, is unique for a compact class

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



*increase in 2002 due to the new computation basis in accordance with the Volatile Organic Compounds Regulation (31st Federal Regulation on Gas Emissions)

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



vehicle. This design, which has proven itself in larger model series, allows greater steering precision, tracking stability and agility.

In the case of the BMW 5 Series Touring presented in 2004, technical features such as active steering, the Dynamic Drive roll stabilisation system and the Head-Up-Display have been adapted and are available as optional extras.

With the fourth generation of the BMW M5, the BMW Group is continuing a 20 year-old tradition of manufacturing highly powerful sports-style sedans. The new BMW M5 is powered by a specially developed V10 high-performance engine. Gears are selected via a seven-speed SMG gear-box which can be adapted to the driver's exact wishes. A new generation of Dynamic Stability Control (DSC) has also been developed specially for the M5; this allows particularly sporty drivers to select a second level of dynamic stability at the push of a button. The M5's Electronic Damper Control system (EDC) allows the driver to adjust the driving feel of the car, using three programmes, ranging from "sportingly firm" to "comfortable". Another button allows various engine characteristics to be displayed. All of these functions have also been integrated into the high-performance M6 Coupé. The M6 is equipped with a carbon roof to reduce weight and lower its centre of gravity.

Thanks to the new roof construction, the BMW 6 Series Convertible's shape is very elegant even with the roof closed. The top provides excellent sound-proofing and insulation for a convertible.

A second body version was added to the MINI range in 2004 through the development of the MINI Convertible. One feature, unique for the convertibles segment, is the integrated sun-roof. The fully-automated roof mechanism also functions particularly quickly, the whole roof opening in only 15 seconds. Despite its small size, the MINI Convertible offers a high degree of functionality combined with an optimal usage of space.

The BMW Group and PSA Peugeot Citroën are currently working together on a project to develop a new family of petrol engines. These engines, which will incorporate state-of-the-art engine technology, will be used in future versions of the MINI.

A new Project Building was completed in 2004 at the heart of the BMW Group's Research and Innovation Centre. The new building has been designed with a view to accelerating the successful development of new vehicles.

The lay-out of the Project Building allows specialists and project teams from the various technical departments, organised according to series models, to work together directly. Work centres are located around a central atrium, at the middle of which is located an oval-shaped, glass building. This "building within a building" is connected to the outside circular building by means of a series of bridges crossing the atrium. It is therefore only a short walk from the project work-centres to the central building which serves as a studio and workshop centre.

Focus on reducing consumption and emissions

The BMW Group remains committed to reducing fuel consumption and related carbon dioxide emissions (CO_2). In conjunction with the voluntary agreement made by the Association of the German Automobile Industry (VDA), the BMW Group is making its contribution towards achieving a 25 % reduction in fleet consumption for vehicles newly registered between 1990 and 2005. The BMW Group is also pushing ahead with new light-weight construction concepts, and with the development of new engine technologies in order to fulfil the Group's share of the commitment given by the European Automobile Manufacturers Association (ACEA). This envisages a reduction in carbon dioxide emissions on a European fleet average for newly registered vehicles to 140 g/km, equivalent to a 25 % reduction in consumption for the period from 1995 to 2008.

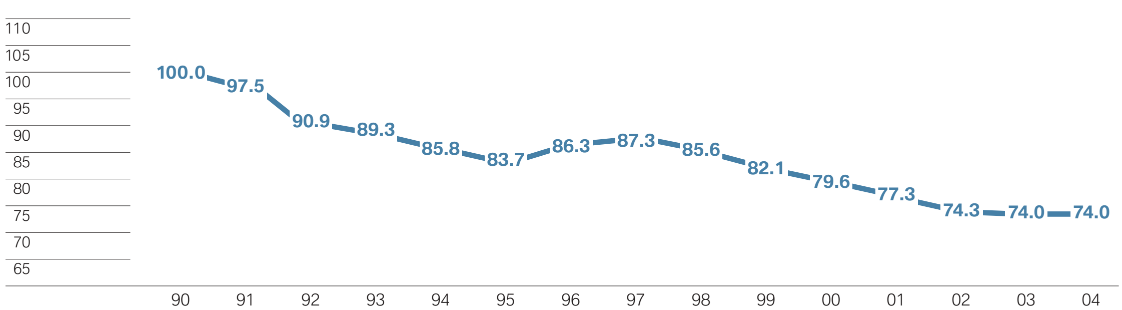
As well as optimising existing engine technologies and introducing new model series such as the BMW 1 Series in autumn 2004, the long-term aim is to use alternative fuels to propel motor vehicles. A version with a hydrogen-powered engine will be delivered to customers during the production phase of the current BMW 7 Series. The objective of BMW CleanEnergy, an initiative of the BMW Group, is the use of hydrogen, which can be produced on the basis of renewable or CO_2-free energy sources and which therefore offers the greatest potential for reducing CO_2 levels and preserving fossil fuel resources. The potential of hydrogen technology has been demonstrated by the record-breaking hydrogen vehicle, the BMW H2R, which set nine international records in 2004.

International purchasing network strengthened
The BMW Group further expanded its international purchasing network in 2004 and, in conjunction with the production of the 3 Series and 5 Series at the Shenyang plant, began to take advantage of the potential offered by the procurement markets in China and the ASEAN region (Association of South East Asian Nations) for car body and chassis parts. As part of the process of global growth, the BMW Group is focusing its product-related procurement market strategies mainly on the NAFTA (North American Free Trade Agreement) region, but also on Asia, and in particular, China. In addition to reducing currency exposures, the main aim is to secure supplies to the plants at optimal cost.

Lower volume of purchases in the NAFTA region due to currency factors
An analysis of the regional split of the supply of parts to the global production network shows that the BMW Group continues to purchase almost one half of all bought-in items outside Germany.

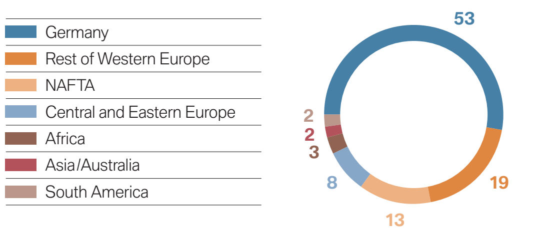
The volume of purchases in Germany and Western Europe (euro region) increased at a more pronounced rate that elsewhere as a result of the higher volume of MINI brand cars sold and the start of production of the BMW 1 Series. The proportion of total purchases accounted for by Germany and Western Europe (excluding Germany) increased by

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



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

Regional mix of BMW Group purchase volumes 2004
in %, basis: production material



two percentage points each to 53 % and 19 % respectively. The volume purchased in South America, Africa, Central Europe and Eastern Europe increased in proportion to the overall increase in purchases and therefore remains constant in percentage terms.

As a consequence of the weaker US dollar and the reduction in production volume for the Z4, the proportion of purchases made in the NAFTA region fell by three percentage points to 13 %. In US dollar terms, purchases from NAFTA countries by the BMW Group fell by only 3 %. Purchases in Asia and Australia rose in absolute terms as a result of the BMW Group's activities in China, but fell in percentage terms by one percentage point to 2 % because of the above-average rise in purchases in Germany and Western Europe.

Raw material markets under strain

Price increases and the supply of raw materials were particularly important factors for the BMW Group in 2004, whereby market developments affecting steel and crude oil were at the forefront. Steel prices rose sharply, especially in the final quarter of 2004. For example, the average price of cold-rolled steel plate in 2004 was approximately 15 % higher than in 2003. The overall industrial commodity index rose by 15 % in US dollar terms and by 7 % in euro terms. The price of non-ferrous metals rose by 20 % in US dollar terms and by 12 % in euro terms. Thanks to the strong euro, EU countries were not as affected as much other economies by the increase in raw material prices on the world's markets.

To a large extent, long-term contracts were in place in 2004 to hedge the price of the main raw materials (steel, plastic) purchased by the BMW Group. In the case of precious metals (rhodium, palladium, platinum), prices were managed with the aid of price hedging arrangements.

Management of partner networks

The "Management of Partner Networks" (MoPN) project has been initiated to take better advantage of procurement market opportunities. This project is intended to take effect at the early stage of a product's development and is meant to optimise BMW Group's exploitation of procurement market opportunities in terms of innovation, system expertise and non-automotive sector know-how. The focus of MoPN in 2004 was to integrate system and module suppliers for complex product groups (e.g. in the area of chassis and doors) into the early stages of the Product Evolution Process (PEP). This allows solutions to procurement issues to be identified at an early stage and provides a basis for measuring the benefits of integrating the various partner networks into the PEP concept.

Sustainability fixed in cooperation with new partners

In 2003, the BMW Group formally integrated the principles of sustainability into its procurement terms and conditions. In this way, the BMW Group encourages and supports its business partners and suppliers to introduce and implement standards of a similar high level, in particular those pertaining to environmental care and social issues. Sustainability principles have been applied in 2004 in a whole range of processes, from supplier selection through to the evaluation of partner networks. The BMW Group expects its business partners and suppliers to apply these principles as the foundation for mutual business and believes that they are an important criterion for lasting business relationships. Further information about these principles and their application are contained in the BMW Group's Sustainable Value Report 2003/2004, which can be down-loaded from the Internet at www.bmwgroup.com/sustainability.

Improved access for business partners via the BMW Group Partner Portal

Utilisation of the BMW Group Partner Portal increased significantly in 2004: some 40,000 internal users and more than 14,500 external users from 3,100 business partner entities are currently able to access almost 50 applications relating to development, purchasing, production and logistics.

The main focus of the portal, which was started in 2003 and developed further in 2004, has been the use of web-based processes and technologies in cooperation with suppliers and development partners. The objectives of the portal are to achieve best-in-class availability of information and, hence, transparency of the procurement market for the BMW Group as well as to accelerate the process of reaching agreement with suppliers.

Sales network further expanded

As part of the implementation of its market offensive, the BMW Group further expanded its international sales network in 2004 and is now represented in 34 countries via its own sales companies. More than 120 countries are handled by local importers.

The creation of additional subsidiaries creates the optimal conditions for the BMW Group to exploit the potential of each individual market, particularly in the converging European market. For example, the BMW Group set up a new subsidiary in Hungary with effect from 1 May 2004 and a further sales company started operations in Portugal on 1 January 2005.

A direct connection between the dealer operations and the BMW Group is guaranteed in all of the ten countries which joined the European Union on 1 May. This will happen either through the company's own subsidiaries, as in Hungary or Poland, or via corresponding service contracts with the various national importers. This link is the basis for uniform compliance with the new Block Exemption Regulation for car sales in the European Union. The customer therefore benefits from the same high BMW Group standards at each location.

In parallel to the BMW Group's model initiative, the worldwide dealer organisation continues to invest in facilities so that the wider model range, and the BMW Group's growth in general, will come across to customers and potential buyers as a positive experience.

At present, the dealer organisation for the BMW brand comprises more than 3,000 locations around the world. By the end of 2004, the number of locations serving the MINI brand had increased to almost 1,500. This means that the MINI brand is present in more than 75 countries.

The worldwide retailing network for Rolls-Royce motor cars is now virtually complete. Vehicles are currently being retailed by 68 dealers around the world.

In July 2004, the BMW Group opened a new Sales and After-Sales Training Academy in Unterschleißheim near to Munich, which has the capacity to train more than 10,000 individuals each year. This establishment will enable the BMW Group to guarantee that each of the 45,000 employees belonging to the BMW Group's dealer organisation will be able to honour the promise of delivering premium service, both before and after the sale of a car.

In addition to the Training Academy in Unterschleißheim, the BMW Group has eight regional training sites in Germany and a further 30 around the world. Supra-regional training centres are located in Dubai, Moscow, Singapore and Peking.

The BMW Group is attracting new customer groups with new vehicles such as the BMW 1 Series. This also entails new marketing strategies. This is reflected, for example, in the fact that the communication mix for the new BMW 1 Series marketing campaign involved a much greater use of digital media than previous BMW campaigns. The Internet campaign for the BMW 1 Series in particular aroused a great deal of interest. In the period up to market introduction in mid-September, more than 4.3 million visits were registered worldwide on the special BMW 1 Series Internet website. In Germany alone, 150,000 people registered for the BMW 1 Series dialogue programme by the end of 2004. Most of these do not currently drive BMW Group brand cars. The BMW 1 Series Tour was also well received. This opportunity to test-drive a BMW 1 Series car was offered in 50 cities around Europe, enabling 40,000 potential customers to drive and experience the new model for the first time, months before it was actually introduced to the markets.

Outlook

Economic prospects in 2005

Economic momentum had already started to slow down perceptibly in all of the world's regions during 2004. High oil and raw material prices coupled with more restrictive economic policies will again hold down global growth in 2005. Despite the slow-down in global economic activity, the BMW Group believes that the process of global economic recovery is still underway. The conditions necessary for the world's economies to grow solidly are still in place, even if global expansion is likely to be less pronounced in 2005 than in 2004. Any further major increase in crude oil prices could, however, significantly impair global economic prospects.

After the overall sharp upturn in 2004, the economies of the USA, Japan and the emerging economies of Asia and Latin America should again return to more moderate economic growth rates. The economy of the euro region is only likely to continue its recovery at a moderate pace. The signs are that the overall economic growth rate will decline marginally in Germany. The scale of economic recovery in the euro region in 2005, and in particular that of Germany, will depend largely on the extent to which domestic demand, which has remained the weak link for some time now, will be revived.

Economic outlook for the automobile industry in 2005

The BMW Group forecasts that the major traditional car markets will see some growth in Japan and Europe, whereas the US market will hardly grow at all. It should, however, be possible to observe a robust growth in the total number of new vehicles sold in the major markets of Asia and Latin America.

The BMW Group continues to forecast that premium segments will grow more strongly than volume segments in the coming years.

Outlook for the BMW Group in 2005

Against this background, the BMW Group forecasts sales volume growth for all three brands in 2005 and hence a new sales volume record overall.

As far as the motorcycles business is concerned, the BMW Group anticipates that, due to the availability of the K1200S at the beginning of the new season and the large number of new models, it will be able to return to the growth course set in previous years.

Growth is also expected to be achieved in all lines of the financial services business. The process of expanding the global reach of the BMW Group will be continued in 2005, with a focus on Asia and Europe.

The BMW Group will continue to invest in profitable sectors, whilst continuously improving and expanding its production network. New body in white production facilities will be added, for example, to the MINI plant in Oxford. Overall, the BMW Group will invest more than GBP 100 million in manufacturing facilities in Oxford by 2007. A further euro 300 million will be invested in the engine factory in Steyr in the coming years in order to increase production capacities. Other key areas of capital expenditure will be at the new BMW plant in Leipzig and modifications at the BMW plant in Spartanburg.

The BMW Group will continue to create new jobs as the product and market initiative unfolds, whereby increases in the workforce will no longer be as pronounced as in recent years.

The BMW Group will continue its successful course in 2005 and again prove its underlying strength. The BMW Group will tap the full sales potential of the premium segments of the international vehicle markets with new model series and individual models. At the same time, the BMW Group will continue to expand its presence in both new and traditional markets. Some adverse factors will arise in 2005 as a result of a combination of increased market competition, the effect of the US dollar exchange rate and an above-average increase in the price of important raw materials. Overall, the BMW Group aims to achieve approximately the high earnings level of 2004.

Analysis of the Group financial statements

Earnings performance

The BMW Group recorded a net profit of euro 2,222 million for the financial year 2004, an improvement of 14.1% over the previous year. The post-tax return on sales was 5.0% (2003: 4.7%). The Group generated earnings per share of common stock of euro 3.30 (2003: euro 2.89) and per share of preferred stock of euro 3.32 (2003: euro 2.91).

Group revenues for the financial year 2004 rose by 6.8% compared to the previous year. The increase in reported revenues was held down in particular by the low US dollar exchange rate. Adjusted for exchange rate fluctuations, revenues grew by 9.2%. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars rose by 8.9% despite the currency impact. Revenues from sales of motorcycles were 2.9% lower as a result of volume and currency factors. Revenues from financial services rose by 1.8%, despite negative currency factors. Revenues from other group activities amounted to euro 85 million and now relate predominantly only to the Softlab Group, due to the fact that the pressings plant in Swindon was allocated to the Automobiles segment with effect from the beginning of 2004. The comparable figure for revenues from other Group activities was euro 103 million. The development of revenues was not uniform in the various regions. Revenues in Germany and the rest of Europe rose by 12.9% and 18.2% respectively. In the Americas region, they fell by 8.4%,

Group Income Statement

in euro million	1.1. to 31.12.2004	1.1. to 31.12.2003
Revenues	44,335	41,525
Cost of sales	–34,064	–32,090
Gross profit	**10,271**	**9,435**
Sales and administrative costs	–4,653	–4,446
Research and development costs	–2,334	–2,146
Other operating income and expenses	461	510
Profit before financial result	**3,745**	**3,353**
Financial result	–191	–148
Profit from ordinary activities	**3,554**	**3,205**
Income taxes	–1,332	–1,258
Net profit	**2,222**	**1,947**

mainly as a result of currency factors. Revenues generated in the markets of Africa, Asia and Oceania fell overall by 0.4%, the decrease being largely attributable to the reduction in sales volume in specific Asian markets, in particular the Chinese market.

The increase in group cost of sales was 0.6 percentage points lower than that of revenues. The gross profit rose by 8.9% and represented 23.2% (2003: 22.7%) of revenues. The gross profit percentage for the industrial operations sub-group fell by 0.2 percentage points and that of the financial operations sub-group improved by 0.2 percentage points. Further details of the entities consolidated in each of the sub-groups are provided in Note [1].

Sales and administrative costs increased by 4.7% as a result of the expansion of business volumes; the rate of increase was, however, less than that of revenues. Sales and administrative costs represent 10.5% of revenues, 0.2 percentage points lower than in the previous year.

Research and development costs rose by 8.8% compared to the previous year and represent 5.3% (2003: 5.2%) of revenues. Research and development costs include depreciation and disposals of euro 637 million (2003: euro 583 million) on development costs recognised as assets. Total research and development costs (i.e. research costs, non-capitalised development costs and investment in capitalised development costs) amounted to euro 2,818 million (2003: euro 2,559 million). At this level, the research and development ratio was 6.4% (2003: 6.2%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 2,672 million (2003: euro 2,370 million).

The positive net amount of other operating income and expenses fell by 9.6% compared to the previous year. Other operating income was down by 11.8% mainly as a result of the lower level of exchange gains, gains on disposals of non-current assets and sundry operating income. By contrast, income from the release of provisions went up mainly as result of the fact that certain legal proceedings were completed during the year. The increase in income from the reversal of write-downs was attributable to the higher level of income from unwinding the discounting effect on receivables. Other operating expenses fell by 13.6% as a result of lower losses on currency transactions and lower sundry operating expenses. By contrast, there was an increase in the expense for allocations to provisions, in particular for new risks of litigation.

The net financial result (net expense) increased by 29.1% compared to the previous year. This was due to losses arising on the fair value market measurement of derivative financial instruments and to the fair value loss recognised on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London. These, together, reduced other financial result by euro 143 million compared to the previous year. The fair value loss on the exchangeable bond option of euro 58 million was related to the increase in the share price of Rolls-Royce plc stock. The fair value gain on the BMW Group's investment in Rolls-Royce plc in 2004 was euro 154 million, which was recognised directly in equity within accumulated other equity and cannot be accounted for by offsetting the fair value gain on the investment against the fair value loss on the exchangeable bond option. The deterioration of other financial result was partly compensated by the net result on investments, which improved by euro 97 million to give a positive net result of euro 94 million in 2004. Net interest expense increased by euro 3 million, and remained therefore approximately at the previous year's level. The net expense arising from the expense from reversing the discounting of pension obligations and from the income from the expected return on plan assets increased by 11.2% compared to the previous year.

The Group profit from ordinary activities improved by 10.9%. It is stated after a one-off expense of euro 49 million relating to the increase in pension benefits. This expense has been allocated to the relevant expense lines by function in the income statement. The increase in pension benefits relates primarily to employees with tariff contracts.

The pre-tax return on sales was 8.0 % (2003: 7.7 %).

The group net profit for the year rose by 14.1 %, and hence at a faster rate than the increase of the profit from ordinary activities. This was due to the lower effective tax rate, caused primarily by tax reductions relating to tax-exempt investment income and by tax legislation changes in Germany.

The Automobiles segment sold 9.4 % more cars than in the previous year. Despite adverse currency factors, segment revenues rose by 11.0 %. The segment profit from ordinary activities improved by 14.4 %, and thus at a pace significantly faster than the sales volume increase.

Revenues by segment

in euro million	1.1. to 31.12. 2004	1.1. to 31.12. 2003
Automobiles	42,544	38,317
Motorcycles	1,029	1,055
Financial Services	8,226	7,582
Reconciliations	–7,464	–5,429
Group	**44,335**	**41,525**

Profit from ordinary activities by segment

in euro million	1.1. to 31.12. 2004	1.1. to 31.12. 2003
Automobiles	3,159	2,761
Motorcycles	31	50
Financial Services	515	452
Reconciliations	–151	–58
Group	**3,554**	**3,205**

Revenues of the Motorcycles segment fell by 2.5% as a result of volume and currency factors. The segment profit from ordinary activities was down by 38.0% as a result of one-time expenditure relating to the start of new model series and delays in the production start of the K1200 S.

The Financial Services segment was again able to expand business successfully in 2004. The segment profit from ordinary activities improved by 13.9% compared to the previous year. This very positive performance was attributable once again to higher business volumes and lower costs.

As in the previous year, reconciliations to the Group profit from ordinary activities were negative overall; the net expense increased by euro 93 million in 2004. This was due partly to the higher level of eliminations of inter-segment profit on leased assets relating to financial services and partly to the change in the fair value of the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc.

Financial Position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the financial years 2004 and 2003, classified into cash flows from operating, investing and financing activities.

Beginning with the net profit for the year, the cash flows from operating activities are computed using the indirect method. Cash flows from investing and financing activities are based on actual cash payments and receipts. Cash and cash equivalents in the cash flow statement correspond to those disclosed in the balance sheet.

Operating activities of the BMW Group during the financial year 2004 generated a positive cash flow of euro 9,311 million, an increase of euro 1,440 million or 18.3% over the previous year. Changes in net current assets gave rise to a net cash inflow of euro 222 million in 2004, compared to a net cash outflow of euro 899 million in 2003. Inventories resulted in a net cash outflow, whereas receivables generated a net cash inflow due to the reduction in trade receivables, as did liabilities, mainly as a result of the increase in trade payables.

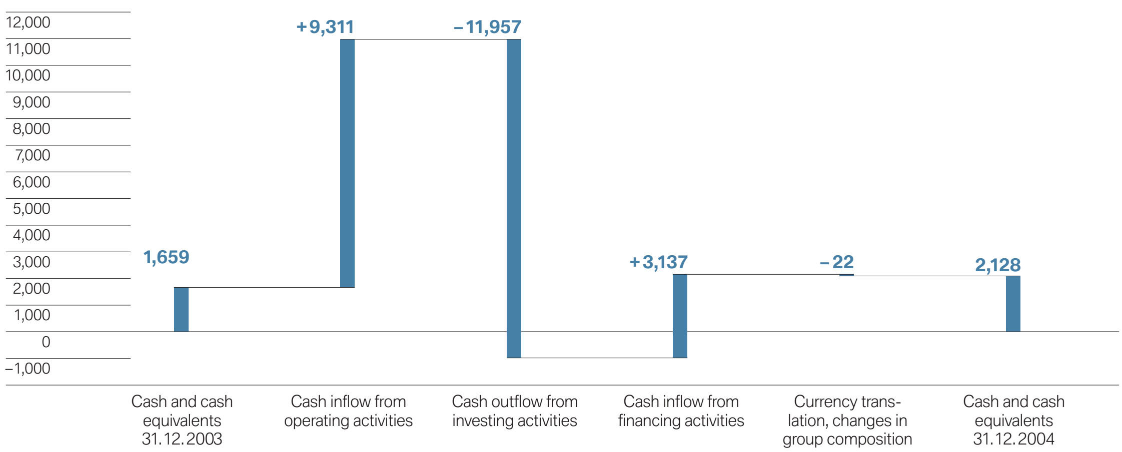
The cash outflow from investing activities amounted to euro 11,957 million, an increase of euro 726 million or 6.5% compared to the previous year. The higher cash outflow was attributable once again largely to the sharp increase in the net investment in financial services business. On a net basis, this was euro 1,396 million higher than in the previous year. Capital expenditure on intangible assets and property, plant and equipment resulted in an additional cash outflow of euro 128 million. 77.9% (2003: 70.1%) of the cash outflow from investing activities was covered by the cash inflow from operating activities.

The cash flow statement for industrial operations shows that the cash inflow from operating activities exceeded the cash outflow from investing activities by 49.6% (2003: 2.6%). By contrast, the cash flow statement for financial operations shows that the cash inflow from operating activities fell short of the cash outflow from investing activities by 59.8% (2003: 54.6%).

The cash flow from financing activities of the BMW Group gave rise to a cash inflow of euro 3,137 million which was earmarked to refinance sales financing activities. The dividend payment in 2004 increased by 11.7% to euro 392 million.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group amounting in total to a net negative amount of euro 22 million (2003: euro –82 million) the various cash flows resulted in an increase in cash and cash equivalents of euro 469 million (2003: decrease of euro 674 million).

Change in cash and cash equivalents
in euro million



Net interest-bearing assets (cash and cash equivalents and marketable securities less debt) relating to industrial operations increased by euro 547 million to euro 2,363 million.

Net assets position

The balance sheet total of the BMW Group increased by euro 5,940 million or 9.7% to euro 67,415 million. The main factors behind this increase on the assets side of the balance sheet were the increased level of receivables from sales financing (+14.1%), property, plant and equipment (+10.5%), leased products (+12.0%), inventories (+13.6%) and intangible assets (+17.4%). On the equity and liabilities side of the balance sheet, the main changes occurred in equity (+8.5%), debt (+11.1%) and deferred income (+86.1%). Currency factors, mainly in connection with the low exchange rate of the US dollar reduced the balance sheet total by euro 1,322 million. Adjusted for changes in exchange rates, the balance sheet total would have risen by 12.1%.

Intangible assets increased by 17.4% to euro 3,758 million. Within intangible assets, capitalised development costs increased by 16.1% to euro 3,495 million. Development costs recognised as assets during the financial year 2004 amounted to euro 1,121 million (+12.6%), equivalent to a capitalisation ratio of 39.8% (2003: 38.9%). Depreciation and disposals amounted to euro 637 million (+9.3%). The total carrying amount of property, plant and equipment increased by 10.5% to euro 10,724 million. The bulk of capital expenditure related to new construction for and expansion of production plants. In total, euro 3,079 million was invested in property, plant and equipment (–2.3%). Total depreciation and disposals, including currency impact, amounted to euro 2,063 million (– 0.2 %). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 31 million. Capital expenditure on intangible assets and property, plant and equipment totalled euro 4,347 million (+ 2.4 %), which, as in the previous years, was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 9.8 % (2003: 10.2 %).

Financial assets increased by 26.7 % to euro 769 million. This was attributable mainly to the fair value measurement of the investment in the engine manufacturer Rolls-Royce plc, London. The market price of this investment rose by euro 154 million compared to the previous year-end and is now euro 42 million above its historical cost. This increase in value of the investment was recognised directly in accumulated other equity.

The total carrying amount of leased products increased sharply (+ 12.0 %) in 2004 to euro 7,502 million, despite the adverse currency impact, due to the positive development of business. Adjusted for changes in exchange rates, leased products would have risen by 19.6 %.

Inventories rose by 13.6 % to euro 6,467 million. Above all, the introduction of new models in conjunction with the Group's product offensive further increased the level of inventories necessary for operations.

Trade receivables decreased by 17.2 % to euro 1,868 million.

Receivables from sales financing increased by 14.1 % to euro 25,054 million as a result of the expansion of business. Of this amount, customer and dealer financing accounted for euro 18,782 million (+ 14.4 %) and finance leases accounted for euro 6,272 million (+ 13.5 %).

Other receivables and assets decreased by 9.9 % to euro 6,474 million, mainly as a result of the lower volume, and fair values, of derivative financial instruments.

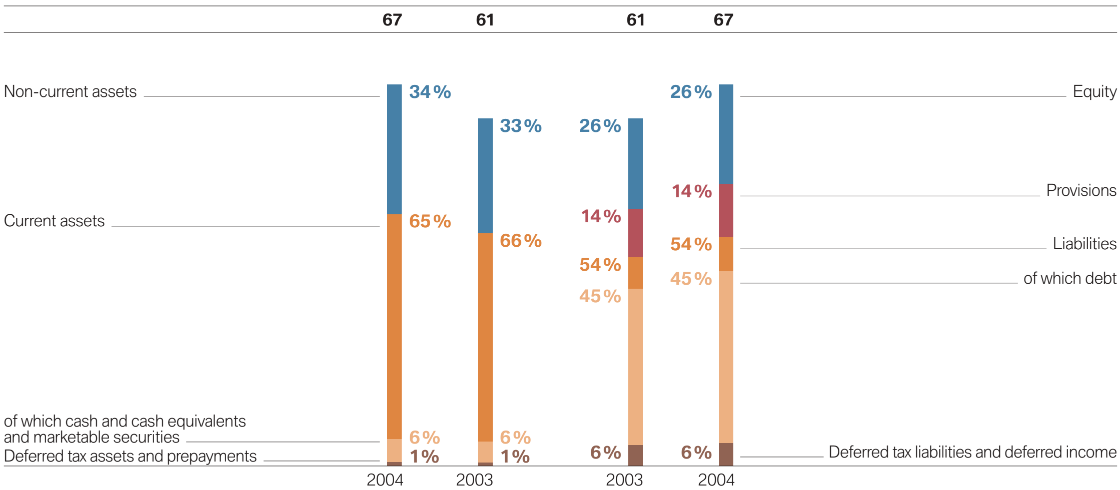
Liquid funds increased by 12.6 % to euro 3,960 million. The make-up of liquid funds shifted in favour of cash and cash equivalents which rose by 28.3 % compared to one year earlier.

Deferred tax assets, at euro 296 million, increased mainly as a result of the fact that the valuation allowance was euro 121 million lower than at the end of the previous year.

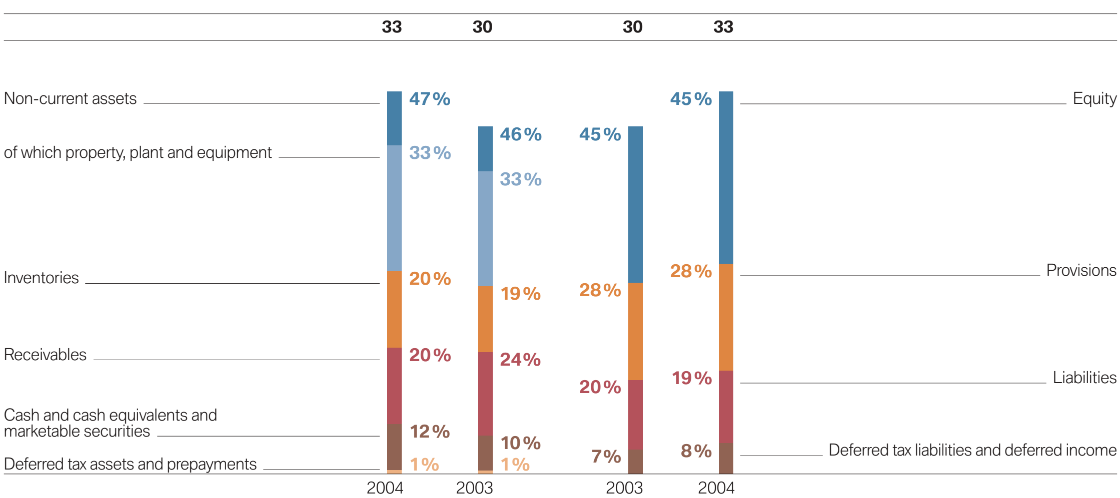
On the equity and liabilities side of the balance sheet, group equity grew by 8.5 % to euro 17,517 million. The group net profit for the year increased equity by euro 2,222 million, whereas the payment of the dividend for the financial year 2003, translation differences and fair value losses on financial instruments reduced equity by euro 855 million. The equity ratio of the BMW Group fell overall by 0.3 percentage points to 26.0 %. The equity ratio for industrial operations was 44.9 % compared to 45.4 % at the end of the previous year. The equity ratio for financial operations fell by 0.1 percentage points to 9.7%.

Provisions recognised in the balance sheet increased by 8.2 % to euro 9,472 million. The higher level of additions to provisions related mainly to other provisions and was attributable to the increase in the volume of business as well as higher employee-related and tax obligations. The provision for pension obligations was up by 11.2 % to euro 2,703 million. Total obligations for pension and similar plans of the BMW Group amount to euro 9,453 million (2003: euro 8,390 million), of which euro 7,939 million (2003: euro 7,294 million) are covered by provisions and fund assets. In the case of defined benefit plans, net obligations which exceed 10% of the defined benefit obligations must be recognised in the income statement over the expected average remaining

Balance sheet structure Group
in euro billion



Balance sheet structure Industrial operations
in euro billion



working life of the employees concerned. At 31 December 2004, the amount still to be recognised was euro 589 million (2003: euro 321 million). This results currently in an annual expense in the region of euro 42 million.

Debt increased by 11.1% to euro 30,483 million. Within the amount disclosed as debt, bonds increased by 9.2% to euro 12,448 million as a result of additions to the Medium Term Note Program. Liabilities to banks amounted to euro 3,790 million, an increase of 20.1% over one year earlier. Liabilities from customer deposits increased sharply (+32.0%) to euro 5,101 million. By contrast, other debt was reduced by 10.7% to euro 5,084 million.

Trade payables stood at euro 3,376 million, an increase of 7.4% compared to the end of the previous year.

Other liabilities fell by 9.1% to euro 2,395 million.

Deferred tax liabilities were marginally higher (+3.8%) than at the end of the previous year and amounted to euro 2,596 million at 31 December 2004.

Deferred income increased sharply (+86.1%) to euro 1,576 million. This item includes, for the first time, deferred income relating to service and repair agreements concluded with customers at the time of the sale of a new vehicle.

Events after the balance sheet date

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

Value added statement

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

Net valued added by the BMW Group in 2004 rose by 4.5% to euro 12,220 million, the increase being mainly attributable to the increase in revenues. The increase in gross valued added, at 5.7%, was even more pronounced than that of net added value, since it is not affected by depreciation and amortisation, which are higher than in the previous year.

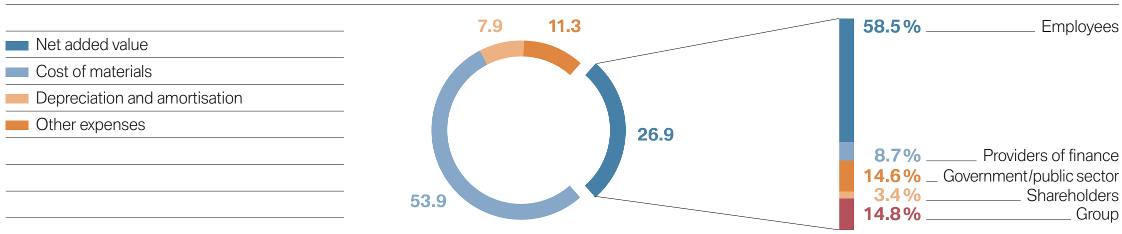
The bulk of the net added value (58.5%) is applied to employees, 1.9 percentage points less than in the previous year. The portion applied to providers of funds also fell by 0.5 percentage points to 8.7%. The government/public sector (including deferred tax liabilities of the Group) accounted for 14.6% (2003: 13.8%). As a result of the proposed increased dividend, the proportion applied to shareholders increased slightly from 3.3% to 3.4%. The remaining proportion of net added value (14.8%) will be retained in the Group to finance future operations, an increase of 1.5 percentage points compared to the previous year.

BMW Group value added statement

in euro million	2004	2004 in %	2003*	2003 in %	Change in %
Work performed					
Revenues	44,335	97.7	41,525	97.1	
Financial income	54	0.1	148	0.3	
Other income	980	2.2	1,111	2.6	
Total Group output	**45,369**	**100.0**	**42,784**	**100.0**	**6.0**
Cost of materials	24,467	53.9	22,600	52.8	
Other expenses	5,093	11.3	5,230	12.2	
Bought-in costs	**29,560**	**65.2**	**27,830**	**65.0**	**6.2**
Gross added value	**15,809**	**34.8**	**14,954**	**35.0**	**5.7**
Depreciation and amortisation	3,589	7.9	3,255	7.6	
Net added value	**12,220**	**26.9**	**11,699**	**27.4**	**4.5**
Applied to:					
Employees	7,154	58.5	7,066	60.4	1.2
Providers of finance	1,059	8.7	1,077	9.2	1.7
Government/public sector	1,785	14.6	1,609	13.8	10.9
Shareholders	419	3.4	392	3.3	6.9
Group	1,803	14.8	1,555	13.3	15.9
Net added value	**12,220**	**100.0**	**11,699**	**100.0**	**4.5**

*previous year adjusted

BMW Group value added 2004
in %



Key performance figures

		2004	2003
Gross Margin	%	23.2	22.7
EBITDA Margin	%	14.5	13.8
EBIT Margin	%	8.4	8.1
Pre-tax return on sales	%	8.0	7.7
Post-tax return on sales	%	5.0	4.7
Pre-tax return on equity	%	22.0	23.1
Post-tax return on equity	%	13.8	14.0
Equity ratio – Group	%	26.0	26.3
Industrial operations	%	44.9	45.4
Financial operations	%	9.7	9.8
Equity as a percentage of non-current assets (excluding leased products)	%	114.9	119.5
Cash inflow from operating activities	euro million	9,311	7,871
Cash outflow from investing activities	euro million	11,957	11,231
Cash flow	euro million	5,167	4,490
Cash flow as a percentage of capital expenditure	%	118.9	105.8
Net financial assets of industrial operations	euro million	2,363	1,816

Comments on financial statements of BMW AG

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

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself and foreign subsidiaries. These vehicles are sold through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2004 rose by 11.7% to 1,250,345 units. At 31 December 2004, BMW AG had 77,252 employees, an increase of 1,283 compared to one year earlier. Wage-earners account for approximately 59% of the workforce.

In 2004, revenues were 10.1% higher than in the previous year. Sales to foreign group sales companies accounted for euro 28.5 billion or approximately 70% of the total revenues of euro 40.6 billion. Cost of sales increased by 9.7% and therefore by slightly less than the increase in revenues. The gross profit of euro 5.8 billion was 12.2% above the previous year's figure.

In the financial year 2004, capital expenditure on intangible assets and property, plant and equipment was euro 2,321 million (2003: euro 2,293 million). This represents an increase of 1.2%. Capital expenditure related primarily to investments in new products as well as the expansion of the production network, such as the new Leipzig plant. Depreciation and amortisation amounted to euro 1,535 million.

The equity ratio rose from 27.0% to 28.3%. Long-term external capital (pension provision, registered profit-sharing certificates, the liability to BMW Unterstützungsvereins e.V. and liabilities due after one year) increased by 35.8% to euro 3.8 billion. This was due, amongst other factors, to the change in the discount factor used to compute the pension provision (reduced from 5.5% to 4.75%) and to an increase in pension benefits granted to BMW AG employees.

BMW AG
Balance Sheet at 31 December in euro million

	2004	2003
ASSETS		
Intangible assets	67	67
Property, plant and equipment	6,052	5,298
Financial assets	4,774	6,021
Non-current assets	**10,893**	**11,386**
Inventories	2,925	2,428
Trade receivables	896	1,190
Receivables from subsidiaries	1,019	969
Other receivables and other assets	1,616	1,607
Marketable securities	1,395	1,353
Cash and cash equivalents	982	439
Current assets	**8,833**	**7,986**
Prepayments	**77**	**110**
	19,803	**19,482**
EQUITY AND LIABILITIES		
Subscribed capital	674	674
Capital reserves	1,971	1,971
Revenue reserves	2,545	2,217
Unappropriated profit available for distribution	419	392
Equity	**5,609**	**5,254**
Registered profit-sharing certificates	**35**	**36**
Pension provisions	3,289	2,479
Other provisions	7,002	6,777
Provisions	**10,291**	**9,256**
Liabilities to banks	500	299
Trade payables	1,355	1,168
Liabilities to subsidiaries	1,403	3,269
Other liabilities	571	200
Liabilities	**3,829**	**4,936**
Deferred income	**39**	–
	19,803	**19,482**

BMW AG **Income Statement** in euro million	2004	2003
Revenues	40,597	36,881
Cost of sales	34,842	31,751
Gross profit	**5,755**	**5,130**
Sales costs	2,685	2,247
Administrative costs	876	775
Research and development costs	2,666	2,419
Other operating income and expenses	993	873
Result on investments	636	– 2
Net interest expense	– 83	– 50
Profit from ordinary activities	**1,074**	**510**
Income taxes	326	109
Other taxes	1	9
Net profit	**747**	**392**
Transfer to revenue reserves	328	–
Unappropriated profit available for distribution	**419**	**392**

In the financial year 2004, BMW AG has not recognised revenues on the sale of vehicles to car rental companies when there is an obligation to take back vehicles. Based on the draft financial reporting pronouncement "Specific Issues relating to Transfer of Economic Ownership and Profit Realisation in accordance with HGB" (IDW ERS HFA 13) dated 1 July 2004 issued by the German Institute of Public Accountants (IDW) and applied by BMW AG for the first time, vehicles remain in BMW AG's balance sheet, measured at amortised cost, because, on the basis of the criteria set out in the pronouncement, economic ownership has not been transferred to the car rental companies.

KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft (Auditors), Munich has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The financial statements are published in the German Federal Gazette and filed with the Trade Register of the Munich District Court. These financial statements are available from BMW AG, D-80788 Munich, Germany.

Risk management in the BMW Group
As an enterprise with worldwide operations, the BMW Group faces a variety of risks. Business risks are only consciously entered into when it is considered that the value of the business can be increased and when the potential outcome can be controlled. The Board of Management and Supervisory Board are regularly informed about risks which could have a significant impact on business development.

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

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

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

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

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

entered into only with financial partners of first-class standing. The nature and scope of such measures are set out in guidelines applicable throughout the BMW Group.

– Changes in the international raw material markets also have an impact on the business development of the BMW Group. In order to safeguard the supply of production materials and to minimise the cost risk, all commodity markets which are relevant for the BMW Group are continually observed. Purchase contracts for major raw materials, such as steel and aluminium, sometimes run for several years, thus contributing to a reduction in risk. Also important in this context is the market price trend of precious metals such as platinum, palladium and rhodium, for which appropriate hedging strategies are decided by the Raw Materials Committee.

– Changes in the price of crude oil, as an important basic material for components, have an indirect impact on production cost. Long-term supply contracts in this area also serve to mitigate risk. As a manufacturing enterprise, the BMW Group is also affected by changes in energy prices, caused by market factors and tax legislation.

– Cyclical economic volatility presents an element of risk for future business development. Unforeseeable interventionist economic policies can also impair the BMW Group's performance in specific markets. The BMW Group anticipates these risks by monitoring the markets in detail and using early warning indicators. Risk is also spread due to the worldwide nature of the BMW Group's activities.

– An escalation of political tensions or terrorist activities could have a negative impact on the economic situation, which in turn could have a negative impact on the business development of the BMW Group.

Specific industry risks

– The EU End-of-Life Vehicle Directive from the year 2000 requires manufacturers to take back and recycle all own-brand vehicles when they reach the end of their lives. The BMW Group continued in 2004 to recognise provisions for all new vehicles sold in European Union countries. The addition of ten new member countries to the European Union in May 2004 means that the EU End-of-Life Vehicle Directive is now applicable in 25 countries. The BMW Group had already taken account of its vehicles in the new member states in previous years for the purposes of measuring the risk of recycling own-brand vehicles, so that such risks are comprehensively covered. The BMW Group closely follows new global developments relating to end-of-life vehicle recycling issues and integrates potential effects at an early stage into the Group's strategic plans.

– The change in fuel prices, partly affected by the market and partly by governmental tax policies, and the requirement to reduce fleet fuel consumption and CO_2 emissions, all set high demands on engine and product development.

Operating risks

– Risks arising from business interruption and loss of production are insured up to economically reasonable levels. The high degree of flexibility of the BMW Group's production network and working time models also help to reduce risks of this kind.

– Close cooperation between manufacturers and suppliers is normal in the automotive sector and whilst this provides economic benefits, it also creates a degree of mutual dependence. Some suppliers have become very important for the BMW Group's production capabilities. Delivery delays, cancellations, strikes or poor quality can lead to production stoppages and thus have a negative impact on profitability.

The Group mitigates this risk by means of extensive selection, monitoring and management procedures in its dealings with suppliers. Before selection, for example, the technical competence and financial strength of potential suppliers are appraised. A comprehensive Supplier Relationship Management system also contributes to risk mitigation.

Risks relating to the provision of financial services

– As a consequence of the growth of lease business, the BMW Group faces an increased residual value risk on the vehicles which are returned to the Group at the end of lease contracts. Changes in the residual values of vehicles of the BMW Group on the used car markets are therefore constantly monitored and forecast. The overall risk position is measured each quarter by comparing forecasted market values and contractual values per model and market. Provisions or writedowns are recognised to cover all identified risks. This risk is also reduced by measures such as active life-cycle management and management of used car markets at an international level, both of which have a stabilising effect on residual values.
– Against the background of Basel II requirements, the BMW Group is committed to the use of scoring systems and rating methods to avoid bad debts, as far as possible. The appropriate processes and IT infrastructure are continually being developed. Management tools, including ones based on a value-at-risk approach, are used to minimise and control potential losses.
– Operating risks relating to the provision of financial services are managed by the BMW Group by means of a process which records and measures risks and incorporates specific measures to avoid risk. In this way, the BMW Group minimises the risk of losses which could arise as a result of the inappropriateness or failure of internal procedures and systems, human error or external factors.
– Liquidity and interest rate change risks to which the BMW Group is exposed are mitigated by matching maturities and by the use of derivative financial instruments. Credit line facilities with various banks ensure liquidity at all times. Interest rate change risks are managed using a value-at-risk approach. In addition, sensitivity analyses are prepared on an on-going basis to measure the potential impact of interest rate changes on earnings.
– In order to avoid currency risks, financing and lease business is refinanced, as a general rule, in the currency of the relevant market.
– A major part of financing and lease business within the Financial Services segment is refinanced on the capital markets. As a result of its good credit-standing, reflected in the long-standing first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), the BMW Group is able to obtain competitive conditions.
– A system of local, regional and centralised credit-decision committees is in place across the BMW Group, thus contributing to a reduction in the credit risk inherent to financial services business. Major loans/credits to dealers and fleet customers are presented for decision to regional credit committees or to the central credit committee, depending on the amount involved. In another measure to reduce risk, the BMW Group is also working towards standardised processes throughout Europe to make credit-decisions and to measure standard risk costs. These processes have been implemented in 2004 in all European markets where the BMW Group provides financial services.

The BMW Group uses scorecards to monitor risk in the area of retail customer financing. Criteria such as arrears and bad debt ratios are analysed monthly to provide information about the quality of the portfolio.

Legal risks

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

– Like all enterprises, the BMW Group is exposed to the risk of warranty claims. Adequate provisions have been recognised in the balance sheet to cover such claims. Part of the risk, especially relating to the American market, has been insured externally up to economically acceptable levels. The high quality of BMW Group products, underpinned by regular quality audits and on-going improvement measures, helps to reduce this risk.

Personnel risks

– As an attractive employer, the BMW Group has found itself in a strong position for many years in the intense competition for qualified technical and management staff. Employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift.

– An ageing and shrinking population in Germany will have a lasting impact on the conditions prevailing in the labour, product, services and financial markets. Demographic changes will give rise to risks and opportunities which will be even more pronounced in coming years. The BMW Group carefully reviews the effects of demographic change on operations, focusing in particular on the following issues:

  – the working environment of the future
  – promotion and maintenance of the workforce's ability to perform with the appropriate set of skills
  – increasing the awareness of employees for the need to take more responsibility for making personal provisions for the future
  – individual life-time working models for employees

The general increase in life expectancy also has an impact on the pension obligations of the BMW Group.

BMW AG recognises full provisions for pension obligations to employees in Germany based on actuarial valuations. The funds remain in the enterprise and thus help to finance on-going operations.

Pension entitlements in the USA and in the United Kingdom are funded mainly by fixed-income securities with a high level of creditworthiness and by investments in stocks. In line with the corridor approach prescribed by IAS 19, mandatory pension obligations not recognised as a liability in the balance sheet, are recognised as an expense over the expected remaining average working lives of employees participating in the relevant plans. In following years, the short-fall of the various pension funds outside the corridor will result in an annual expense of euro 42 million.

IT risks

– In the area of information technology, the BMW Group undertakes various measures relating to employees, organisational procedures, applications, systems and networks in order to protect itself from unauthorised access or misuse of data.

Internal rules for handling data and for the safe use of information systems apply throughout the Group. Internal communication reinforces the awareness of employees for security issues.

Amongst the technical measures taken are certain standard activities such as the use of virus scanners, firewall systems and access controls at operating system and application level. These measures serve to protect confidentiality, integrity and authenticity.

BMW stock in 2004. Rising raw material prices and a weak US dollar have negative impact on the price of BMW stock.

After a good year in 2003, the stock markets performed inconsistently in 2004. The main issues perceived by market participants were rising raw material prices and the weak US dollar. The German DAX-30 index opened 2004 at 3,965.04 points and closed at 30 December 2004 at 4,256.08 points, an increase of approximately 300 points or 7.6%.

German automobile stocks, represented in the Prime Automobile Performance Index, came under particular pressure as a result of the developments on the commodity and currency markets. The index started the year at 350.96 points and closed 1.5% lower on 30 December 2004 at 345.65 points.

Stocks of the major automobile manufacturers suffered particularly in the wake of the weak US dollar and the sharp rise in raw material prices. BMW common stock was not able to avoid the effects of these developments. Despite the fact that the BMW Group reported new highs in car volume sales, revenues and earnings for the year 2004, the weight of external factors tipped the balance in the other direction. The BMW common stock therefore also under-performed, closing the year at euro 33.20, compared to euro 36.75 one year earlier. This represents a decline of 9.7% for the year.

By contrast, BMW preferred stock performed better. Its price rose by euro 0.20 to euro 24.80 between the final day of trading in 2003 and the end of 2004, an increase of 0.8%.

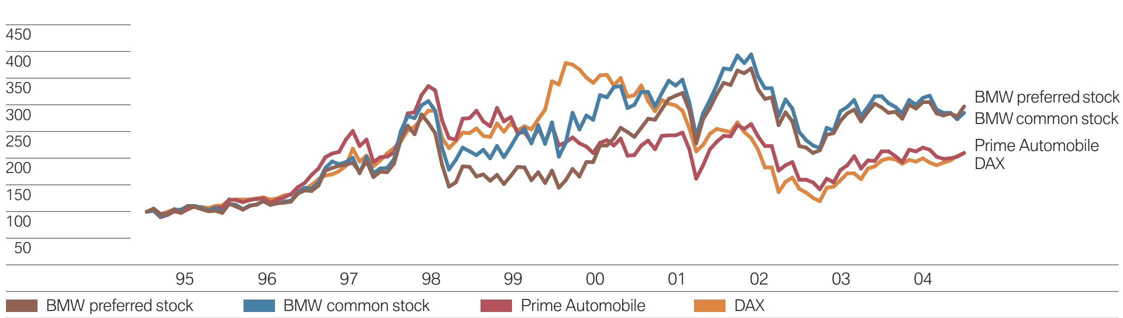
Sustainability as a success factor

In 2004, the BMW Group remained one of the world's leading enterprises in relation to sustainability. For the sixth time in succession, the BMW Group was included in 2004 in the family of sustainability indices published by Dow Jones Indexes and Stoxx Limited. BMW stock is therefore still represented in the most important sustainability indices used on the global financial markets. Based on a study of Morgan Stanley and oekom research, the segment for investments based on sustainability criteria again saw an above-average performance. In the Corporate Responsibility Rating published by oekom research AG, the BMW Group heads the list for the automobile sector.

Attaining financial success is the main goal of the BMW Group which, at the same time, also provides a sound basis to allow it to accept responsibility in environmental and social issues. Sustainability is thus a duty of management as well as an important factor for success. This link is documented in the Sustainable Value Report of the BMW Group. The report has been prepared along the lines of the guidelines issued by Global Reporting Initiative (GRI). It provides detailed information about the BMW Group's involvement in the areas of environmental care, employees and social responsibility issues and underlines the link with the Group's financial success.

The Sustainable Value Report is available in German, English, Chinese and Japanese and can be obtained, free of charge, via the e-mail address sustainability@bmwgroup.com. The report can also be accessed online at www.bmwgroup.com/sustainability.

Development of BMW stock compared to stock exchange indices
(Index: January 1995 = 100)

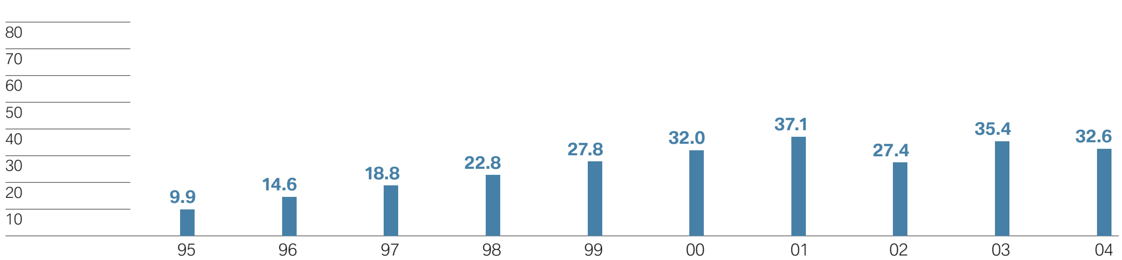


BMW stock	2000	2001	2002	2003	2004
Common stock					
Number of shares in 1,000	622,228	622,228	622,228	622,228	622,228
Stock exchange price in euro[1]					
Year-end closing price	34.90	39.15	28.92	36.75	33.20
High	41.59	41.49	47.60	38.40	37.44
Low	23.33	24.15	27.97	21.12	31.78
Preferred stock					
Number of shares in 1,000	49,598	50,638	51,468	52,196	52,196
Stock exchange price in euro[1]					
Year-end closing price	20.00	26.70	18.60	24.65	24.80
High	22.50	27.60	31.99	26.25	26.20
Low	11.80	16.55	18.17	14.86	22.86

	2000	2001	2002	2003	2004
Key data per share in euro					
Dividend[2]					
Common stock	0.46	0.52	0.52	0.58	0.62[3]
Preferred stock	0.48	0.54	0.54	0.60	0.64[3]
Earnings per share[4]	1.80/1.82[5]	2.78/2.80[5]	3.00/3.02[5]	2.89/2.91[5]	3.30/3.32[5]
Cash flow	5.62	6.24	6.49	6.66	7.66
Equity	14.04	16.01	20.59	23.95	25.97

1] Xetra closing prices
2] dividends after 2000 per euro 1 nominal value share
3] proposed by management
4] stock weighted according to dividend entitlements in the year of issue
5] earnings per share in accordance with IAS 33 for common and preferred stock shares

Development in the value of a BMW stock investment in euro thousand
Investment of euro 10,000 at 1.1.1995, including dividends and proceeds from subscription rights, values at end of year



Contents

BMW Group
Group and sub-group Income Statements

in euro million	Notes	Group 2004	Group 2003	Industrial operations* 2004	Industrial operations* 2003	Financial operations* 2004	Financial operations* 2003
Revenues	[8]	44,335	41,525	43,662	39,712	8,479	7,822
Cost of sales	[9]	–34,064	–32,090	–34,107	–30,925	–7,423	–6,857
Gross profit		**10,271**	**9,435**	**9,555**	**8,787**	**1,056**	**965**
Sales and administrative costs	[10]	–4,653	–4,446	–4,255	–4,058	–424	–407
Research and development costs	[11]	–2,334	–2,146	–2,334	–2,146	–	–
Other operating income and expenses	[12]	461	510	426	469	14	11
Profit before financial result		**3,745**	**3,353**	**3,392**	**3,052**	**646**	**569**
Financial result	[13]	–191	–148	–207	–229	57	89
Profit from ordinary activities		**3,554**	**3,205**	**3,185**	**2,823**	**703**	**658**
Income taxes	[14]	–1,332	–1,258	–1,204	–1,128	–254	–231
Net profit	[15]	**2,222**	**1,947**	**1,981**	**1,695**	**449**	**427**
Earnings per share of common stock in euro	[16]	3.30	2.89				
Earnings per share of preferred stock in euro	[16]	3.32	2.91				

*before consolidation of transactions between the sub-groups

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

Assets in euro million	Notes	Group 2004	 2003	Industrial operations* 2004	 2003	Financial operations* 2004	 2003
Intangible assets	[19]	3,758	3,200	3,739	3,181	19	19
Property, plant and equipment	[20]	10,724	9,708	10,703	9,688	21	20
Financial assets	[21]	769	607	750	593	19	14
Leased products	[22]	7,502	6,697	221	225	9,450	8,293
Non-current assets		**22,753**	**20,212**	**15,413**	**13,687**	**9,509**	**8,346**
Inventories	[23]	6,467	5,693	6,458	5,686	9	7
Trade receivables	[24]	1,868	2,257	1,820	2,191	48	66
Receivables from sales financing	[24]	25,054	21,950	–	–	25,054	21,950
Other receivables	[24]	6,474	7,184	4,817	4,829	3,084	3,545
Marketable securities	[25]	1,832	1,857	1,832	1,857	–	–
Cash and cash equivalents	[26]	2,128	1,659	1,997	1,247	131	412
Current assets		**43,823**	**40,600**	**16,924**	**15,810**	**28,326**	**25,980**
Deferred tax assets	[14]	**296**	**175**	**191**	**120**	**–1,012**	**–873**
Prepayments	[27]	**543**	**488**	**125**	**166**	**418**	**322**
Total assets		**67,415**	**61,475**	**32,653**	**29,783**	**37,241**	**33,775**
Total assets adjusted for asset backed financing transactions		63,146	56,487	–	–	32,972	28,787

* before consolidation of transactions between the sub-groups

Equity and liabilities in euro million	Notes	Group 2004	Group 2003	Industrial operations* 2004	Industrial operations* 2003	Financial operations* 2004	Financial operations* 2003
Subscribed capital		674	674				
Capital reserves		1,971	1,971				
Revenue reserves		14,501	12,671				
Accumulated other equity		371	834				
Equity	[28]	**17,517**	**16,150**	**14,647**	**13,534**	**3,613**	**3,298**
Pension provisions	[29]	2,703	2,430	2,680	2,410	23	20
Other provisions	[30]	6,769	6,321	6,376	6,008	441	356
Provisions		**9,472**	**8,751**	**9,056**	**8,418**	**464**	**376**
Debt	[31]	30,483	27,449	1,466	1,288	29,017	26,161
Trade payables	[32]	3,376	3,143	3,070	2,740	306	403
Other liabilities	[33]	2,395	2,634	1,606	1,811	2,216	2,013
Liabilities		**36,254**	**33,226**	**6,142**	**5,839**	**31,539**	**28,577**
Deferred tax liabilities	[14]	**2,596**	**2,501**	**1,800**	**1,592**	**601**	**777**
Deferred income	[34]	**1,576**	**847**	**1,008**	**400**	**1,024**	**747**
Total equity and liabilities		**67,415**	**61,475**	**32,653**	**29,783**	**37,241**	**33,775**
Total equity and liabilities adjusted for asset backed financing transactions		63,146	56,487	–	–	32,972	28,787

* before consolidation of transactions between the sub-groups

BMW Group
Group and sub-group Cash Flow Statements

in euro million	Notes	Group 2004	Group 2003
Net profit		2,222	1,947
Depreciation of leased products		2,869	2,511
Depreciation and amortisation of other non-current assets		2,675	2,390
Increase in provisions		746	1,155
Rover disengagement		–	49
Change in deferred taxes		467	853
Other non-cash income and expense items		95	–144
Gain/loss on disposal of non-current assets and marketable securities		19	–4
Undistributed results from associated companies		–4	13
Changes in current assets and liabilities			
Change in inventories		–865	–640
Change in receivables		218	–877
Increase in liabilities		869	618
Cash inflow from operating activities	[37]	**9,311**	**7,871**
Investment in intangible assets and property, plant and equipment		–4,243	–4,115
Proceeds from the disposal of intangible assets and property, plant and equipment		42	119
Other payments relating to the Rover disengagement		–	–49
Investment in financial assets		–43	–148
Proceeds from the disposal of financial assets		34	60
Investment in leased products		–7,327	–5,785
Disposals of leased products		3,197	2,707
Additions to receivables from sales financing		–38,432	–34,593
Payments received on receivables from sales financing		34,741	31,246
Investment in marketable securities		–241	–700
Proceeds from marketable securities		315	27
Cash outflow from investing activities	[37]	**–11,957**	**–11,231**
Payment into equity		–	17
Payment of dividend for the previous year		–392	–351
Proceeds from the issue of bonds		4,339	5,669
Repayment of bonds		–3,126	–3,483
Internal financing of financial operations		–	–
Increase in debt		1,451	1,364
Change in commercial paper		865	–448
Cash inflow/outflow from financing activities	[37]	**3,137**	**2,768**
Effect of exchange rate and changes in composition of group on cash and cash equivalents	[37]	**–22**	**–82**
Change in cash and cash equivalents		**469**	**–674**
Cash and cash equivalents as at 1 January		1,659	2,333
Cash and cash equivalents as at 31 December	[37]	**2,128**	**1,659**

Industrial operations 2004	Industrial operations 2003	Financial operations 2004	Financial operations 2003	
1,981	1,695	449	427	Net profit
5	6	2,390	2,146	Depreciation of leased products
2,660	2,369	15	21	Depreciation and amortisation of other non-current assets
653	1,157	98	–	Increase in provisions
–	49	–	–	Rover disengagement
482	787	111	167	Change in deferred taxes
63	– 59	32	– 85	Other non-cash income and expense items
19	– 6	–	2	Gain/loss on disposal of non-current assets and marketable securities
– 4	13	–	–	Undistributed results from associated companies
				Changes in current assets and liabilities
– 864	– 651	– 1	11	Change in inventories
472	– 1,084	– 344	– 662	Change in receivables
690	694	404	874	Increase in liabilities
6,157	**4,970**	**3,154**	**2,901**	**Cash inflow from operating activities**
– 4,225	– 4,094	– 18	– 21	Investment in intangible assets and property, plant and equipment
40	114	2	5	Proceeds from the disposal of intangible assets and property, plant and equipment
–	– 49	–	–	Other payments relating to the Rover disengagement
– 34	– 153	– 9	– 6	Investment in financial assets
31	52	3	8	Proceeds from the disposal of financial assets
– 337	– 283	– 6,990	– 5,502	Investment in leased products
336	240	2,861	2,467	Disposals of leased products
–	–	– 38,432	– 34,593	Additions to receivables from sales financing
–	–	34,741	31,246	Payments received on receivables from sales financing
– 241	– 700	–	–	Investment in marketable securities
315	27	–	–	Proceeds from marketable securities
– 4,115	**– 4,846**	**– 7,842**	**– 6,396**	**Cash outflow from investing activities**
–	17	–	11	Payment into equity
– 392	– 351	–	–	Payment of dividend for the previous year
–	–	4,339	5,669	Proceeds from the issue of bonds
–	–	– 3,126	– 3,483	Repayment of bonds
– 1,074	– 425	1,074	425	Internal financing of financial operations
175	116	1,276	1,248	Increase in debt
–	– 494	865	46	Change in commercial paper
– 1,291	**– 1,137**	**4,428**	**3,916**	**Cash inflow/outflow from financing activities**
– 1	**4**	**– 21**	**– 86**	**Effect of exchange rate and changes in composition of group on cash and cash equivalents**
750	**– 1,009**	**– 281**	**335**	**Change in cash and cash equivalents**
1,247	2,256	412	77	Cash and cash equivalents as at 1 January
1,997	**1,247**	**131**	**412**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity: Translation differences	Accumulated other equity: Fair value measurement of marketable securities	Accumulated other equity: Derivative financial instruments	Total
31 December 2002	**674**	**1,954**	**11,075**	**– 541**	**– 314**	**1,023**	**13,871**
Subscribed capital increase out of authorised capital	–	–	–	–	–	–	–
Additional paid-in capital on preferred stock	–	17	–	–	–	–	17
Dividends paid	–	–	– 351	–	–	–	– 351
Translation differences	–	–	–	– 179	–	– 121	– 300
Financial instruments	–	–	–	–	168	798	966
Net profit 2003	–	–	1,947	–	–	–	1,947
31 December 2003	**674**	**1,971**	**12,671**	**– 720**	**– 146**	**1,700**	**16,150**
Dividends paid	–	–	– 392	–	–	–	– 392
Translation differences	–	–	–	– 43	–	– 106	– 149
Financial instruments	–	–	–	–	208	– 522	– 314
Net profit 2004	–	–	2,222	–	–	–	2,222
31 December 2004	**674**	**1,971**	**14,501**	**– 763**	**62**	**1,072**	**17,517**

[1] Basis of preparation

The consolidated financial statements of Bayerische Motorenwerke Aktiengesellschaft ("BMW Group financial statements" or "Group financial statements") at 31 December 2004 have been 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 designation "IFRSs" also includes all valid International Accounting Standards (IASs). All interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are mandatory for the financial year 2004, were also applied.

The Group financial statements, in the form presented, exempt BMW AG from the requirement to prepare consolidated financial statements in accordance with German accounting law. In accordance with § 292a of the German Commercial Code (HGB), the Group financial statements are presented together with certain additional disclosures and the Group Management Report. The necessary disclosures are provided in Note [43].

The BMW Group and sub-group income statements and balance sheets correspond to the classification provisions contained in § 298 HGB (in conjunction with § 266 and § 275 HGB), whereby the income statements are presented using the cost of sales format. In order to improve clarity, various items are aggregated in the income statement and balance sheet. These items are disclosed and analysed separately in the Notes.

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

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from 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 so-called "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 31 December 2004 totalled euro 4.3 billion (31.12. 2003: euro 5.0 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

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

The Group financial statements at 31 December 2004, drawn up in accordance with §292a of the German Commercial Code, and the Group management report have been filed with the Commercial Register of the Munich District Court (HRB 42243) and will be provided for inspection on request. In addition, the Group financial statements and the Group management report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

[2] Consolidated companies

The BMW Group financial statements include, besides BMW AG, all material subsidiaries, 17 special securities funds and 21 trusts (almost all used for asset backed financing transactions) both in Germany and abroad.

The number of subsidiaries, special purpose funds and other special purpose entities included in the Group financial statements changed in 2004 as follows:

	Germany	Foreign	Total
Included at 31.12.2003	39	126	165
Included for the first time in 2004	2	12	14
No longer included in 2004	1	4	5
Included at 31.12.2004	**40**	**134**	**174**

76 subsidiaries (previous year: 74) either dormant or generating a negligible volume of business are not included. Their influence on the Group's assets, liabilities, financial position and earnings is immaterial.

BMW Pensionskasse (Österreich) AG, Steyr, has also not been consolidated because its assets are assigned for a particular purpose.

Non-inclusion of operating subsidiaries reduces total Group revenues by 1.6% (2003: 0.7%).

Three joint ventures have been consolidated using the equity method. Four associated companies, unchanged from the previous year, are not included due to their relative insignificance to the Group's financial and earnings position. These associated companies are shown at cost, less write-downs where applicable, under investments in other companies.

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

[3] Changes in the reporting entity

BMW Financial Services Korea Co., Ltd., Seoul, BMW Leasing de Mexico S.A. de C.V., Mexico City, axentiv AG, Darmstadt, arcensis GmbH, Stuttgart, BMW España Finance S.L., Madrid, BMW Malta Ltd., Valletta, and BMW Malta Finance Ltd., Valletta, have all been consolidated for the first time.

Austin Rover International Services S.A., Lausanne, and Rover Service Center Corp., Tokyo, are no longer included in the group reporting entity.

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

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

[4] Consolidation principles

The equity of subsidiaries is consolidated in accordance with IFRS 3 (Business Combinations), which replaced IAS 22 with effect from 31 March 2004. IFRS 3 requires that all business combinations are accounted for using the purchase method, whereby identifiable assets and liabilities acquired are measured initially at their fair value. The excess of the Group's interest in the net fair value of the identifiable assets and liabilities acquired over cost is recognised as goodwill and is subjected to a regular review for possible impairment. Goodwill of euro 91 million which arose prior to 1 January 1995 remains netted against reserves. In the event of impairment and deconsolidation, goodwill that has been deducted from equity is dealt with directly in equity in accordance with the requirements of IFRS 3.80. Goodwill arising between 1 January 1995 and the effective date of IFRS 3 on 31 March 2004 and recognised as an asset in the balance sheet was amortised up to 31 December 2004; the amortisation expense in 2004 amounted to euro 5 million.

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

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

[5] Foreign currency translation

The financial statements of consolidated companies which are drawn up in a foreign currency are translated using the functional currency concept (IAS 21: The Effects of Changes in Foreign Exchange Rates) and the foreign entity method. Since foreign subsidiaries operate their businesses autonomously, from a financial, economical and organisational point of view, the functional currency of these companies is identical to the local currency. Income and expenses of foreign subsidiaries are therefore translated in the Group financial statements at the average exchange rate for the year, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation of shareholders' equity are offset directly against accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also offset directly against accumulated other equity.

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

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

	Closing rate		Average rate	
	31.12.2004	31.12.2003	2004	2003
US Dollar	1.36	1.25	1.24	1.13
British Pound	0.71	0.70	0.68	0.69
South African Rand	7.72	8.27	8.01	8.53
Japanese Yen	140.83	133.82	134.41	131.04
Australian Dollar	1.75	1.67	1.69	1.74

[6] Accounting Policies

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

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

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

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

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

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

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

Basic Earnings per Share are computed in accordance with IAS 33 (Earnings per Share). Undiluted earnings per share are calculated for common and preferred stock shares by dividing the net income attributable to each category of stock – net of minority interests – by the average number of outstanding shares. The net profit is accordingly allocated to the different categories of stock. The portion of the group net income for the year which is not being distributed is allocated to each category of stock based on the number of outstanding shares. Net profit available for distribution is allocated in accordance with the actual payment. Diluted earnings per share would have to be disclosed separately.

Purchased and internally-generated **intangible assets** are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at purchase and manufacturing cost and amortised on a straight-line basis over their estimated useful lives. With the exception of capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and five years.

Development costs for vehicle and engine projects are capitalised at cost, to the extent that costs can be allocated reliably and the technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process and development-related overheads. Capitalised development costs are amortised on a systematic basis following the commencement of production over the estimated product life which is generally seven years.

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

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

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

in years	
Residential buildings	40 to 50
Office and factory buildings, including utility distribution buildings	10 to 40
Plant and machinery	5 to 10
Other facilities, factory and office equipment	3 to 10

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

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

Financing costs are not included in acquisition or manufacturing costs.

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

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

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

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

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

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

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

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

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

Associated companies are generally consolidated using the equity method, whereby the investment is measured at the Group's share of the equity of the company.

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

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

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

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

Financing costs are not included in acquisition or manufacturing costs.

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

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

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

Marketable securities reported in current assets are all available-for-sale financial assets.

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

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

Actuarial gains and losses are only recognised as income or expenses when their net cumulative amount exceeds 10% of the obligations. In this case they are, to the extent that the gains and losses exceed 10% of the obligations, recognised over the average remaining working lives of the employees. The expense related to the reversal of discounting on pension obligations and the income from the expected return on pension plan assets are reported separately as part of the financial result. All other costs relating to allocations to pension provisions are allocated to costs by function in the income statement.

Other provisions are recognised when the Group has an obligation to a third party, an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Measurement is computed on the basis of fully attributable costs. Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the balance sheet date.

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

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

[7] New accounting rules

The IASB has issued ten new or revised Standards or amendments to existing Standards in 2004, as follows:

- IFRS 2 (Share-based Payment)
- IFRS 3 (Business Combinations)
- IFRS 4 (Insurance Contracts)
- IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IFRS 6 (Exploration for and Evaluation of Mineral Resources)
- IAS 36 (Impairment of Assets)
- IAS 38 (Intangible Assets)
- Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure)
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk)
- Amendment to IAS 39 (Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities)

IFRS 3 is required to be applied (in conjunction with the relevant provisions of IAS 36 and IAS 38) for all business combinations for which the agreement date is 31 March 2004 or later. The effect of applying this Standard in the BMW Group financial statements at 31 December 2004 was not significant. IFRS 3, IAS 36 und IAS 38 must be applied prospectively by the BMW Group, from 1 January 2005 onwards, for goodwill and intangible assets arising from earlier business combinations and for investments accounted for using the equity method.

The remaining Standards listed above (except for IFRS 6 and Amendment to IAS 19) become mandatory from 1 January 2005 onwards. IFRS 6 and Amendment to IAS 19 do not become mandatory until 1 January 2006.

With the exception of IFRS 3, the new, revised and amended Standards were not applied before their mandatory date in the Group financial statements at 31 December 2004. This also applies to the Improvements to International Accounting Standards published in December 2003 in conjunction with the Improvement Project and to the amended Standards IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), which are required to be applied from 1 January 2005 onwards.

The IFRIC has issued six new Interpretations or amendments to existing Interpretations:
– IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities)
– IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments)
– IFRIC 3 (Emission Rights)
– IFRIC 4 (Determining whether an Arrangement contains a Lease)
– IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds)
– IFRIC Amendment to SIC-12 (Scope of SIC-12 Consolidation-Special Purpose Entities)

IFRIC 3, IFRIC 4 and IFRIC 5 do not become mandatory for the BMW Group until 1 January 2006; the remaining Interpretations become mandatory from 1 January 2005 onwards. The above-listed Interpretations have not been applied before their mandatory date in the Group financial statements at 31 December 2004.

[8] Revenues

Revenues by activity comprise the following:

in euro million	2004	2003
Sales of products and related goods	37,138	34,498
Income from lease instalments	2,623	2,532
Sale of products previously leased to customers	2,473	2,642
Interest income on loan financing	1,429	1,278
Other income	672	575
Revenues	**44,335**	**41,525**

Group revenues include revenues of euro 6,829 million (2003: euro 6,709 million) relating to financial services business.

An analysis of revenues by business segment and geographical region is shown in the segment information on pages 100 to 103.

[9] Cost of sales

Cost of sales comprises:

in euro million	2004	2003
Manufacturing costs	24,694	22,997
Warranty expenditure	1,283	1,487
Cost of sales directly attributable to financial services	4,723	4,707
Interest expense for financial services business	813	782
Expense for risk provisions and write-downs for financial services business	492	479
Other cost of sales	2,059	1,638
Cost of sales	**34,064**	**32,090**

Cost of sales includes euro 6,028 million (2003: euro 5,968 million) relating to financial services business.

Expense for risk provisions and write-downs includes write-downs of euro 258 million (2003: euro 265 million) on receivables from financial services.

Manufacturing costs for industrial operations include impairment losses on property, plant and equipment of euro 16 million (2003: euro 56 million). Public subsidies in the form of reduced taxes on assets and consumption-based taxes amounted to euro 13 million (2003: euro 15 million).

[10] Sales and administrative costs

Sales costs amount to euro 3,811 million (2003: euro 3,670 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative costs amount to euro 842 million (2003: euro 776 million). These comprise expenses for administration which are not attributable to development, production or sales functions.

[11] Research and development costs

Research and development costs of euro 2,334 million (2003: euro 2,146 million) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs of euro 637 million (2003: euro 583 million).

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

in euro million	2004	2003
Research and development costs	2,334	2,146
Amortisation and disposals	– 637	– 583
New expenditure for capitalised development costs	1,121	996
Research and development costs	**2,818**	**2,559**

[12] Other operating income and expenses

in euro million	2004	2003
Exchange gains	116	210
Income from the release of provisions	184	156
Income from the reversal of write-downs	133	107
Gains on the disposal of non-current assets	6	25
Sundry operating income	541	613
Other operating income	**980**	**1,111**
Exchange losses	98	158
Expenses from additions to provisions	264	207
Expenses for write-downs on receivables	24	28
Sundry operating expenses	133	208
Other operating expenses	**519**	**601**
Other operating income and expenses	**461**	**510**

Other operating income includes public-sector grants of euro 39 million (2003: euro 33 million).

[13] Financial result

in euro million	2004	2003
Income from investments	86	30
– thereof from subsidiaries: euro 66 million (2003: euro 3 million)		
Income (2003: losses) from associated companies	11	–13
Impairment losses on investments in subsidiaries and associated companies	–3	–20
Result on investments	**94**	**–3**
Expected return on plan assets	271	249
Other interest and similar income	244	281
– thereof from subsidiaries: euro 18 million (2003: euro 17 million)		
Interest and similar income	**515**	**530**
Expense from reversing the discounting of pension obligations	–450	–410
Expense from reversing the discounting of other long-term provisions	–86	–104
Write-downs on current marketable securities	–11	–1
Sundry interest and similar expenses	–246	–296
– thereof to subsidiaries: euro 15 million (2003: euro 2 million)		
Interest and similar expenses	**–793**	**–811**
Net interest expense	**–278**	**–281**
Losses (2003: gains) on the fair value measurement of financial instruments	–7	136
Other financial result	**–7**	**136**
Financial result	**–191**	**–148**

Income from investments relates principally to dividend income from BMW Asia Pte. Ltd., Singapore, BMW (P+A) Ltd., Bracknell, and Rolls-Royce plc, London. Income from associated companies includes the equity results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F. A. S. T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich. Write-downs on investments and on current marketable securities pursuant to § 298 (1) HGB (in conjunction with § 275 (3) HGB) amounted to euro 14 million (2003: euro 21 million).

Within other financial result, income and expenses resulting from the fair value measurement of hedged items and hedging instruments have been presented on a net basis in order to reflect appropriately the economic effects of the underlying hedging relationship.

[14] Income taxes

Taxes on income comprise the following:

in euro million	2004	2003
Current tax expense	841	441
Deferred tax expense	491	817
	1,332	**1,258**

The increase in current taxes is mainly attributable to the higher tax expense in Germany.

The reduction in the deferred tax expense results from the lower usage of deferred tax assets as a result of the utilisation of tax losses.

Deferred taxes are computed using tax rates based on laws already enacted in the various tax jurisdictions or using rates that are expected to apply at the date when the amounts are paid or recovered. A corporation tax rate of 25.0% applies in Germany. After taking account of the average multiplier rate (Hebesatz) of 410% for municipal trade tax and the solidarity charge of 5.5%, the overall tax rate for BMW companies in Germany is 38.90% (2003: 40.21%). The tax rates for companies outside Germany range from 10.0% to 41.7%. As a result of changed tax rates in foreign tax jurisdictions, the deferred tax expense was reduced by euro 4 million (2003: euro 11 million).

No taxes arose in conjunction with extraordinary items or from the discontinuation of operations in the year under report. The income tax expense does not include any amounts relating to changes in accounting policies.

Deferred taxes were not recognised on retained profits of euro 10,541 million (2003: euro 9,419 million), as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

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

in euro million	Deferred tax assets		Deferred tax liabilities	
	2004	2003	2004	2003
Intangible assets	6	27	1,322	1,127
Property, plant and equipment	401	473	534	505
Leased products	830	804	2,695	2,371
Financial assets	7	1	–	2
Current assets	569	867	4,002	4,130
Tax loss carryforwards	1,147	1,117	–	–
Provisions	700	721	182	23
Liabilities	3,088	2,419	584	543
Consolidations	1,361	1,186	209	139
	8,109	7,615	9,528	8,840
Valuation allowance	– 881	– 1,101	–	–
Netting	– 6,932	– 6,339	– 6,932	– 6,339
	296	**175**	**2,596**	**2,501**

A valuation allowance is recognised on deferred tax assets when recoverability is uncertain. In determining the level of the valuation allowance, all positive and negative factors concerning the likely existence of sufficient taxable profit in the future are taken into account. These estimates can change depending on the actual course of events. The valuation allowance includes euro 439 million (2003: euro 440 million) on disposals (“capital losses”) in the United Kingdom, which can only be offset against capital gains, but not against operating profits and euro 146 million (2003: euro 226 million) on tax loss carryforwards. In addition, there is a valuation allowance of euro 296 million (2003: euro 435 million) on deferred tax assets relating to capital allowances in the United Kingdom which is shown above in property, plant and equipment. The valuation allowance decreased in total by euro 220 million in 2004 (2003: euro 204 million). A deferred tax expense of euro 127 million (2003: euro 75 million) arose in the United Kingdom from the utilisation of tax losses and capital allowances.

Interest and currency derivatives recognised directly in equity were euro 1,034 million (gross) lower at the end of 2004 than one year earlier as a result of reduced volumes and lower fair values. Deferred tax liabilities recognised directly in equity fell correspondingly by euro 406 million.

The actual tax expense for the financial year 2004 of euro 1,332 million (2003: euro 1,258 million) is euro 51 million (2003: euro 31 million) lower than the expected tax expense of euro 1,383 million (2003: euro 1,289 million) which would theoretically arise if the tax rate of 38.90% (2003: 40.21%), applicable for German companies, was applied across the Group. The difference between the expected and actual tax expense is attributable to the following:

in euro million	2004	2003
Expected tax expense	**1,383**	**1,289**
Variances due to different tax rates	–115	–101
Tax reductions (–)/tax increases (+) as a result of non-taxable income and non-deductible expenses	–77	36
Tax expense (+)/benefits (–) for prior periods	198	102
Other variances	–57	–68
Actual tax expense	**1,332**	**1,258**

The net amount shown on the line tax reductions/tax increases is attributable in 2004 primarily to the higher level of tax-exempt income. The increase in the line tax expense/benefits for prior periods is attributable primarily to tax payments for previous years.

[15] Minority interest

The minority interest in profit totalling euro 0.238 million (2003: euro 0.235 million) comprises euro 0.246 million (2003: euro 0.223 million) relating to the minority shareholder Euro Lloyd Reisebüro GmbH & Co. KG, Cologne, and euro 0.008 million (2003: euro 0.012 million) relating to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

[16] Earnings per share

		2004	2003
Net profit for the year after minority interest	euro million	2,221.9	1,947.0
Profit attributable to common stock	euro million	2,051.7	1,797.8
Profit attributable to preferred stock	euro million	170.2	149.2
Average number of common stock shares outstanding during the year	number	622,227,918	622,227,918
Average number of preferred stock shares outstanding during the year	number	51,301,117	51,275,972
Earnings per share of common stock	euro	**3.30**	**2.89**
Earnings per share of preferred stock	euro	**3.32**	**2.91**
Dividend per share of common stock	euro	**0.62**	**0.58**
Dividend per share of preferred stock	euro	**0.64**	**0.60**

Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. Diluted earnings per share were not applicable in either the current or prior year.

[17] Other disclosures to the income statement

The income statement includes personnel costs as follows:

in euro million	2004	2003
Personnel costs		
Wages and salaries	5,954	5,951
Social security, retirement and welfare costs	1,200	1,115
– thereof for retirement costs: euro 701 million (2003: euro 657 million)		
	7,154	**7,066**

The average number of employees during the year was:

	2004	2003*
Wage earners	54,490	54,822
Other employees	42,792	41,315
	97,282	**96,137**
Apprentices and students gaining work experience	6,344	5,939
	103,626	**102,076**

* previous year's figure adjusted for students gaining work experience

[18] Analysis of changes in Group non-current assets

in euro million	Acquisition and manufacturing costs					
	1.1.2004 [1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2004
Development costs	4,898	–	1,121	–	423	5,596
Other intangible assets	467	2	147	–	34	582
Intangible assets	**5,365**	**2**	**1,268**	**–**	**457**	**6,178**
Land, titles to land, buildings, including buildings on third party land	4,826	– 40	303	497	26	5,560
Plant and machinery	16,327	– 102	2,013	939	714	18,463
Other facilities, factory and office equipment	1,907	– 20	250	11	192	1,956
Advance payments made and construction in progress	1,693	2	513	– 1,447	4	757
Property, plant and equipment	**24,753**	**– 160**	**3,079**	**–**	**936**	**26,736**
Investments in subsidiaries	148	– 1	33	–	30	150
Investments in associated companies	61	–	4	–	–	65
Investments in other companies	522	–	42 [3]	–	–	564
Non-current marketable securities	15	– 1	9	–	3	20
Other non-current loans receivable	2	–	–	–	2	–
Financial assets	**748**	**– 2**	**88**	**–**	**35**	**799**
Leased products	**8,246**	**– 615**	**5,372**	**–**	**3,728**	**9,275**
Non-current assets	**39,112**	**– 775**	**9,807**	**–**	**5,156**	**42,988**

1] including the gross balances brought forward of companies consolidated for the first time amounting to euro 31 million
2] including impairment losses of euro 16 million
3] total fair value measurement changes recognised directly in accumulated other equity amounted to euro 154 million

Depreciation and amortisation				Reversals		Net book values	
1.1.2004[1]	Translation differences	Current year[2]	Disposals		31.12.2004	31.12.2004	31.12.2003
1,887	–	637	423	–	2,101	3,495	3,011
278	2	71	32	–	319	263	189
2,165	**2**	**708**	**455**	**–**	**2,420**	**3,758**	**3,200**
2,047	–14	153	13	–	2,173	3,387	2,779
11,588	–80	1,589	693	–	12,404	6,059	4,739
1,409	–15	222	182	–	1,434	522	498
1	–	–	–	–	1	756	1,692
15,045	**–109**	**1,964**	**888**	**–**	**16,012**	**10,724**	**9,708**
22	–	3	–	–	25	125	126
–	–	–	–	–	–	65	61
117	–	–	–	112[3]	5	559	405
–	–	–	–	–	–	20	14
1	–	–	1	–	–	–	1
140	**–**	**3**	**1**	**112**	**30**	**769**	**607**
1,519	**–129**	**914**	**531**	**–**	**1,773**	**7,502**	**6,697**
18,869	**–236**	**3,589**	**1,875**	**112**	**20,235**	**22,753**	**20,212**

[19] Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Goodwill of euro 24 million was recognised in conjunction with the initial consolidation of axentiv AG, Darmstadt, and its subsidiary, arcensis GmbH, Stuttgart. This item is not presented separately in the BMW Group balance sheet since the amount is not significant in relation to either the balance sheet total or intangible assets.

Changes in intangible assets during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

[20] Property, plant and equipment

A break-down of the different classes of property, plant and equipment disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

Property, plant and equipment include leased plant and machinery and other equipment amounting to euro 223 million (2003: euro 320 million) and relates primarily to the Oxford and Hams Hall production plants. Due to the nature of the lease arrangements (finance leases), economic ownership of these assets is attributable to the Group. The leases for plant and machinery and other equipment at the Oxford production plant, with a carrying amount of euro 111 million (2003: euro 149 million) at 31 December, run for periods up to 2013 at the latest. For each of the leases, there is a recurring option to extend the leases by one year. A purchase option was not agreed. The lease for plant and machinery and other facilities, factory and office equipment at the Hams Hall production plant, with a carrying amount of euro 88 million (2003: euro 141 million) runs until 2018 and can be extended for one year periods thereafter. A purchase option was not agreed.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2004	31.12.2003
Total future minimum lease payments		
due within one year	79	77
due between one and five years	340	330
due later than five years	410	527
	829	**934**
Interest portion of future minimum lease payments		
due within one year	20	22
due between one and five years	72	76
due later than five years	122	155
	214	**253**
Present value of future minimum lease payments		
due within one year	59	55
due between one and five years	268	254
due later than five years	288	372
	615	**681**

[21] Financial assets

A break-down of the different classes of financial assets disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

Additions to investments in subsidiaries relate to share capital increases for the companies BMW Polska Sp. z o. o., Warsaw, BMW Portugal Lda., Lisbon, BMW Parkhaus Oberwiesenfeld GmbH, Munich, BMW Financeira S.A. Credito, Financiamento e Investimento, Sao Paulo, BMW Experience Centre Inc., Whitby, BMW Acquisitions Ltda., Sao Paulo, and the foundation of BMW Magyarorszàg KFT, Budapest, and BMW Madrid S.L., Madrid.

Disposals of investments in subsidiaries relate mainly to the initial consolidation of BMW Financial Services Korea, Co., Ltd., Seoul, and BMW Leasing de Mexico S.A. de C.V., Mexico City and a capital reduction at BMW Roma S.r.l., Rome.

Investments in associated companies comprise the Group's interest, measured using the equity method, in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich. The Group's interest in these joint ventures, on an aggregated basis, was as follows:

in euro million	31.12.2004	31.12.2003
Disclosures relating to the income statement		
Income	317	225
Losses	307	217
Disclosures relating to the balance sheet		
Non-current assets	124	139
Current assets	312	229
Equity	82	83
Non-current liabilities	79	104
Current liabilities	275	181

The reversal of write-downs on investments in other companies in the year under report relates to the investment in Rolls-Royce plc, London; the carrying amount was written up to the market value at 31 December 2004. The reversal of the write-down (euro 112 million) up to historical cost and the unrealised gain (euro 42 million) over and above historical cost were both recognised directly in accumulated other equity.

[22] Leased products

The BMW Group, as lessor, leases out assets (predominantly own products) as part of its financial services business. Minimum lease payments of euro 4,084 million (2003: euro 3,684 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2004	31.12.2003
within one year	2,075	1,925
between one and five years	2,009	1,753
later than five years	–	6
	4,084	**3,684**

Contingent rents of euro 1 million (2003: euro 2 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options as well as price escalation clauses.

Changes in leased products during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

[23] Inventories

Inventories comprise the following:

in euro million	31.12.2004	31.12.2003
Raw materials and supplies	617	569
Work in progress, unbilled contracts	978	827
Finished goods	3,991	3,439
Goods for resale	881	858
	6,467	**5,693**

The introduction of models during the financial year 2004, in conjunction with the Group's product offensive, resulted in an increase in finished goods compared to the previous year.

At 31 December, inventories measured at their net realisable value amounted to euro 437 million (2003: euro 475 million) and are included in total inventories of euro 6,467 million (2003: euro 5,693 million). Amounts recognised as income from the reversal of write-downs on items sold during the year were not significant.

[24] Receivables and other assets

in euro million	31.12.2004	31.12.2003
Trade receivables	1,868	2,257
– thereof with a maturity of more than one year: euro 1 million (2003: euro 1 million)		
Receivables from sales financing	25,054	21,950
– thereof with a maturity of more than one year: euro 15,737 million (2003: euro 13,330 million)		
Other receivables	6,474	7,184
– thereof with a maturity of more than one year: euro 1,690 million (2003: euro 3,090 million)		
	33,396	**31,391**

Receivables from sales financing

Receivables from sales financing comprise euro 18,782 million (2003: euro 16,423 million) for loan financing for customers and dealers and outstanding instalments on operating leases as well as euro 6,272 million (2003: euro 5,527 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2004	31.12.2003
Gross investment in finance leases		
due within one year	2,592	2,442
due between one and five years	4,409	3,735
due later than five years	6	11
	7,007	**6,188**
Present value of future minimum lease payments		
due within one year	2,359	2,226
due between one and five years	3,908	3,291
due later than five years	5	10
	6,272	**5,527**
Unrealised interest income	**735**	**661**

The amount of contingent rents recognised as income, generally relating to the distance driven, was not material. Write-downs on finance leases amounting to euro 83 million (2003: euro 117 million) were computed and recognised on the basis of specific credit risks.

Other receivables

in euro million	31.12.2004	31.12.2003
Receivables from subsidiaries	842	760
– thereof with a maturity of more than one year: euro 168 million (2003: euro 193 million)		
Receivables from associated and other companies in which an investment is held	275	311
– thereof with a maturity of more than one year: euro 10 million (2003: euro 10 million)		
Miscellaneous assets	5,357	6,113
– thereof with a maturity of more than one year: euro 1,512 million (2003: euro 2,887 million)		
	6,474	**7,184**

Receivables from subsidiaries include trade receivables of euro 229 million (2003: euro 166 million) and financial receivables of euro 613 million (2003: euro 594 million).

Miscellaneous assets comprise:

in euro million	31.12.2004	31.12.2003
Interest and currency derivatives	2,674	3,543
Present value of the receivable from Ford Motor Company, Dearborn, Mich., relating to the sale of Land Rover	971	867
Tax receivables	667	763
Collateral receivables	313	257
Credit card receivables	168	151
Receivables from employees	31	28
Interest receivable	9	22
Sundry other assets	524	482
	5,357	**6,113**

The decrease in the market values of interest and currency derivatives is primarily attributable to the expiry of currency hedges.

[25] Marketable securities

Current marketable securities comprise:

in euro million	31.12.2004	31.12.2003
Stocks	531	407
Investment funds	14	129
Fixed income securities	1,196	1,242
Sundry marketable securities	91	79
	1,832	**1,857**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2004	31.12.2003
Fixed income securities		
due within 3 months	28	311
due later than 3 months	1,168	931
Sundry marketable securities		
due within 3 months	74	46
due later than 3 months	17	33
	1,287	**1,321**

[26] Cash and cash equivalents

Cash and cash equivalents of euro 2,128 million (2003: euro 1,659 million) comprise cash on hand, deposits at the Bundesbank and cash at bank, all with a maturity of under three months.

[27] Prepayments

Prepayments of euro 543 million (2003: euro 488 million) relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 355 million (2003: euro 388 million) have a maturity of less than one year.

[28] Equity

The Group Statement of Changes in Equity is shown on page 56.

Number of shares issued

At 31 December 2004, issued BMW AG common stock was divided, as in the previous year, into 622,227,918 shares with a par-value of one euro. Issued BMW AG preferred stock was divided into 52,196,162 non-voting shares, unchanged from the previous year, each with a par-value of one euro. All of the company's stock is issued in the form of bearer shares. Preferred stock bears an advance profit (additional dividend) of euro 0.02 per share. 895,045 of the shares of preferred stock are only entitled to receive dividends with effect from the beginning of the financial year 2005.

In the period from February to November 2004, BMW Group acquired 895,045 of its own (treasury) preferred stock shares at an average price of euro 24.16 per share; these shares were sold to employees at a reduced price of euro 14.26 per share in conjunction with an employee share scheme. As a result of the repurchase of treasury shares and their subsequent issue, the company's share capital remained unchanged at euro 674 million during 2004 (2003: increase of euro 0.7 million in conjunction with the issue of new shares out of authorised capital).

Capital reserves

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

Revenue reserves

Revenue reserves are disclosed in accordance with the disclosure requirements contained in German commercial law. They comprise the post-acquisition and non-distributed earnings of consolidated group companies. In addition, revenue reserves include both positive and negative goodwill arising on the consolidation of group companies prior to 31 December 1994.

Revenue reserves increased during the year by 14.4 % to euro 14,501 million. They were increased in 2004 by the amount of the net profit for the year of euro 2,222 million und were reduced by the payment of the dividend for 2003 amounting to euro 392 million.

The unappropriated profit of BMW AG of euro 419 million will be proposed to the Annual General Meeting for distribution. As in the previous year, the proposed dividend will not give rise to a tax credit relating to the corporation tax system applicable until 2001, since, following the enactment of the Tax Preference Reduction Act on 16 May 2003, the tax benefit on distributed profits was suspended until the end of 2005. The tax reduction benefits of euro 133 million, resulting from the previous corporation tax system, can be realised in specific annual amounts during the period from 2006 to 2019. As a result of the maximum amount regulations which apply for each dividend year, the total amount will not be fully utilised before 2019.

Accumulated other equity

Accumulated other equity consists of all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries. It also includes the effects (net of deferred tax) of recognising changes in the fair value of financial instruments directly in equity. Accumulated other equity includes deferred tax liabilities of euro 704 million (2003: euro 1,102 million) which have been recognised directly in equity.

Minority interest

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

Minority interest in the share capital of subsidiaries amounts to euro 0.312 million (2003: euro 0.297 million). Of this amount, euro 0.311 million (2003: euro 0.286 million) relates to the minority shareholder Euro Lloyd Reisebüro GmbH & Co. KG, Cologne, and euro 0.001 million (2003: euro 0.011 million) to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

[29] Pension provisions

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service and salary of employees. Due to their similarity of nature, the obligations of BMW Group companies in the USA and of BMW (South Africa) (Pty) Ltd., Pretoria, for post-employment medical care are also disclosed as pension provisions. The provision for these pension-like obligations amounts to euro 29 million (2003: euro 27 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 7 % p.a. (2003: 8 % p.a.). The expense for medical care costs in the financial year 2004 amounted to euro 5 million (2003: euro 5 million).

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for all defined contribution plans of the BMW Group amounted to euro 14 million (2003: euro 10 million).

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

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

in %	Germany		UK		Other	
31 December	2004	2003	2004	2003	2004	2003
Discount rate	4.8	5.5	5.3	5.4	5.3	5.3
Salary level trend	3.3	3.5	3.9	3.8	3.2	3.2
Pension level trend	1.8	2.0	2.7	2.7	1.7	1.8

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

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

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

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

in euro million	Germany		UK		Other countries		Total	
31 December	2004	2003	2004	2003	2004	2003	2004	2003
Present value of pension benefits covered by accounting provisions	3,336	2,513	–	–	104	91	3,440	2,604
Present value of funded pension benefits	–	–	5,764	5,564	249	222	6,013	5,786
Defined benefit obligations	3,336	2,513	5,764	5,564	353	313	9,453	8,390
Fair value of plan assets	–	–	5,086	4,744	180	156	5,266	4,900
Net obligation	3,336	2,513	678	820	173	157	4,187	3,490
Actuarial gains (+) and losses (–) not yet recognised	–771	–208	–699	–852	–51	–44	–1,521	–1,104
Income (+) or expense (–) from past service cost not yet recognised	–	–	–	–	–2	–2	–2	–2
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	–	–	9	10	9	10
Balance sheet amount at 31.12.	**2,565**	**2,305**	**–21**	**–32**	**129**	**121**	**2,673**	**2,394**
thereof pension provision	2,565	2,305	8	3	130	122	2,703	2,430
thereof pension asset (–)	–	–	–29	–35	–1	–1	–30	–36

Pension provisions relating to pension plans in other countries amounted to euro 130 million (2003: euro 122 million). This includes euro 36 million (2003: euro 34 million) relating to externally funded plans.

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

in euro million	Germany		UK		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Balance sheet amount at 1.1.	2,305	2,117	–32	–10	121	106	2,394	2,213
Expense from pension obligations	272	203	123	88	38	48	433	339
Pension payments or transfers to external funds	–59	–56	–112	–111	–25	–24	–196	–191
Employee contributions to the deferred remuneration retirement scheme	47	43	–	–	–	–	47	43
Transfer of obligations to non-consolidated entities	–	–2	–	–	–	–	–	–2
Translation differences on foreign pension plans	–	–	–	1	–5	–9	–5	–8
Balance sheet amounts at 31.12.	**2,565**	**2,305**	**–21**	**–32**	**129**	**121**	**2,673**	**2,394**
thereof pension provision	2,565	2,305	8	3	130	122	2,703	2,430
thereof pension asset (–)	–	–	–29	–35	–1	–1	–30	–36

The defined benefit plans of the BMW Group gave rise to an **expense from pension obligations** in the financial year 2004 of euro 433 million (2003: euro 339 million), comprising the following components:

in euro million	Germany		UK		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Current service cost	91	81	54	48	31	39	176	168
Expense from reversing the discounting of pension obligations	132	122	303	273	15	15	450	410
Past service cost	49	–	–	–	–	1	49	1
Expected return on plan assets (–)	–	–	– 261	– 239	– 10	– 10	– 271	– 249
Actuarial gains (–) and losses (+)	–	–	27	6	2	3	29	9
Expense from pension obligations	**272**	**203**	**123**	**88**	**38**	**48**	**433**	**339**

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

The actual return from external pension funds was euro 536 million (2003: euro 407 million). The variance of the actual return to the expected return, as in the previous year, was mainly due to the fact that pension fund assets generated a higher return than planned. This was principally as a result of the recovery of the international capital markets, particularly in the United Kingdom. The difference between actual and expected return from external pension funds leads to actuarial gains or losses. Actuarial gains or losses, to the extent that they lie outside a corridor of 10% of the present value of the defined benefit obligations, are recognised as income or expense over the expected remaining working lives of the employees participating in the plans.

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

The **net obligation from pension plans** in Germany and in the United Kingdom developed as follows:

in euro million	Germany		United Kingdom					
	Present value of pension benefits		Present value of pension benefits		Plan assets		Net obligation	
	2004	2003	2004	2003	2004	2003	2004	2003
1 January	2,513	2,186	5,564	5,329	– 4,744	– 4,722	820	607
Expense from pensions obligations	272	203	384	327	– 261	– 239	123	88
Payments to external funds	–	–	–	–	– 112	– 111	– 112	– 111
Pension payments	– 59	– 56	– 281	– 255	281	255	–	–
Actuarial gains (-) and losses (+)	563	139	114	435	– 267	– 155	– 153	280
Translation differences and other changes	47	41	– 17	– 272	17	228	–	– 44
31 December	**3,336**	**2,513**	**5,764**	**5,564**	**– 5,086**	**– 4,744**	**678**	**820**

The actuarial losses, which led to an increase in the present value of pension entitlements in the financial year 2004, resulted from changes in the discount factors and assumptions about inflation and mortalities used for the purposes of the actuarial computation. The actual income from pension fund assets in the United Kingdom, amounting to euro 528 million, exceeded the expected return of euro 261 million by euro 267 million, which is shown above as actuarial gains.

Actuarial losses in excess of a corridor of 10% of the defined benefit obligations amount to euro 589 million (2003: euro 321 million). They are required to be recognised as income or expenses over the average remaining working lives of the relevant employees. These losses will result in additional expense in the financial year 2005 of euro 29 million in Germany, euro 11 million in the United Kingdom and euro 2 million in the USA. The current short-fall in Germany is mainly attributable to the reduction in the discount factor from 5.5% to 4.8% in the light of capital market developments.

[30] Other provisions

Other provisions principally comprise the following items:

in euro million	31.12.2004 Total	31.12.2004 thereof due within one year	31.12.2003 Total	31.12.2003 thereof due within one year
Taxes	447	436	359	334
Obligations for personnel and social expenses	1,486	1,062	1,440	1,284
Obligations for on-going operational expenses	3,511	1,696	3,288	1,513
Other obligations	1,325	578	1,234	748
	6,769	**3,772**	**6,321**	**3,879**

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

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

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

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

Provisions changed during the year as follows:

in euro million	At 1.1.2004	Translation differences	Additions	Reversal of discounting	Utilised	Released	At 31.12.2004
Taxes	359	–	437	–	311	38	447
Obligations for personnel and social expenses	1,440	–3	1,054	–	978	27	1,486
Obligations for on-going operational expenses	3,288	–15	1,683	67	1,462	50	3,511
Other obligations	1,234	2	504	19	286	148	1,325
	6,321	**–16**	**3,678**	**86**	**3,037**	**263**	**6,769**

Of the amount shown as released, euro 41 million are included in costs by function in the income statement.

[31] Debt Debt includes all interest-bearing liabilities of the BMW Group at the relevant balance sheet dates. It comprises the following:

31 December 2004 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	2,877	6,225	3,346	12,448
Liabilities to banks	1,989	1,598	203	3,790
Liabilities from customer deposits (banking)	4,878	223	–	5,101
Commercial paper	4,059	–	–	4,059
Bills of exchange	1	–	–	1
Other debt	1,158	3,545	381	5,084
	14,962	**11,591**	**3,930**	**30,483**

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	3,300	7,001	1,103	11,404
Liabilities to banks	1,347	1,787	22	3,156
Liabilities from customer deposits (banking)	3,801	64	–	3,865
Commercial paper	3,327	–	–	3,327
Bills of exchange	2	–	–	2
Other debt	2,242	2,994	459	5,695
	14,019	**11,846**	**1,584**	**27,449**

Bonds include an exchangeable bond of euro 561 million issued on 4 December 2003 relating to the investment of the BMW Group in the engine manufacturer Rolls-Royce plc, London. This bond is subject to an annual interest rate of 1.875% and has a term of five years. After three years into the term, the Group has the right, up to the maturity date, to give notice on the bond if Rolls-Royce stock rises to a level of more than 130% of the conversion price of GBP 2.46. A cash-out option is also in place giving the Group, in the event that the conversion right is exercised, the right to make a payment equivalent to the market price of the stock at that date, rather than to deliver the stock itself. The present value of the bond at the balance sheet date, including transaction costs, was euro 506 million (2003: euro 501 million). The related option liability is included at 31 December 2004 in other liabilities at its fair value of euro 96 million (2003: euro 49 million). The negative change in the fair value of the option liability, amounting to euro 47 million, is recognised as an expense in the line “Other financial result”.

Other debt of euro 5,084 million (2003: euro 5,695 million) comprises mainly asset backed financing liabilities and finance lease liabilities.

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO Code)	Weighted average maturity period (in years)	Weighted average interest (in %)
BMW Finance N.V., The Hague	variable	EUR 475 million	3.4	2.3
	fixed	JPY 92,000 million	6.6	1.5
	fixed	EUR 2,862 million	8.9	4.2
	fixed	USD 400 million	4.0	4.2
	fixed	CHF 200 million	5.0	2.0
	fixed	CZK 300 million	6.0	7.8
BMW Coordination Center V.o.F., Bornem	variable	EUR 982 million	1.5	2.2
	variable	USD 15 million	1.0	2.3
	variable	GBP 40 million	1.0	3.6
	variable	JPY 15,000 million	2.0	0.4
	fixed	JPY 3,000 million	2.0	0.2
	fixed	USD 200 million	1.0	2.4
	fixed	EUR 177 million	1.8	2.0
BMW (UK) Capital plc, Bracknell	variable	EUR 165 million	2.2	2.3
	variable	GBP 80 million	1.0	4.9
	variable	JPY 3,800 million	2.0	0.1
	fixed	GBP 250 million	8.0	6.2
BMW US Capital, LLC, Wilmington, Del.	variable	USD 450 million	1.3	2.5
	variable	EUR 1,150 million	5.3	2.5
	fixed	JPY 5,000 million	2.0	2.5
	fixed	USD 1,299 million	10.0	4.3
	fixed	EUR 960 million	8.5	4.4
	fixed	GBP 350 million	3.0	2.7
Rolls-Royce Motor Cars Ltd., Bracknell	variable	GBP 45.8 million	1.0	4.9
Other	variable	EUR 220 million	2.0	2.2
	variable	USD 120 million	6.0	2.8
	variable	JPY 43,500 million	2.0	0.1
	fixed	JPY 47,000 million	19.5	3.1
	fixed	GBP 150 million	3.0	5.8
	fixed	AUD 250 million	2.6	5.5
	fixed	EUR 300 million	4.0	3.0

The following details apply to the commercial paper:

Issuer	Issue volume in relevant currency (ISO Code)	Weighted average maturity period (in days)	Weighted average interest (in %)
BMW (UK) Capital plc, Bracknell	GBP 180 million	20.4	4.8
BMW Coordination Center V.o.F., Bornem	EUR 966 million	24.0	2.1
BMW Finance N.V., The Hague	EUR 860 million	41.3	2.2
BMW US Capital, LLC, Wilmington, Del.	USD 2,697 million	9.3	2.3

[32] Trade payable

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

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,110	33	–	3,143

[33] Other liabilities

Other liabilities comprise the following items:

31 December 2004 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Taxes payable	390	1	–	391
Social security	122	1	–	123
Employees	24	–	–	24
Advance payments from customers	286	4	–	290
Deposits received	53	103	–	156
Interest	66	–	–	66
Subsidiaries	45	1	–	46
Fair values of derivative financial instruments	237	120	25	382
Liabilities to associated and other companies in which an investment is held	2	–	–	2
Sundry other liabilities	715	158	42	915
	1,940	**388**	**67**	**2,395**

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Taxes payable	354	2	–	356
Social security	119	1	–	120
Employees	21	–	–	21
Advance payments from customers	272	2	–	274
Deposits received	70	93	–	163
Interest	96	–	–	96
Subsidiaries	55	–	–	55
Fair values of derivative financial instruments	219	131	22	372
Liabilities to associated and other companies in which an investment is held	–	–	–	–
Sundry other liabilities	582	554	41	1,177
	1,788	**783**	**63**	**2,634**

The total amount of liabilities due later than five years amounts to euro 3,997 million (2003: euro 1,647 million).

[34] Deferred income

Deferred income comprises the following items:

in euro million	31.12.2004		31.12.2003	
	Total	thereof due within one year	Total	thereof due within one year
Deferred income from lease financing	527	347	416	277
Deferred income relating to service contracts	621	130	108	31
Grants	363	26	280	55
Other deferred income	65	50	43	43
	1,576	**553**	**847**	**406**

Income relating to service and repair work to be provided under commitments given at the time of the sale of a vehicle is reported in 2004 for the first time under deferred income ("Multiple Element Arrangements"). Grants comprise primarily public funds to promote regional structural investment, particularly relating to the construction of the production plant in Leipzig. In accordance with IAS 20, they are recognised as income over the useful lives of the assets to which they relate.

[35] Contingent liabilities and other financial commitments

Contingent Liabilities
No provisions were recognised for the following contingent liabilities (stated at their nominal amount), since an outflow of resources is not considered to be probable:

in euro million	31.12.2004	31.12.2003
Guarantees	54	62
Performance guarantees	88	105
Bills of exchange	4	16
	146	**183**

The above amounts include euro 1 million (2003: euro 11 million) in respect of non-consolidated subsidiaries.

Several liability applies in the case of investments in general partnerships.

The usual commercial guarantees have been given in relation to the sale of Rover Cars and Land Rover activities.

Other financial commitments
In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for land, buildings, plant and machinery, tools, office and other facilities. The leases run for periods of one to 98 years and in some cases contain extension and/or purchase options. Lease payments of euro 164 million (2003: euro 118 million) were recognised as expense during the year.

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

in euro million	31.12.2004	31.12.2003
Nominal total of future minimum lease payments		
due within one year	167	166
due between one and five years	508	448
due later than five years	613	612
	1,288	**1,226**

The above amounts include euro 28 million (2003: euro 29 million) in respect of non-consolidated subsidiaries and euro 54 million (2003: euro 27 million) for back-to-back operating leases.

Obligations for future minimum lease payments on back-to-back finance leases were as follows:

in euro million	31.12.2004	31.12.2003
Total future minimum lease payments		
due within one year	3	30
due between one and five years	3	11
due later than five years	–	–
	6	**41**
Interest portion of future minimum lease payments		
due within one year	–	1
due between one and five years	–	1
due later than five years	–	–
	–	**2**
Present value of future minimum lease payments		
due within one year	3	29
due between one and five years	3	10
due later than five years	–	–
	6	**39**

These future obligations are matched, or exceeded, by finance leases receivables which are included in receivables from sales financing.

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

in euro million	31.12.2004	31.12.2003
Nominal total of future minimum lease payments		
due within one year	828	773
due between one and five years	900	722
due later than five years	–	–
	1,728	**1,495**

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

Purchase commitments for property, plant and equipment amount to euro 732 million (2003: euro 1,151 million).

Sundry other financial commitments amount to euro 207 million (2003: euro 255 million). This includes the amount of euro 50 million committed for the intended refurbishment of the headquarters of BMW AG.

[36] Financial instruments

Use and control of financial instruments

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

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

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Exchange rate, interest rate and liquidity risks of the BMW Group are managed at a corporate level. At 31 December 2004, derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies US Dollar, British Pound and Japanese Yen.

Quantitative disclosures on financial instruments

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

in euro million	31.12.2004		31.12.2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from sales financing	25,054	25,448	21,950	22,199
Debt	30,483	30,421	27,449	27,410

The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2004 on the basis of the following interest rates:

ISO Code in %	EUR	USD	GBP	JPY
Interest rate for six months	2.2	2.8	4.9	0.1
Interest rate for one year	2.3	3.1	4.9	0.1
Interest rate for five years	3.2	4.1	4.9	0.7
Interest rate for ten years	3.8	4.7	4.9	1.5

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

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

in euro million	**Nominal amount**	**Fair values**			
		Total	due within one year	due between one and five years	due later than five years
31 December 2004					
Assets					
Currency hedge contracts	13,833	1,844	1,390	453	1
Interest rate contracts	9,608	813	124	495	194
Other derivative financial instruments	114	17	8	9	–
Total	23,555	2,674	1,522	957	195
Liabilities					
Currency hedge contracts	3,189	237	124	91	22
Interest rate contracts	7,043	38	8	27	3
Other derivative financial instruments	646	107	105	2	–
Total	10,878	382	237	120	25
31 December 2003					
Assets					
Currency hedge contracts	16,877	2,957	1,824	1,090	43
Interest rate contracts	9,217	567	65	146	356
Other derivative financial instruments	600	19	12	–	7
Total	26,694	3,543	1,901	1,236	406
Liabilities					
Currency hedge contracts	3,169	190	102	88	–
Interest rate contracts	5,527	108	52	43	13
Other derivative financial instruments	639	74	65	–	9
Total	9,335	372	219	131	22

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

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

The fair values of financial instruments relating to hedged forecast transactions are recognised directly in accumulated other equity. At 31 December 2004, the positive impact from the fair value measurement of financial instruments (net of deferred taxes) amounted to euro 1,134 million (2003: euro 1,554 million) and has been recognised directly in equity. This comprises a positive impact from cash flow hedges of euro 1,072 million (2003: euro 1,700 million) and a positive impact from available-for-sale securities of euro 62 million (2003: euro 146 million).

During the year under report, negative changes in fair value measurement amounting to euro 420 million (2003: positive changes amounting to euro 845 million) were recognised directly in equity. This includes a negative impact of euro 628 million from the lower volume of cash flow hedges (2003: positive impact of euro 677 million) and a positive impact of euro 208 million (2003: euro 168 million) from available-for-sale securities.

In the financial year under report, positive fair value measurement changes of euro 942 million (2003: euro 602 million) were removed from other accumulated equity and realised during the year. Write-downs of euro 11 million (2003: euro 1 million) on available-for-sale securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2004 and reversals of write-downs on current marketable securities of euro 6 million (2003: euro 3 million) were recognised as income. In 2004, gains of euro 4 million (2003: losses of euro 21 million) were realised on the disposal of available-for-sale securities and the equivalent amount removed from other accumulated equity.

Credit risk

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

[37] Explanatory notes to the cash flow statements

The cash flow statements show how the cash and cash equivalents of the BMW Group, industrial operations and financial operations have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Cash Flow Statements), cash flows are classified into cash flows from operating, investing and financing activities. The cash flow statements of the BMW Group are presented on pages 54 and 55.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, deposits at the Bundesbank and cash at bank, to the extent that they are available within three months from the balance sheet date and are subject to an insignificant risk of changes in value. The negative impact of changes in cash and cash equivalents due to the effect of exchange rate fluctuations in 2004 was euro 23 million (2003: negative impact of euro 109 million).

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

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

in euro million	2004	2003
Interest received	243	290
Interest paid	267	336
Dividends received	86	30
Income taxes paid	736	257

[38] Related party relationships

In accordance with IAS 24 (Related Party Disclosures), related individuals or entities which have the ability to control the BMW Group or which are controlled by the BMW Group, must be disclosed unless such parties are not already included in the consolidated financial statements as consolidated companies. Control is defined as ownership of more than one half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group.

In addition, the disclosure requirements of IAS 24 also cover transactions with associated companies and with parties which have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediaries. Significant influence over the financial and operating policies of the Group can arise when a party holds 20% or more of the shares of BMW AG, is a member of the Board of Management or Supervisory Board of BMW AG or holds another key management position within the Group.

In the case of the BMW Group in the financial year 2004, these IAS 24 disclosure requirements only affect business relationships with associated companies, members of the Board of Management or Supervisory Board of BMW AG and other key management personnel.

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

Stefan Quandt is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H., which, via its subsidiaries in the Thiel Group, performed logistics services for the BMW Group during the financial year 2004. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sale contracts are not material for the BMW Group and are entered into, without exception, on arm's length principles.

Susanne Klatten a shareholder and member of the Supervisory Board of BMW AG, and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Bad Homburg v. d. H. Altana AG, Bad Homburg v. d. H. purchased vehicles from the BMW Group in 2004. These sale contracts are not material for the BMW Group and are entered into, without exception, on arm's length principles.

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

[39] Declaration with respect to the Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued a declaration, required by § 161 of the German Stock Corporation Act, which is included in the BMW Group Annual Report and which is available to shareholders on the BMW Group website under the address www.bmwgroup.com/ir.

[40] Shareholdings of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.70 % of the issued common and preferred stock shares, of which 16.12 % relates to Stefan Quandt, Bad Homburg v. d. H. and 11.58 % to Susanne Klatten, Bad Homburg v. d. H. The shareholding of the members of the Board of Management of BMW AG is, in total, less than 1% of the issued stock shares.

[41] Total remuneration of the Board of Management and the Supervisory Board

Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of current members of the Board of Management for the financial year 2004 amounts to euro 11.9 million (2003: euro 10.7 million). This comprises fixed components of euro 1.9 million (2003: euro 1.9 million) and variable components of euro 10.0 million (2003: euro 8.8 million).

The remuneration of former Board members and their dependants amounts to euro 2.5 million (2003: euro 3.6 million).

Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 29.2 million (2003: euro 29.7 million), computed in accordance with IAS 19.

Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of the Supervisory Board for the financial year 2004 amounts to euro 2.4 million (2003: euro 2.3 million). This comprises fixed components of euro 0.1 million (2003: euro 0.1 million) and variable components of euro 2.3 million (2003: euro 2.2 million).

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 108 to 111.

BMW Group
Notes to the Group Financial Statements
Segment Information

[42] Segment information

Description of business segments

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

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

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

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

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

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

Reconciliations to the Group profit from ordinary activities for the Group include national holding companies, group financing companies and income and expenses not specifically attributable to the business segments. Reconciliations also include certain operating companies which are not allocated to segments, namely BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, and the Softlab Group. Swindon Pressings Ltd., Bracknell, which was included up to 31 December 2003 in reconciliations to profit from ordinary activities, has been allocated to the Automobiles segment with effect from 1 January 2004, since it now manufactures primarily for the Automobiles segment. The comparative figures have not been reclassified, since changes would be immaterial by comparison to the relevant items in the Group financial statements.

Other explanatory comments on segment information

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

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

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

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

The return on sales for each segment is based on the profit from ordinary activities.

Internal financing is computed as the profit or loss from ordinary activities adjusted for depreciation and significant non-cash items, less actual tax payments.

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

Segment information by region	External sales		Capital expenditure		Assets	
in euro million	2004	2003	2004	2003	2004	2003
Germany	11,961	10,590	3,637	3,492	24,905	21,510
Rest of Europe	15,823	13,389	515	549	15,618	14,390
America	10,648	11,620	92	143	15,949	15,263
Africa, Asia, Oceania	5,903	5,926	103	61	6,877	6,142
Reconciliations	–	–	–	–	4,066	4,170
Group	**44,335**	**41,525**	**4,347**	**4,245**	**67,415**	**61,475**

Segment information by business segment in euro million		Automobiles 2004	2003
Revenues with third parties		**36,399**	**33,424**
Change compared to previous year	%	8.9	– 0.1
Inter-segment revenues		**6,145**	**4,893**
Change compared to previous year	%	25.6	3.4
Total revenues		**42,544**	**38,317**
Change compared to previous year	%	11.0	0.4
Gross profit		**9,297**	**8,527**
Result before financial result		**3,333**	**3,030**
Change compared to previous year	%	10.0	– 2.4
Result from equity method accounting		**11**	**– 13**
Other financial result		**– 185**	**– 256**
Result from ordinary activities		**3,159**	**2,761**
Change compared to previous year	%	14.4	– 4.2
Return on sales	%	**7.4**	**7.2**
Significant non-cash items		**744**	**1,068**
Internal financing		**5,876**	**5,760**
Capital expenditure		**4,200**	**4,111**
Depreciation and amortisation		**2,595**	**2,270**
Additions to leased products		**337**	**283**
Assets		**24,377**	**22,549**
Liabilities		**16,152**	**14,541**
Average workforce during the year		**96,863**	**93,821**

Motorcycles		Financial Services		Reconciliations		Group	
2004	2003	2004	2003	2004	2003	2004	2003
1,022	1,053	**6,829**	6,709	**85**	339	**44,335**	41,525
– 2.9	– 6.6	1.8	– 9.8	– 74.9	– 15.5	6.8	– 2.1
7	2	**1,397**	873	**– 7,549**	– 5,768	**–**	–
–	–	60.0	– 3.5	– 30.9	–2.3	–	–
1,029	1,055	**8,226**	7,582	**– 7,464**	– 5,429	**44,335**	41,525
– 2.5	– 6.6	8.5	– 9.1	– 37.5	– 3.6	6.8	– 2.1
245	258	**931**	840	**– 202**	– 190	**10,271**	9,435
38	57	**515**	451	**– 141**	– 185	**3,745**	3,353
– 33.3	– 13.6	14.2	1.3	23.8	– 68.2	11.7	– 4.3
–	–	**–**	–	**–**	–	**11**	– 13
– 7	– 7	**–**	1	**– 10**	127	**– 202**	– 135
31	50	**515**	452	**– 151**	– 58	**3,554**	3,205
– 38.0	– 16.7	13.9	7.1	–	14.7	10.9	– 2.8
3.0	4.7	**6.3**	6.0	**–**	–	**8.0**	7.7
13	10	**2,107**	1,744	**834**	728	**3,698**	3,550
94	93	**2,545**	2,337	**673**	678	**9,188**	8,868
102	105	**18**	21	**27**	8	**4,347**	4,245
56	39	**14**	21	**7**	40	**2,672**	2,370
–	–	**6,990**	5,502	**– 1,955**	– 1,646	**5,372**	4,139
659	631	**37,222**	32,564	**5,157**	5,731	**67,415**	61,475
455	436	**32,853**	28,539	**438**	1,809	**49,898**	45,325
2,953	2,862	**2,706**	2,355	**1,104**	3,038	**103,626**	102,076

[43] Disclosures pursuant to § 292 a HGB

The consolidated financial statements of BMW AG have been drawn up in accordance with the standards valid at the balance sheet date issued by the IASB. In accordance with § 292 a HGB, these consolidated financial statements exempt BMW AG from drawing up consolidated financial statements in accordance with German commercial law (HGB). The BMW Group financial statements and Group management report also comply with the European Union Directive on Group Accounting (83/349/EEC), whereby this directive has been interpreted along the lines of the interpretation contained in Standard no. 1 (GAS 1) “Exempting Consolidated Financial Statements in accordance with § 292 a HGB” issued by the German Accounting Standards Committee (GASC).

The accounting policies and consolidation methods applied in accordance with IFRSs for the Group financial statements of BMW AG differ from German accounting rules in the following main areas:

Non-current assets
Under IFRSs, under certain circumstances, internally generated intangible assets must be recognised as an asset. In the case of the BMW Group, this is mainly relevant for development costs incurred for vehicle and engine projects. Under German accounting rules, it is prohibited to recognise internally generated intangible items as an asset.

Furthermore, non-current assets are generally depreciated for IFRS purposes over their useful economic lives using the straight-line method and not using the reducing balance method.

Lease transactions
IAS 17 prescribes the accounting rules for lease transactions. Under these rules, an enterprise which bears the risks and enjoys the rewards of using a leased item, is required, as the economic owner, to recognise that item in its balance sheet. Many leases have therefore been reclassified from operating leases to finance leases in accordance with IAS 17. The accounting treatment of leases is not specifically dealt with by German accounting rules. In the absence of such accounting rules, it is therefore common to apply the treatment prescribed by the German tax authorities.

Inventories
Under IFRSs, inventory must be measured on a consistent basis at fully absorbed production cost. In compliance with German accounting law, inventories of the Group’s production companies were measured for HGB purposes at the lower direct production cost. Inventories held by all other group companies were measured at production cost including a proportion of direct overheads. In addition, in line with the prudence principle, it is permitted under HGB to recognise a higher level of write-downs than under IFRSs. Advance payments received cannot be offset against inventories under IFRSs.

Other current assets
The treatment of financial instruments (marketable securities, foreign currency receivables and payables, derivative instruments) differs significantly between IFRSs and HGB at a conceptual level. IFRSs require that all financial derivative instruments are measured at their fair value, including the recognition of unrealised gains. The requirement for fair value measurement affects the BMW Group particularly in the accounting treatment of forward currency contracts. All positive and negative fair values arising on derivative instruments must be recognised. Fair value changes arising on cash flow hedges which are designated as being effective are recognised directly in equity, thus leading to a greater risk of volatility in equity as a result of interest rate and currency fluctuations. Under HGB, financial instruments may not be measured at an amount above cost (i.e. the acquisition cost principle) and they must always be measured at their most prudent amount (i.e. in accordance with the imparity principle which requires recognition of unrealised losses but not of unrealised gains). Whereas it is not permitted to recognise unrealised gains under HGB, provisions must be recognised for all pending losses on onerous contracts.

IFRSs also require that the surplus on certain external pension funds must be recognised as an asset. In the case of the BMW Group, this is an issue principally affecting the pension funds in the United Kingdom.

Deferred taxes
Under IFRSs, there is a general requirement to recognise deferred taxes on all temporary differences between the accounting and tax bases of assets and liabilities, whereby quasi-permanent differences are also classified as temporary differences. Deferred taxes are measured at the rates that are expected to apply in the future based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date. Under HGB, there is only a requirement to recognise all deferred tax liabilities and deferred tax assets arising from consolidation procedures. There is an option to recognise deferred tax assets arising from timing differences. Deferred taxes are measured under HGB on tax rates that are enacted at the balance sheet date. It is not permitted under HGB to recognise deferred taxes on quasi-permanent differences between the accounting and tax bases of assets and liabilities, which will only reverse over a very long period or which will only be realised on sale or liquidation.

Under IFRSs, a deferred tax asset must be recognised for the carryforward of unused tax losses, to the extent that it is probable that the tax benefits will be realised. Under German accounting rules, the recognition of deferred tax assets on tax loss carryforwards is controversial.

Provisions
Pension provisions must be recognised in accordance with HGB and IFRSs, measured at the level of the expected future payments, on a discounted basis. Under IFRSs, the projected unit credit method must be applied, which also takes account of future salary and pension increases. Under German accounting rules, a number of actuarial methods can be applied. IFRSs permit an accounting option for the realisation of gains and losses resulting from actuarial computations. Unlike HGB, actuarial gains and losses, which exceed the greater of 10% of the present value of the obligations or 10% of the fair value of the plan assets may be recognised as income or expense over the expected average remaining working lives of the workforce.

Other provisions may only be recognised under IFRSs if an enterprise has a present obligation (legal or constructive) to a third party and if it is probable ("more likely than not") that the obligation will be incurred. The recognition of deferred expense provisions, as permitted by German accounting rules, is not allowed under IFRSs. Provisions are measured for HGB purposes on the basis of prudent management judgement; for IFRS purposes they must be measured at their most probable amount. IFRSs require that long-term provisions are discounted.

Consolidated companies
The group reporting entity must be determined under IFRSs using the control concept, which is based on the underlying substance of the relationship. Under this concept, control can arise even if the formal criteria for control do not exist. For this reason, special purpose entities must also be included in the reporting entity if there is a constructive ability to control another enterprise. Under German accounting rules, the group reporting entity is determined on the basis of the concept of uniform management and the control concept. This control concept lays more emphasis on the legal situation.

Munich, 18 February 2005

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

We have audited the consolidated financial statements, comprising the income statement, the balance sheet and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January to 31 December 2004, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, 28 February 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos	Höfer
Wirtschaftsprüfer	Wirtschaftsprüfer

Members of the Supervisory Board

Volker Doppelfeld
Chairman (until 13.05.2004)
Former Member of the Board of Management of BMW AG

Mandates**
Bayerische Hypo- und Vereinsbank AG
D.A.S. Deutsche Automobilschutz Allgem. Rechtsschutz-Versicherungs AG
IWKA AG

Bizerba GmbH & Co. KG

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg
Chairman (from 13.05.2004)
Former Chairman of the Board of Management of BMW AG

Mandates**
Allianz Versicherungs-AG
FESTO AG
MAN AG

Deere & Company
Leipziger Messe GmbH

Manfred Schoch*
Deputy Chairman
Chairman of the Central Works Council

Stefan Quandt
Deputy Chairman
Industrial Engineer

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

DataCard Corp.

Ernst Rehmeier*
Deputy Chairman (until 13.05.2004)
Former Chairman of the Works Council, Dingolfing

Konrad Gottinger*
Deputy Chairman (from 13.05.2004)
Member of the Works Council, Dingolfing

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

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

Henkel KGaA

* Employee representative
** Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad

Dr. phil. Karin Benz-Overhage*
(until 13.05.2004)
Former Executive Member of the
Executive Board of IG Metall

Mandates**
Thyssen Krupp Steel AG (Deputy Chairman)

Bertin Eichler*
(from 13.05.2004)
Executive Member of the
Executive Board of IG Metall

Mandates**
Thyssen Krupp AG (Deputy Chairman)
BHW Holding AG
BauBeCon Holding AG (Deputy Chairman)
BGAG Beteiligungsgesellschaft der
Gewerkschaften AG (Chairman)

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

Mandates**
Thyssen Krupp Automotive AG

Werner Eisgruber*
(from 13.05.2004)
Member of the Works Council, Dingolfing

Prof. Dr. Bernd Fahrholz
(until 13.05.2004)
Former Deputy Chairman of the Board of
Management of Allianz AG and
Former Chairman of the Board of
Management of Dresdner Bank AG

Mandates**
Fresenius Medical Care AG
HeidelbergCement AG

Hans Glas*
(until 13.05.2004)
Former Director of the Dingolfing plant

Franz Haniel
(from 13.05.2004)
Managing Director of Giesecke & Devrient GmbH

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

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

Mandates**
BASF AG

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

Susanne Klatten
BSc., MBA

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

UnternehmerTUM GmbH

Willibald Löw*
Chairman of the Works Council, Landshut

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

Mandates**
Münchener Rückversicherungs-Gesellschaft AG

Royal Dutch Petroleum Company/Shell
Sanofi-Aventis S.A.

Wolfgang Mayrhuber
(from 13.05.2004)
Chairman of the Board of Management of Deutsche Lufthansa AG

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

HEICO Corp.

Werner Neugebauer*
Regional Executive Officer of IG Metall Bavaria

Franz Oberländer*
Member of the Works Council, Munich

Anton Ruf*
(from 13.05.2004)
Director Technical Integration

Dr.-Ing. Dieter Soltmann
(until 13.05.2004)
Former general partner of Spaten-Franziskaner-Bräu KGaA

Mandates**
Bankhaus BethmannMaffei OHG
Deutsche Postbank AG
Löwenbräu AG (Chairman)
Müller-Brot AG
Münchener Tierpark Hellabrunn AG

Bayerische Rundfunkwerbung GmbH

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

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

Werner Zierer*
Chairman of the Works Council, Regensburg

* Employee representative
** Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad

Members of the Board of Management

Dr. Helmut Panke
Chairman

Mandates**
Microsoft Corp.
UBS AG

Ernst Baumann
Human Resources (Industrial Relations Director)

Mandates**
Krones AG

Dr. Michael Ganal
Sales and Marketing

Mandates**
BMW Brilliance Automotive Ltd.

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

Stefan Krause
Finance

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

Dr.-Ing. Norbert Reithofer
Production

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

Executive Director:
Dr. Hagen Lüderitz
(until 30.09.2004)

General Counsel:
Dr. Dieter Löchelt

Corporate Governance

Background
Management and supervisory boards of companies listed in Germany are required by law (§161 German Stock Corporation Act) to report once a year whether the German Corporate Governance Code (in the relevant version) has been, and is being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been, or are not being, applied.

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

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft believe that the recommendations and suggestions contained in the German Corporate Governance Code contribute to an enhancement of the financial markets in Germany, in particular for international investors. The implementation of the Code in Germany has established standards for corporate governance which address the interests of shareholders and other stakeholders alike. The German Corporate Governance Code is especially suited to achieving this objective.

The Board of Management and Supervisory Board are in favour of the recommendations and suggestions contained therein and have developed a corporate governance code for the BMW Group, taking account of the specific circumstances of the BMW Group. The aim is to provide shareholders and other stakeholders with a comprehensive and stand-alone document covering the corporate governance practises applied by the BMW Group.

The Corporate Governance Code of the BMW Group can be obtained, along with other shareholder information, such as notifications pursuant to § 15 a of the German Trade Securities Act (Directors' Dealings) from the BMW Group website. Interested parties can also find other general information about the Group, up-to-date analysts' reports and all financial publications of the Group at www.bmwgroup.com/ir.

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

Implementation of the Investors' Protection Improvement Act
The Board of Management has set up a working group to implement the Investors' Protection Improvement Act which came into force on 30 October 2004. The working group is responsible for ensuring compliance with the related documentation and disclosure requirements, whereby new regulations on insider dealing, ad-hoc reports, the maintenance of an insider list and expanded reporting requirements for directors' dealings are at the forefront. The Board of Management of BMW AG decided at early stage to introduce guidelines relating to organisational structure, allocation of responsibilities and the involvement of the Board of Management in the case of significant issues.

Declaration of Compliance issued
The Board of Management and Supervisory Board of BMW AG issued a Declaration of Compliance, as required by law (§161 German Stock Corporation Act), for the first time on 3 December 2002.

At the joint meeting held on 7 December 2004, the Board of Management and Supervisory Board of BMW AG issued the Declaration of Compliance with the German Corporate Governance Code, in the version applicable since 4 July 2003.

In addition, the Corporate Governance Code of the BMW Group was amended to bring it into line with new German legislation, including the new version of §15a of the Trade Securities Act, and was posted, together with the Declaration of Compliance, on the Internet.

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

The BMW Group supports the endeavours of the German Corporate Governance Code to increase transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. As well as discussing the structure of remuneration, the components of compensation are also disclosed in absolute figures.

1. Compensation of the Board of Management

Responsibilities

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

Overall objective

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

Components of compensation

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

The factors determining the amount of variable compensation enable members of the Board of Management to earn a competitive level of income with a very high bonus element (2004: 84.0%, 2003: 82.2%) for financial years in which the BMW Group performs well.

Measurement of the variable component of compensation is based on the BMW Group's net profit for the relevant year and the level of the dividend.

Individual upper limits are set for the compensation of the Board of Management.

The compensation system does not include any stock options, value appreciation rights which work in the same way as stock options or any other stock-based compensation components.

The Personnel Committee reviews the compensation system at regular intervals with regard to the structure and amount of the Board of Management's remuneration.

Compensation of the Board of Management for the financial year 2004

On the basis of the proposed dividend, the compensation of the Board of Management for the financial year 2004 amounts to euro 11.9 million (2003: euro 10.7 million).

The compensation components were as follows:

in euro million	2004		2003	
	Amount	Proportion	Amount	Proportion
Fixed salary	1.9	16.0%	1.9	17.8%
Bonus	10.0	84.0%	8.8	82.2%
Total compensation	11.9	100%	10.7	100%

The remuneration paid to former members of the Board of Management and their dependants was euro 2.5 million (2003: euro 3.6 million). Pension obligations for former members of the Board of Management and their dependants are covered by pension provisions of euro 29.2 million (2003: euro 29.7 million).

2. Compensation of the Supervisory Board

Responsibilities

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. Compensation is currently based on shareholders' resolutions taken at the Annual General Meeting on 18 May 1999 and §15 of the Statutes of BMW AG.

Components of compensation

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

Compensation of the Supervisory Board for the financial year 2004

On the basis of the proposed dividend, the compensation of the Supervisory Board for activities during the financial year 2004 amounted to euro 2.4 million (2003: euro 2.3 million). This comprised a fixed component of euro 0.1 million (2003: euro 0.1 million) and a variable component of euro 2.3 million (2003: euro 2.2 million).

in euro million	2004		2003	
	Amount	Proportion	Amount	Proportion
Fixed compensation	0.1	4.2%	0.1	4.3%
Variable compensation	2.3	95.8%	2.2	95.7%
Total compensation	2.4	100%	2.3	100%

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity. In consequence, no additional compensation was paid.

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the “Government Commission on the German Corporate Governance Code” pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft declare the following with respect to the recommendations of the “Government Commission on the German Corporate Governance Code”:

The recommendations published in the official section of the electronic Federal Gazette on 4 July 2003 (Code version dated 21 May 2003) have been, and are being, complied with, with the following divergences:

– The discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee and not, additionally, by the Supervisory Board (section 4.2.2 paragraph 1 GCGC).
– The compensation of the members of the Board of Management is disclosed in the Notes to the Group Financial Statements subdivided according to fixed and performance-related components, but not by individual person (section 4.2.4 sentence 2 GCGC).
– The compensation of the members of the Supervisory Board in the Notes to the Group Financial Statements is subdivided into its components, but not by individual person (section 5.4.5 paragraph 3 GCGC).
– The purchase and sale of shares in BMW AG or derivative instruments relating to BMW AG by the members of the Board of Management and the Supervisory Board are published in accordance with § 15 a of the German Securities Trading Act, but are not additionally disclosed in the Notes to the Group Financial Statements (section 6.6 paragraph 2 GCGC).

Munich, 7 December 2004

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board Board of Management

Reason for divergences
Section 4.2.2 sentence 1 GCGC:
The Supervisory Board has transferred discussion and regular review of the structure of the compensation system of the Board of Management to the Personnel Committee. The Supervisory Board is informed on a regular basis of the work of the Personnel Committee.

Section 4.2.4 sentence 2 and 5.4.5 paragraph 3 GCGC:
The principles of the compensation of the members of the Board of Management and Supervisory Board are made known on the Internet in an easy to understand format and discussed in the Annual Report. In addition, the total compensation of the Board of Management and Supervisory Board, subdivided into fixed and performance-related components, are disclosed. The Chairman of the Supervisory Board also reports on these principles and any changes thereto at the Annual General Meeting.

In the opinion of the BMW Group, this scope of reporting provides adequate transparency. It enables the compensation system to be assessed by comparison with other enterprises and on the basis of the performance of the Group.

Section 6.6 paragraph 2 GCGC (Directors’ Dealings):
The purchase and sale of BMW stock by members of the Board of Management and Supervisory Board are posted on a timely and up-to-date basis on the BMW Group website. Each notification is reported on the Internet for at least 30 days. From the perspective of the BMW Group, the interests of shareholders and other stakeholders as required by § 15 of the German Securities Trade Act are met. A retrospective list showing transactions, which in an extreme case, could be more than one year old, does not provide any additional informational value and does not serve any purpose.

BMW AG Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2004	Equity in euro million	Net result in euro million	Capital investment in %
Domestic [1]			
BMW Bank GmbH, Munich [2]	268	–	100
BMW Finanz Verwaltungs GmbH, Munich	216	8	100
BMW INTEC Beteiligungs GmbH, Munich [2]	113	–	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	53	4	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	7	100
BMW Maschinenfabrik Spandau GmbH, Berlin	38	3	100
BMW Leasing GmbH, Munich [2]	16	–	100
BMW Hams Hall Motoren GmbH, Munich [3]	15	–	100
BMW Fahrzeugtechnik GmbH, Eisenach [2]	11	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich [2]	[4]	–	100

1] In the case of German affiliated companies, based on financial statements drawn up in accordance with HGB.
2] profit and loss transfer agreement with BMW AG
3] profit and loss transfer agreement with a subsidiary of BMW AG
4] below euro 0.5 million
5] In the case of foreign affiliated companies, based on financial statements drawn up in accordance with uniform IFRSs accounting policies. Equity and net result are translated at the closing rate.

Principal subsidiaries of BMW AG at 31 December 2004	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[5]			
BMW Österreich Holding GmbH, Steyr	1,214	72	100
BMW Motoren GmbH, Steyr	638	213	100
BMW Austria Gesellschaft m.b.H., Salzburg	42	6	100
BMW Holding B.V., The Hague	5,452	983	100
BMW Japan Corp., Tokyo	476	17	100
BMW Japan Finance Corp., Tokyo	224	20	100
BMW (South Africa) (Pty) Ltd., Pretoria	321	86	100
BMW (Schweiz) AG, Dielsdorf	289	10	100
BMW Finance N.V., The Hague	229	37	100
BMW Overseas Enterprises N.V., Willemstad	58	1	100
BMW Italia S.p.A., Milan	204	78	100
BMW France S.A., Montigny le Bretonneux	163	42	100
BMW Australia Finance Ltd., Melbourne, Victoria	118	16	100
BMW Belgium Luxembourg S.A./N.V., Bornem	100	41	100
BMW Australia Ltd., Melbourne, Victoria	88	20	100
BMW Canada Inc., Whitby	55	– 5	100
BMW Sverige AB, Stockholm	38	7	100
BMW Korea Co., Ltd., Seoul	31	1	100
BMW Nederland B.V., The Hague	23	12	100
BMW New Zealand Ltd., Auckland	11	2	100
BMW (UK) Holdings Ltd., Bracknell	1,815	– 35	100
BMW (UK) Manufacturing Ltd., Bracknell	464	132	100
BMW (GB) Ltd., Bracknell	420	110	100
BMW Financial Services (GB) Ltd., Hook	264	58	100
BMW (UK) Capital plc, Bracknell	135	6	100
BMW Malta Ltd., Valletta	586	–	100
BMW Malta Finance Ltd., Valletta	586	–	100
BMW Coordination Center V.o.F., Bornem	594	70	100
BMW España Finance S.L., Madrid	212	–	100
BMW Ibérica S.A., Madrid	178	46	100
BMW de Mexico, S.A. de C.V., Mexico City	18	– 3	100
BMW (US) Holding Corporation, Wilmington, Del.	648	– 1	100
BMW of North America, LLC, Wilmington, Del.	1,017	38	100
BMW Manufacturing, LLC, Wilmington, Del.	668	117	100
BMW Financial Services NA, LLC, Wilmington, Del.	331	73	100
BMW US Capital, LLC, Wilmington, Del.	238	51	100

BMW Group 10-year Comparison

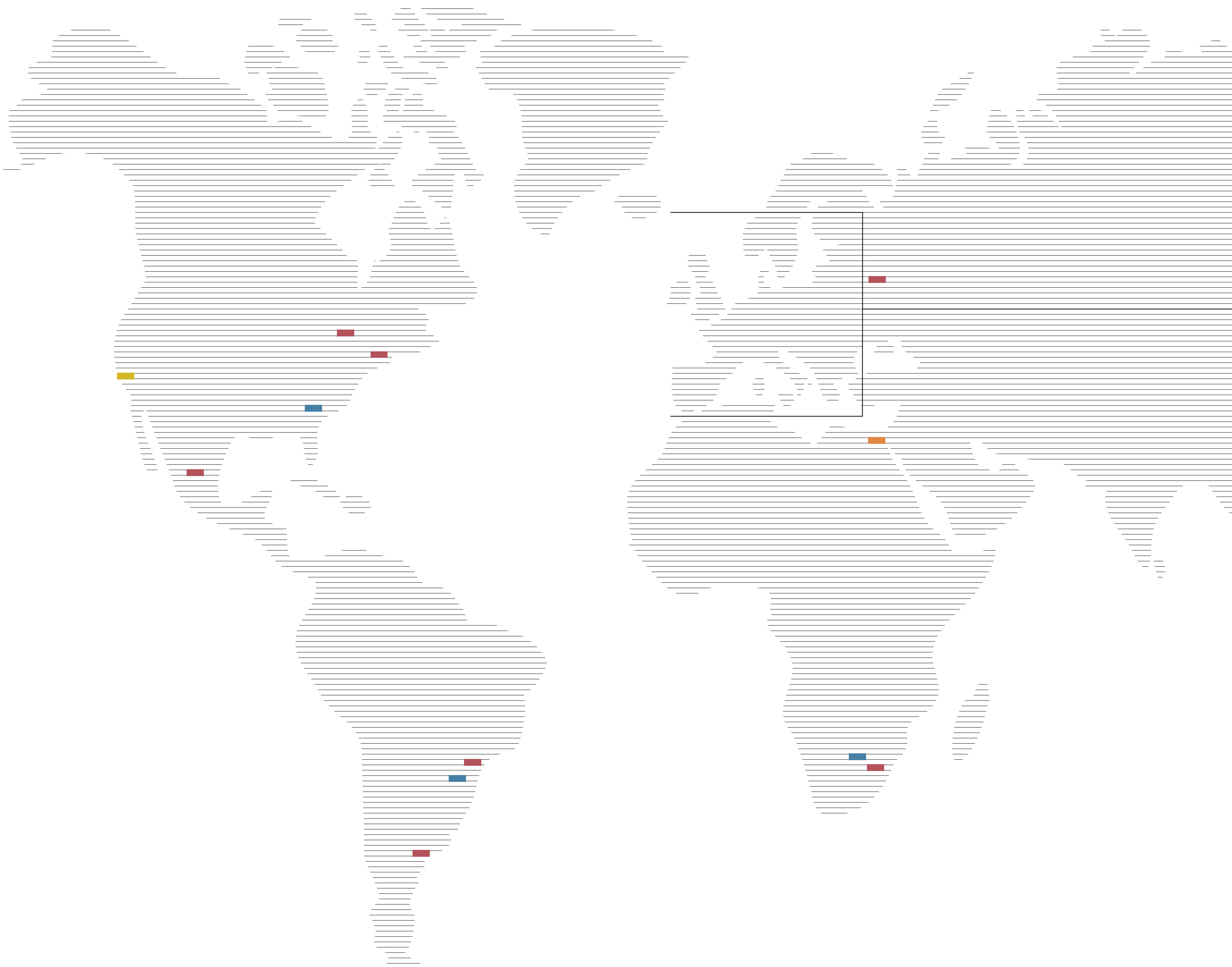
		2004 IAS	2003 IAS
Revenues	euro million	44,335	41,525
Change	%	6.8	–2.1
Vehicle production			
Automobiles[2]	units	1,250,345	1,118,940
Motorcycles[3]	units	93,836	89,745
Deliveries to customers			
Automobiles[2]	units	1,208,732	1,104,916
Motorcycles[4]	units	92,266	92,962
Workforce at end of year[5]		105,972	104,342
Capital expenditure	euro million	4,347	4,245
as % of revenues	%	9.8	10.2
Depreciation and amortisation	euro million	2,672	2,370
Internal financing[6]	euro million	9,188	8,868
as % of investments	%	211.4	208.9
Non-current assets	euro million	22,753	20,212
Receivables from sales financing[7]	euro million	25,054	21,950
Other current assets, deferred tax assets and prepayments	euro million	19,608	19,313
Subscribed capital	euro million	674	674
Reserves	euro million	16,472	14,642
Capital reserves	euro million	1,971	1,971
Revenue reserves	euro million	14,501	12,671
Equity	euro million	17,517	16,150
as % of non-current assets	%	77.0	79.9
Equity ratio			
Industrial operations	%	44.9	45.4
Financial operations	%	9.7	9.8
Long-term debt	euro million	18,733	16,739
Long-term capital	euro million	36,250	32,889
as % of non-current assets	%	159.3	162.7
Balance sheet total	euro million	67,415	61,475
Personnel costs	euro million	7,154	7,066
per employee[5]	euro	73,539	73,499
Profit from ordinary activities	euro million	3,554	3,205
Income taxes	euro million	1,332	1,258
Net profit / – loss for the year	euro million	2,222	1,947
Unappropriated profit of BMW AG available for distribution[9]	euro million	419	392

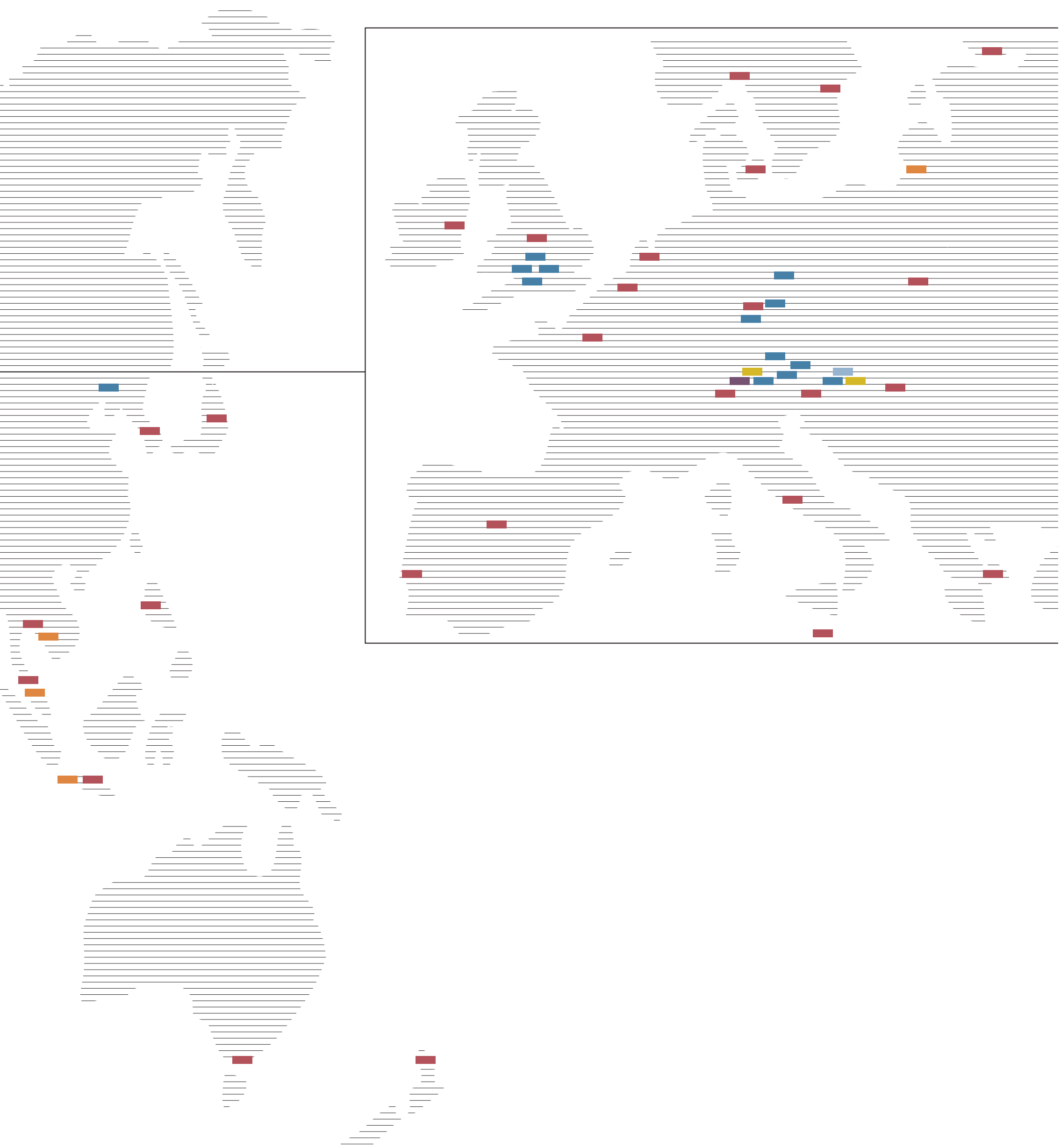
1] reclassified after harmonisation of internal and external reporting systems 2] incl. Rover Cars until 9 May 2000 and Land Rover until 30 June 2000 3] up to 1999 including
5] from 1998 figures exclude suspended contracts of employment, employees in the vacation phase of pre-retirement, low-income earners 6] to 2000 HGB: cash flow

2002 IAS reclassified[1]	2001 IAS	2000 IAS	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB	1995 HGB
42,411	38,463	37,226	35,356	34,402	32,280	30,748	26,723	23,593
9.9	3.3		2.8	6.6	5.0	15.1	13.3	9.5
1,090,258	946,730	–	1,026,775	1,147,420	1,204,000	1,194,704	1,143,558	1,098,582
93,010	90,478	–	74,397	69,157	60,152	54,933	48,950	52,653
1,057,344	905,657	–	1,011,874	1,180,429	1,187,115	1,196,096	1,151,364	1,073,161
92,599	84,713	–	74,614	65,168	60,308	54,014	50,465	50,246
101,395	97,275	–	93,624	114,952	118,489	117,624	116,112	115,763
4,042	3,516	2,781	2,138	2,155	2,179	2,311	1,958	1,778
9.5	9.1	7.5	6.0	6.3	6.8	7.5	7.3	7.5
2,143	2,159	2,435	2,322	2,042	1,859	1,812	1,535	1,471
7,687	7,352	6,579	3,198	2,807	2,479	2,518	2,092	1,920
190.2	209.1	236.6	149.6	130.3	113.8	109.0	106.8	108.0
18,829	18,468	17,481	6,763	8,771	7,810	7,789	6,866	6,087
19,493	17,398	17,082	17,578	16,859	12,564	10,862	8,589	7,673
17,189	15,393	14,777	11,534	11,877	10,265	8,590	7,728	7,124
674	673	–	672	671	658	506	506	505
13,029	11,342	9,763	3,914	2,992	5,487	4,465	3,915	3,487
1,954	1,937	1,914	1,914	1,893	1,876	836	825	814
11,075	9,405	7,849	2,000	1,099	3,611	3,629	3,090	2,673
13,871	10,770	9,432	4,896	3,932	6,445	5,240	4,636	4,193
73.7	58.3	54.0	72.4	44.8	82.5	67.3	67.5	68.9
43.1	37.0	35.9	19.1	11.9	28.7	25.3	25.0	25.1
9.4	8.4	8.1	8.0	8.7	10.0	10.0	11.5	11.4
15,918	17,085	15,314	10,375	10,379	7,039	7,772	6,015	5,512
29,789	27,855	24,746	15,271	14,311	13,484	13,012	10,651	9,704
158.2	150.8	141.6	225.8	163.2	172.7	167.1	155.1	159.4
55,511	51,259	49,340	35,875	37,507	30,639	27,241	23,183	20,884
6,588	6,079	6,095	5,976	6,177	5,896	5,535	5,033	4,523
69,560	66,711	63,548	62,307	55,710	51,703	50,493	46,122	42,292
3,297	3,242	2,032	1,663	1,111	1,061	1,293	849	699
1,277	1,376	823	637	448	599	655	429	345
2,020	1,866	1,209	1,026	−2,487[8]	462	638	420	354
351	350	–	310	269	234	203	152	137

BMW F650 assembly at Aprilia S.p.A./excluding C1 production at Bertone, production volume of C1 up to 2002: 33,489 units 4] excluding C1, sales volume up to 2003: 32,859 units
7] to 2000 HGB: assets from sales financing 8] net profit of euro 663 million before extraordinary result 9] calculation under HGB

BMW Group Locations. The BMW Group is present in the world markets with 22 production and assembly plants, 34 sales subsidiaries and a research and development network.





Headquarters

Research and Development
BMW Group Research and Innovation Centre (FIZ), Munich
BMW Forschung und Technik, Munich
BMW Group Car IT, Munich
BMW Group Designworks, Newbury Park, USA
BMW Motoren, Steyr, Austria

Production
Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant (Opening May 2005)
Munich plant
Oxford plant, GB
Regensburg plant (including Wackersdorf)
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
TRITEC Motors Ltda., Curitiba, Brazil (joint venture with DaimlerChrysler)

Contract production
Magna Steyr Fahrzeugtechnik, Austria

Assembly plants
CKD production Cairo, Egypt
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kuala Lumpur, Malaysia
CKD production Rayong, Thailand

Sales subsidiary markets

Argentina	Malaysia
Australia	Malta
Austria	Mexico
Belgium	Netherlands
Brazil	New Zealand
Canada	Norway
Denmark	Philippines
Finland	Poland
France	Portugal
Germany	Russia
Great Britain	South Africa
Greece	South Korea
Hungary	Spain
Indonesia	Sweden
Ireland	Switzerland
Italy	Thailand
Japan	USA

Glossary

[ACEA]
Abbreviation for "Association des Constructeurs Européens d'Automobiles". European automobile manufacturers' association.

[Active Steering]
An electronically controlled system that adapts steering transmission to current driving speed. In the low to medium speed range, Active Steering makes steering transmission more direct, reducing steering effort and significantly enhancing the car's handling, for example, when parking or taking bends. At high velocity, the steering reacts more indirectly, ensuring a high level of directional stability.
The second generation of Active Steering also stabilises the vehicle by actively intervening in the steering process, for example when braking on a slippery driving surface with different conditions on the left and right side.

[BMW CleanEnergy]
BMW CleanEnergy is the name of the BMW Group's initiative for a sustainable energy strategy. The aim is to develop products which are based on the idea of sustainability and which embrace the responsibility for the future. For this reason, the BMW Group will support in the long term a hydrogen economy based on regenerative energy sources such as hydro-electric power, wind power and solar energy. As a result, the BMW Group favours the hydrogen-powered combustion engine, since it best fulfils customer demands in terms of power, dynamic performance, costs and sophistication.

[Cash flow]
The difference between cash inflows and cash outflows for a specific period. Cash flow can be defined in a variety of ways. The cash flow referred to in the BMW Group Annual Report is computed as follows:

	Net profit/loss
+	depreciation and amortisation on intangible assets and property, plant and equipment
+/–	increase/decrease in pension provisions
=	Cash flow

[Common stock]
Stock with voting right (cf. preferred stock).

[Cost of materials]
Comprises all expenditure to purchase raw materials and supplies.

[Current assets]
All assets which are not held to benefit operations on a long-term basis are classified as current. The following items are classified as current assets:

	Inventories
+	Trade receivables
+	Receivables from sales financing
+	Other receivables
+	Marketable securities
+	Cash and cash equivalents
=	Current assets

[DAX]
Abbreviation for "Deutscher Aktien Index", the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

[Deferred taxes]
Accounting for deferred taxes is a method of allocating tax expense/benefit to the appropriate accounting period.

[Derivatives]
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

[DJSI]
The abbreviation for “Dow Jones Sustainability Indexes”. A group of indexes created by Dow Jones and the Swiss investment agency SAM Sustainability Group for companies which are following strategies aimed at sustainability. The BMW Group has been represented in the DJSI in a leading position since 1999.

[DSC]
Dynamic Stability Control can correct unstable situations, such as under- or over-steering, as soon as they begin. When DSC is activated and intervenes in the braking system or engine management, the car can be stabilised by applying brakes on individual wheels. Dangerous skidding can be stopped before it starts – within physical limits.

[Dry sump lubrication]
With this technology, the engine oil is pumped into a separate oil tank. From there a pressure pump supplies the lubrication points in the engine. The engine’s oil supply is ensured even in extreme conditions, such as very high centrifugal powers. Moreover, dry sump lubrication permits an extremely low engine position (no oil sump).

[Dynamic Drive]
Active suspension system for maximum roll stabilisation. Body roll is reduced to a minimum when taking bends. This is ensured by two active stabilisers built into the front and rear axles.

[EBIT]
Abbreviation for “Earnings Before Interest and Taxes”. The profit before income taxes, minority interest and financial result.

[EBITDA]
Abbreviation for “Earnings Before Interest, Taxes, Depreciation and Amortisation”. The profit before income taxes, minority interest, financial result and depreciation/amortisation.

[Effectiveness]
The degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

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

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

[High-revving concept]
The high-revving concept is typical of all high-performance normal-aspiration power units of BMW M GmbH. It allows ideal transmission ratios and thus generates enormous thrust on the driving axle. These high-performance engines are characterised by particularly spontaneous and smooth power development up into the top engine speed range, a relatively low weight in relation to the high power, and comparatively economical fuel consumption.

[IASs]
International Accounting Standards.

[IFRSs]
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

[Internal financing]
Internal financing is defined by the BMW Group as profit from ordinary activities less actual tax payments and adjusted for depreciation and amortisation and significant non-cash items.

[Multi-stage charging process]
See Variable Twin Turbo Technology.

[Non-current assets]
Intangible assets: expenses for formation and expansion of business operations, concessions, patents, licences, design patents, trade marks, goodwill, development costs, know-how, etc.
Property, plant and equipment: land and buildings, plant and machinery, other facilities, factory and office equipment and construction in progress.
Financial assets: investments in subsidiaries, investments in associated companies, loans (with a maturity of more than five years) to subsidiaries and to other companies in which shares are held, investments in other companies, long-term marketable securities, other loans.
Leased products: from operating leases.

[Preferred stock]
Stock which receives a higher dividend than common stock, but without voting rights.

[Principal subsidiaries]
Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly
– holds the majority of the voting rights
– has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
– has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

[Production network]
The BMW Group production network consists worldwide of 16 plants, five assembly plants and one contract production plant. Within this network, the plants supply one another with systems and components and are all characterised by a high level of productivity, agility and flexibility.

[Rating]
Standardised evaluation of a company's credit standing which is widely accepted on the global capital markets. Ratings are published by independent rating agencies e.g. Standard & Poor's or Moody's based on their analysis of a company.

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

[Risk management]
An integral component of all business processes. Following enactment of the Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations and which could endanger the continued existence of the company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

[Sports Activity Vehicle]
The BMW X5 is the first-ever Sports Activity Vehicle – a combination of a typical BMW sedan featuring sporting and comfortable driving features on the one hand, with far-reaching driving abilities in terrain on the other. This creates a new market segment. In 2004, the BMW Group added another SAV, the BMW X3, to its model range.

[Subscribed capital]
The share capital of a company is computed by multiplying the nominal value of the shares by the number of shares.

[Supplier relationship management]
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the group and create efficient sourcing and procurement processes along the whole added-value chain.

[Sustainability]
The process of stable, ongoing development. The United Nations Conference on the Environment and Development held in Rio de Janeiro in 1992 resolved a global action plan for combating poverty, ensuring a suitable population policy, promoting urban development, human rights, trade, agriculture, environmental protection, research and technology. Referred to as Agenda 21, this action plan serves to ensure sustainable development preserving the world's natural resources and limiting the emission of pollutants into the environment to a volume the world can absorb or degrade.

[VALVETRONIC]
VALVETRONIC provides variable valve lift, taking over the function of the throttle butterfly which is no longer required. The result is an engine able to breathe freely, saving fuel in the process.

[Variable Twin Turbo technology]
The BMW diesel innovation Variable Twin Turbo consists of two different-sized, successively activated turbochargers. Depending on engine speed, the intake air is compressed by one of the turbochargers or by both, as required. This multi-stage charging process is regulated by specially designed electronics. The 20 percent or so increase in power that can be achieved with Variable Twin Turbo technology compared with state-of-the-art diesel engines greatly exceeds that of former individual stages. At the same time, Variable Twin Turbo technology broadens the diesel engine's usable speed range significantly.

[xDrive]
xDrive is a new, intelligent all-wheel drive system with active dynamic suspension control. It ensures not only optimum traction in difficult road conditions, but also increased driving safety and more dynamic performance thanks to its electronically controlled, fully variable flow of power between front and rear axles.

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

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The BMW Group on the Internet

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

Financial Calendar

Interim Report to 31 March 2005	3 May 2005
Annual General Meeting	12 May 2005
Interim Report to 30 June 2005	3 August 2005
Interim Report to 30 September 2005	3 November 2005

Setting the course, extending the lead.

The BMW Group
in 2004.

Setting the course, extending the lead. Passion as driving force. A clear vision. Ambitious objectives that are pursued resolutely and independently – that is what distinguishes the BMW Group. This includes the power to say “No” sometimes, to concentrate on inherent strengths and to do what the Company can do best. For the BMW Group this means premium and nothing else.

Bearing this in mind, the BMW Group is implementing the most comprehensive product and market initiative in the Company’s history. In doing so, the Company has moved into a new dimension. The vehicles of the BMW, MINI and Rolls-Royce brands address all the premium segments of current relevance worldwide. Last year, the BMW Group consistently continued opening up new markets and regions, thus underlining its firm conviction that excellent growth opportunities exist worldwide for excellent automobiles.

It is this unique, authentic course which provides the BMW Group with freedom of action and independence, both today and in future. It enables the Company to record remarkable achievements time and again and helps to ensure that the BMW Group stays ahead, making it the most successful premium manufacturer in the automobile industry.

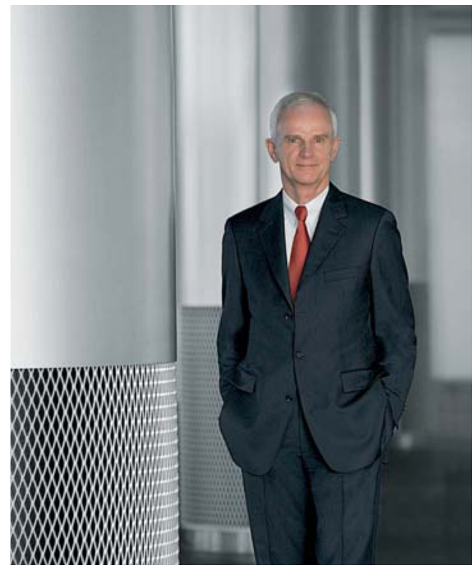
Ladies and Gentlemen,

In 2004, the BMW Group continued on its successful course. With the dynamic development of recent years, the Company has moved into a new dimension. As announced since the beginning of the year, we have achieved new highs in terms of automobile retail, revenues and earnings. Thus, 2004 is the most successful year in the BMW Group's history.

This development is particularly pleasing because the year 2004 presented us with special challenges. A difficult economic environment and an unfavourable development of the exchange rate made achieving our objectives anything but easy. Nevertheless, we proved that a company can develop positively even when the climate is difficult for the industry concerned – the requisite condition being that a convincing strategy is accepted and implemented wholeheartedly by all of its employees. The year 2004 demonstrates, once again, that this is the case in the BMW Group. Unwavering commitment to our premium claim and a dedication to success, which is typical of all our employees, are the main driving forces behind the success of the BMW Group.

With our product and market initiative, the BMW Group has moved into a new dimension over the last few years. In 2004, new model series expanded our product range significantly. As a result, we now have the broadest range of models in the Company's history, addressing all the currently relevant premium segments of the international automobile markets with the BMW, MINI and Rolls-Royce brands.

Within the BMW Group, it was the BMW brand which introduced the most new products last year. Following the model launch of the BMW 6 Series Coupé and of the BMW X3 at the beginning of the year, sales of the BMW 6 Series Convertible also started in the spring of 2004. These three models successfully developed new market potentials and won over new groups of customers for the BMW brand. Shortly afterwards, we presented the BMW 5 Series Touring to the public. It was launched in May and has been in strong demand ever since. The BMW Group successfully entered the compact class with the BMW 1 Series in September 2004,


Helmut Panke, Chairman of the Board of Management

opening up a new segment for the BMW brand. Also, for the first time in the history of the BMW brand, the Company now offers a BMW Convertible with a diesel engine, the BMW 320Cd Convertible. Finally, in the autumn we presented the new BMW M5, the most powerful 5 Series Sedan in the 75-year history of BMW automobiles. This vehicle combines the characteristics of a thoroughbred sports car with the traditional qualities of a luxury sedan. The new M5 will be available from April 2005 and is already a clear sign that we have no intention of slowing down in 2005. On the contrary, we shall continue the success story of the BMW brand with new products, such as the new BMW 3 Series, the updated BMW 7 Series or the new BMW M6.

In 2004 we added the MINI Convertible to the MINI brand. The Convertible, which met with strong customer demand from the very start, is now available in three engine variants, ranging from the MINI One through the MINI Cooper to the MINI Cooper S.

The Rolls-Royce brand celebrated its centenary in 2004. Rolls-Royce has always been the epitome of luxury and perfection in automotive engineering – and beyond. The Rolls-Royce Phantom embodies the brand's claim authentically and convincingly. With the Rolls-Royce 100EX Experimental Car, presented in the spring of 2004, we showed further potential for this outstanding brand. We are currently working on a convertible based on this experimental motor car, which will be launched in 2007.

Apart from adding a large number of new products to our range, we continued to strengthen our international presence in 2004. Through new sales companies in Hungary and Malta and, since January 2005, in Portugal, we now serve three more promising markets more intensively than before.

In May 2004 we opened the new plant in Shenyang, China. As part of the production and sales joint venture with our Chinese partner Brilliance China Automotive Holdings, this plant plays a special role in the BMW Group's strategy for Asia.

At the same time, the year 2004 was marked by the development of the new BMW Leipzig plant where series production of the BMW 3 Series begins in March 2005. Leipzig is more than just a new plant for the BMW Group. It is also a statement of the BMW Group's faith in Germany as an industrial base. Here we now produce automobiles successfully at four locations. Like all plants of the BMW Group, the Leipzig plant is fully integrated into the BMW Group's production network and thus has plenty of scope for flexibility. "Breathing structures", elaborated in cooperation with employees' representatives, enable us to adapt production capacities flexibly to market requirements. These optimum production structures not only give the Company room to manoeuvre, but are also essential for profitable growth.

In Leipzig, we are relying on the strengths that have always determined the success of the BMW Group. The great flexibility of the production network, combined with the motivation and dedication of the employees. The capacity for innovations which demonstrate the premium claim in the substance of our products. And the awareness that only sustainable policies geared to long-term, profitable growth can bring success on a permanent basis.

We shall continue to utilise these strengths and thus to steer the BMW Group's course to success. To be more specific, in 2005 the BMW Group will continue to grow. We are expecting further growth in the retail volume for all brands. At the same time, our Company faces special burdens in 2005 due to a combination of strong competition in the markets, the development of the exchange rate of the US dollar and higher prices for raw materials. We shall need to take suitable measures to cope with these burdens and thus demonstrate, once again, the strength of the BMW Group.

You may rest assured that we shall continue to devote all our energy to achieving our objectives: the BMW Group is the most successful multi-brand premium manufacturer in the automobile industry – and we shall do everything in our power to keep it that way.

Helmut Panke
Chairman of the Board of Management

The Company

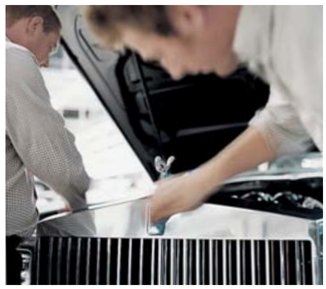
Room for ideas.

The history of the automotive industry is a story of constant innovation and growing complexity. Each new model cycle brings new features and more variants. The model update of the BMW X5 alone involved not only three new engines and five more interior variants, but also more than 2,000 modified details – a diversity that even experienced automotive engineers cannot keep track of on their own. As recently as the end of the 1990s, it took engineers several weeks simply to visualise such complexity.

Today, they need only a fraction of this time. In the virtual reality studios of the Project House, which opened in the BMW Group's Research and Innovation Centre (FIZ) in 2004, individual components, complete vehicle designs and entire production processes become reality, so to speak, at the click of a mouse. Ergonomics specialists and interior designers take a seat in animated 3D models, of which not even a prototype exists. A seven-metre-long "Powerwall" enables designers to appraise even the long wheelbase version of a BMW 7 Series Sedan in full scale. Development engineers compare different model alternatives by computer animation; they run through entire production processes in virtual reality and identify potential sources of error, long before they can become a problem in reality.

All this means more room for ideas, greater speed in their realisation and, ultimately, a huge advance in innovation. This is demonstrated by such distinctions as the "Best Innovator 2004", which the BMW Group was awarded as the most innovative company in Germany. And, of course, by each individual product that leaves the BMW Group's production plants.

Virtual reality on the “Powerwall”. Entire vehicles or individual parts can be displayed, examined and optimised in 3D, long before the first prototype is built.



More than 105,000 employees in more than 100 countries work together on fascinating products. As one of the most attractive employers worldwide, the BMW Group received some 230,000 applications in 2004.

Achievement and passion.

A company's success can usually be traced to a number of reasons. However, its employees are always decisive. Companies that attract good employees also tend to produce better products and achieve more favourable results. In other words, "Good business is good people".

But how do you attract good employees? How do you motivate them and how do you retain them? The answer is at least as complex as human nature itself. Basically, you have to create a corporate culture that rewards achievement and passion, that offers talented people the scope they need and thus attracts the very best.

An attractive working environment is like a mosaic made of many pieces of different sizes. At the BMW Group, the mosaic's components include clearly defined agreements on targets for employees, a cooperative style of management, a wide range of further education and training programmes, as well as flexible work time models designed to strike a balance between professional and private life. And although it is difficult to quantify satisfaction and motivation, their results can be measured exactly: a low fluctuation rate among employees and an unusually high innovation rate are just two examples. Another is the nomination as "most attractive employer" among young professionals and students, for whom the BMW Group has held a leading position for years. And, ultimately, above-average profitability due to the dedication and passion of the BMW Group's employees.

Thinking in networks.

Good ideas develop in the mind, while brilliant products are developed by bringing together the best minds. At the BMW Group, some 7,000 engineers, designers, production planners and marketing experts work on the BMW Group's new vehicles in the Research and Innovation Centre (FIZ) in Munich.

The Project House, which opened in 2004, will again accelerate this development process significantly. The architecture of the Project House uniquely replicates the classic sequences of a product development process. Here, development engineers, production planners and purchasing experts consider, shape and plan new developments together, making them not just more creative, but also more efficient. Increasingly complex products can thus be developed increasingly quickly and even more in tune with the customer – an advantage, which can hardly be overestimated in the premium segment, where innovation and product substance decide on success.

The development process thus follows the network philosophy which influences the work processes in the BMW Group from the earliest phase of design to production. Without it, it would be impossible for plants to support each other across the worldwide production network, in response to market conditions and the respective product's life cycle. Without "breathing" capacities and flexible work time models, the BMW Group would not be able to react so quickly and effectively to market requirements. Ultimately, it is the same everywhere: it is not the quantities of resources that count, but the intelligence and agility with which they are used.

Built for communication. The architecture in the Research and Innovation Centre (FIZ) and the adjacent Project House is designed for networking and optimum working conditions. The objective: to bring together the right minds in the right environment.

Three brands, one claim: Premium. With its BMW, MINI and Rolls-Royce brands, the BMW Group is successful in all currently relevant market segments the world over.

True values.

A brand is something invisible and, at the same time, something very tangible. It may be difficult to describe, and yet it is firmly anchored in people's minds. It is a blend of a company's values, products, history, image and visions. All three brands of the BMW Group are perceived as particularly authentic and convincing.

This is not a coincidence, but the result of a consistent understanding of the brand for many years. For example, the BMW brand now offers eight rather than three model series, but it still reinterprets its proverbial "sheer driving pleasure" in every new model. The BMW 1 Series, for example, is the only car in the compact class with rear wheel drive, which is typical of the BMW brand. With the MINI, the BMW Group has repositioned a classic car and, for the first time, established the term "premium" in the small car segment. Last but not least, Rolls-Royce has been the synonym for luxury and perfection for one hundred years.

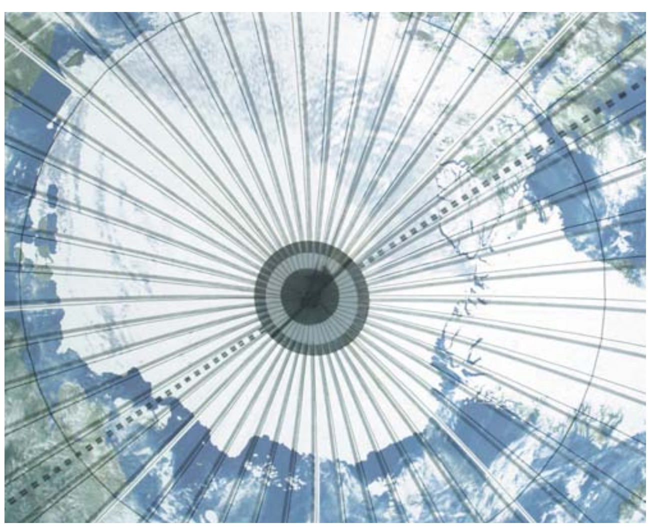
Thus, the brands of the BMW Group always live up to their claim – making them permanently convincing and attractive. They strengthen customer loyalty, motivate employees and fascinate people. That is why attributes such as "credibility" and "authenticity" are so precious in terms of brand value. In an age in which brands increasingly decide the competition, this advantage can hardly be overestimated.

Beyond the horizon.

Growth knows no bounds, or at least no geographical boundaries. Exactly the same applies to convincing products – vehicles of the BMW, MINI and Rolls-Royce brands arouse enthusiasm in customers all over the world. For the BMW Group, this means constantly sounding out the world's automobile markets for above-average growth opportunities; engaging in young, emerging markets; and pursuing its objective of becoming the most successful supplier of premium automobiles in every relevant market.

All this is part of a long-term internationalisation strategy to open up key markets with production plants from the inside. In the United States, for example, the BMW Group's success story became more dynamic than ever once the plant was opened in Spartanburg, South Carolina, eleven years ago. The BMW Group also focuses on the growth regions of Asia. It has been firmly anchored on this booming continent for years with its own assembly plants in Malaysia, Thailand and Indonesia. The latest step in this strategy is the plant that opened in Shenyang, China, in May 2004. There the BMW Group produces 3 and 5 Series automobiles for the Chinese market in a joint venture with a local partner. In the medium term, around 30,000 vehicles a year are to be produced in Shenyang for the Chinese market, an objective that reflects the dynamic nature of a region whose future is just beginning.

Worldwide presence. The BMW Group consistently opens up new markets. An example for this is China, where the Company is represented by a production and sales joint venture and produces BMW automobiles in Shenyang, in northern China, for the Chinese market.



Discussing sustainability. What began in the Earth Lounge at the World Summit on Sustainable Development in 2002 was continued in the spring of 2004 in the BMW Group's Dialogue Forum near the company headquarters in Munich.

Thinking sustainably.

To many, it is simply a fashionable term. In reality it has long become an economic factor to be taken seriously. “Sustainability” covers a number of themes with which the BMW Group has always been concerned: commitment to long-term, value-oriented growth rather than short-term success, for example. Combined with the conviction that economic ambition must include social and ecological standards. And above all, the constant exchange with people all over the world with whom a global player, such as the BMW Group, lives.

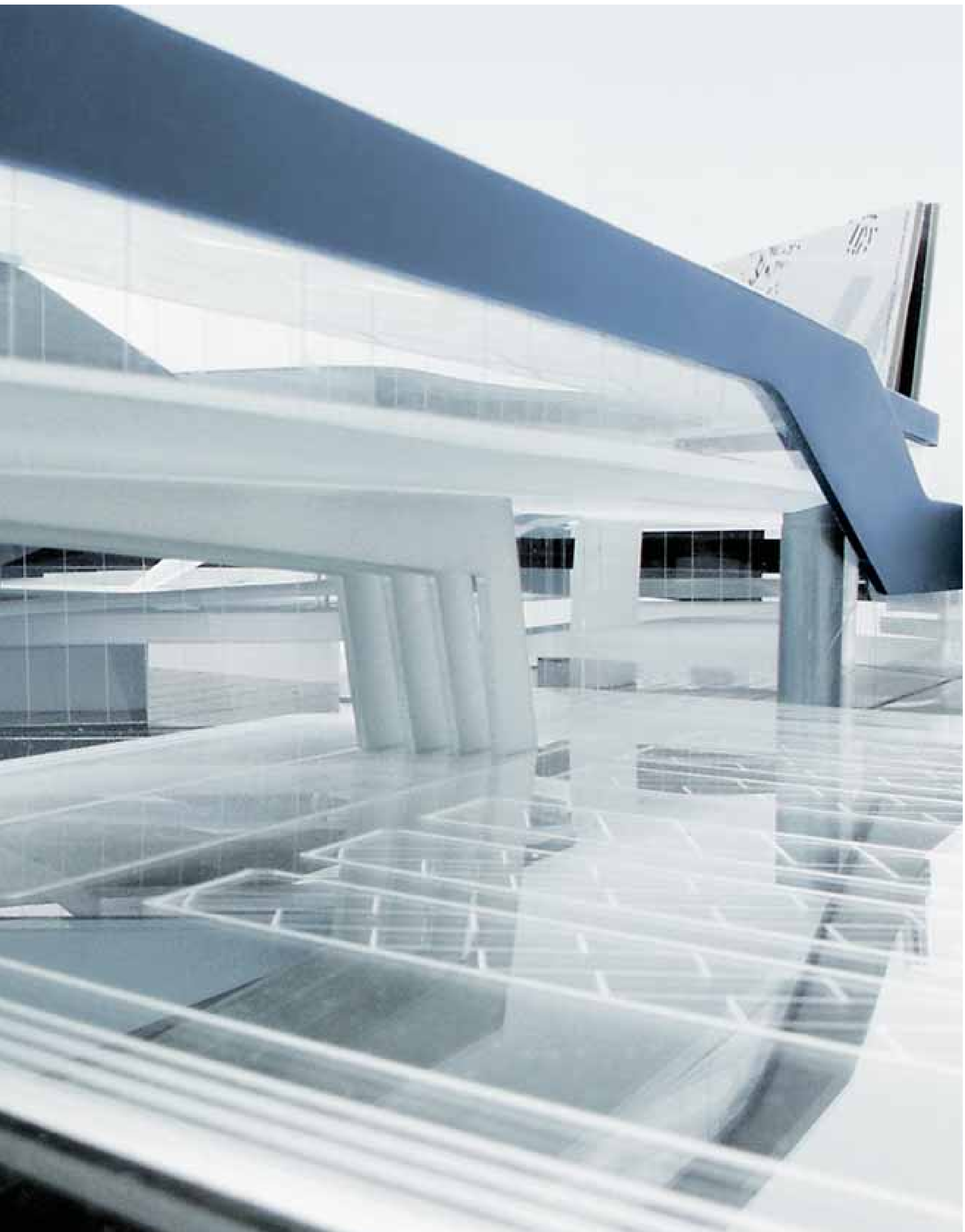
The Dialogue Forum “Sustainability. It can be done.” provided an impressive example of this exchange. In April and May 2004, it brought politicians, experts, schoolchildren and neighbours to the “Earth Lounge”, not far from the company headquarters in Munich. During 43 events, more than 6,300 participants discussed a variety of topics, such as Innovative Traffic Management, Sustainable Investing or the new EU Directive on Air Quality.

It was an extremely lively exchange of views – and further confirmation of the BMW Group’s sustainability strategy. By the way, “sustainable” also implies a sustainable increase in value for the Company and its stakeholders. Since 1999 the BMW Group has constantly been among the leaders in the decisive Dow Jones Sustainability Indexes.

Whether someone is putting his heart and soul into his work is something you can feel, see and experience. But how can you tell whether the employees' passion has any effect in the company? You can sense that, too, in unusual products that create excitement and stand out from the crowd. But also in details, in figures that are not quoted in financial statements.

65	milliseconds are all it takes to shift gear with the seven-speed SMG transmission in its fastest mode
200,000,000	calculations per second can be processed by the engine electronics of the BMW V10 power unit
624	combinations of interior colour and decorative trim are possible in the new BMW 3 Series
9,760	metres: this record altitude was achieved by a double-decker aircraft with a BMW engine on 17 June 1919
30	kilograms lighter: the new touring enduro R 1200 GS weighs less than its predecessor
660	watts of music power is what the MINI's Digital Power Sound Module serves up
15	seconds and the roof of the MINI Convertible is open all the way
400,000	trees and bushes were planted on the 170,000-square-metre grounds of Rolls-Royce Motor Cars in Goodwood, Great Britain
550	litres of air are drawn in by the BMW WilliamsF1 racing engine in a single second at 19,000 rpm
5	seconds are all it takes for the BMW WilliamsF1 engine FW 27 to accelerate from 0 to 200 km/h
0	grams of CO_2 is what the record-breaking H2R vehicle emits – even at a top speed of more than 300 km/h
–253	°C is the temperature of the liquid hydrogen in the special tank of the record-breaking H2R vehicle

A plant takes shape



Automotive engineering is the art of finding practicable answers to complex questions, and with each generation of vehicles, this art becomes a little more demanding. How – to quote just one example – do you handle the complexity of 10^{17} model variants effectively? How do you manage to produce both flexibly and economically? How, in a high-wage country, do you plan an automobile plant that is internationally competitive? An ambitious answer to all these questions is currently taking shape to the north of Leipzig. The youngest BMW plant, where the new BMW 3 Series Sedan rolls off the assembly line from March 2005, is trying out completely new methods in terms of work time models, production design, architecture and productivity. The chronicle of its development is thus also a look at the development of automotive engineering.

The new location: 208 hectares, to the north of Leipzig. In the late summer of 2001, the site is prepared for construction work. Almost four million cubic metres of earth are moved in order to level out the north-south slope on the property – a volume that is the equivalent of approximately 100,000 truckloads.

March 2000. In Munich, preparations for the most ambitious product and market initiative in the BMW Group's history enter the decisive phase. More (and, in particular, new) production capacities are required for more models, additional variants and higher retail figures. In Munich, a working group begins to sketch potential sites and parameters for a completely new automobile plant. The project's working title: "Greenfield".

The targets for this project are extremely demanding from the start. The new plant is, on the one hand, to handle the complexity – in purely arithmetical terms – of the 10^{17} model variants from which today's customers can put together their BMW automobile and, on the other hand, to produce this variety within a very short time. "Maximum flexibility" is thus the most important objective. Another is international competitiveness, for although this plant is to be located in Europe, it must compete in global production conditions. The planners are well aware that these targets can be achieved only with solutions which have never existed in the automobile industry before.

Summer 2000. When the news spreads that the BMW Group is planning a new plant, more than 200 applications from municipalities from all over Europe arrive in Munich within a very short time. They are all examined carefully. Finally, five potential locations in France, Germany and the Czech Republic are short-listed.

18 July 2001. The Chairman of the Board of Management at the time, Professor Joachim Milberg, announces the Company's decision at a press conference: a 208-hectare plot to the north of Leipzig has been chosen as the site for the new BMW plant. Almost exactly in the geographical centre of Germany, extremely accessible in between the A9 and A14 motorways and in a region that is also easy to reach from the BMW Group's existing supplier network. Located near a city with a great cultural and industrial tradition, whose inhabitants have an above-average level of education, and which offers a high quality of life, but where the unemployment rate is almost 20 percent.

Immediately after the decision is made, www.bmw-werk-leipzig.de, one of the five websites that has been prepared as alternative, goes online, and shortly afterwards a project office opens in Leipzig to handle applications for jobs with the BMW Group. The "Greenfield" project begins to take shape.

Leipzig as location: a city with a great industrial tradition, but also with an unemployment rate of almost 20 percent.

August 2001. The first new employee for the Leipzig plant, an apprentice, signs his contract. It is based on a flexible mix of more than 200 work time models, which was defined for the plant under the title "BMW formula for work" – an important condition for the decision in favour of Leipzig. With the "BMW formula for work", the plant can react optimally to market requirements and capacity utilisation; plant operating time can be varied between 60 and 140 hours per week – independently of the employees' individual work time. Even during normal operation, the "BMW formula for work" helps to reduce production costs significantly. An example: while body shop and assembly are usually scheduled to operate an average of 80 hours a week, the Leipzig paint shop, the most capital-intensive section of any automobile plant, will generally run for more than 120 hours a week. This means fewer machines and lower capital costs. In the Leipzig paint shop, these are one-third lower than the industry's average.

The pattern according to which employees are selected for the plant is also unconventional. Of course, highly qualified experts are hired for special tasks, but preference is generally given to applicants who display particularly high learning ability and will thus be able to swiftly master future leaps in technology. The classic formula "as young as possible, male whenever possible and as highly qualified as possible" no longer holds. Instead, the workforce is to be a healthy mix of young and experienced employees, of men and women. The oldest newcomer was 59 years old when he was hired; 70 percent of the BMW employees at the new plant come from Leipzig or the neighbouring areas of Halle and Bitterfeld; the percentage of female employees is significantly above the average of the other BMW Group plants.

Classic formulae for applications are outdated – the workforce should be a healthy mix of young and experienced employees, of men and women.

It soon becomes obvious that the region's long-term unemployed include many excellent potential employees for the BMW plant, but they frequently lack self-confidence and up-to-date know-how. This puts them at a disadvantage when competing with employed candidates in the application process. Therefore, the BMW Group initiates regional projects, such as the programme for the unemployed known as "Poleposition," with PUUL GmbH (a company of the city of Leipzig), in which the long-term unemployed are prepared for job applications and re-entry into the working world. Result: by the end of 2004, around 600 of the jobless qualify for an unlimited contract of employment at the BMW plant.

November 2001. Around 200 architectural offices worldwide take part in the competition to design the future central building of the Leipzig plant. The tender is based on a 150-page document which describes the requirements in detail. The building is to be the heart of the future plant.

22 March 2002. A high-profile jury selects the British-Iraqi architect Zaha Hadid as the winner of the competition to design the central building. It is a "most courageous decision", says Professor Henning Rambow of Leipzig's University of Applied Sciences (Hochschule für Technik, Wirtschaft und Kultur Leipzig). At first sight, Zaha Hadid's long building resembles the head of a whale that rises up from the ground between body shop, paint shop and assembly hall. On the one hand, this building is to serve as the main entrance for employees and visitors. On the other, it is to be the site of all the plant's planning and administrative employees' workplaces. Their desks are situated in a single, albeit intricately terraced area which extends over several open levels (the so-called "cascades"). There are no hierarchies or managers' offices in this open space, just 740 identical workplaces for everyone from the trainee to the plant director. Here everyone is immediately accessible to everyone else. "Structure creates behaviour" is the motto, and the open structure of the central building creates greater motivation, more intensive communication and thus higher productivity.

Everyone is immediately accessible to everyone else – the "central building" is designed as a communicative marketplace.

"Aesthetically and functionally a pioneering feat", says Professor Henning Rambow. "To my knowledge, no other industrial building anywhere in the world promotes transparency and communication like this." Pritzker laureate Zaha Hadid's design congenially implements the BMW Group's requirements, namely to optimise cooperation among employees with architecture that fosters communication. In other words, the more a business encourages exchange among their employees, the more it will be successful.

The "central building" could be described as the spatial interpretation of this insight. This is where technicians and controllers, managers and mechanics, human resources officers and trainees meet just as inevitably as informally. And this is where all employees can see the fruits of their labour at all times: the car bodies gliding through the central building almost soundlessly on their way from the body shop to the paint shop and from there on into the assembly hall, passing by the desks and overhead through the plant's restaurant. Moreover, an area is planned at a central location inside the building for exhibiting BMW automobiles that have just been audited by quality management. The message is that quality is the achievement of all employees. Challenges also affect everyone. You can tell immediately whether or not everything is running smoothly in the plant by just taking a look.

7 May 2002. Five days after a large "housewarming party" for the future plant's neighbours, the ground-breaking ceremony is held on the site. In his statement, Professor Joachim Milberg, then Chairman of the Board of Management of BMW AG, emphasises that the plant will create permanent structures "which will exist for many decades".

A vision becomes reality: very soon after construction work started, the Venice Biennale 2002 included the BMW Group and its exciting design of the central building for the Leipzig plant.

The 26,000-square-metre central building's architecture combines extraordinary design with favourable conditions in the workplace.

Communication at heart: the central building's open layout, featuring terrace-like office spaces, fosters the exchange of information – and thus productivity as well.

The product is always in full view: several times during production the bodies pass almost soundlessly through the central building and even through the plant's restaurant.

Quality is the achievement of all employees – vehicles that have been freshly audited by quality management are exhibited at a central point.

May 2003. By now, the sites of the body shop, paint shop and assembly hall are clearly visible from the air: three buildings arranged in a circle around the central building and surrounded by large open spaces and supply routes. Trucks use these routes to supply the assembly areas directly. Unlike at conventional facilities, there is no central delivery area, so no time is lost on transportation within the plant. At the Leipzig plant, parts delivered directly by truck do not have to be taken more than seven metres to their installation point.

Four "fingers" solve a problem that has bothered the automobile industry for many decades.

The design of the assembly hall is also striking as its ground plan is reminiscent of a hand with four outstretched fingers. This "finger structure", which has meanwhile been patented for the BMW Group, is considered a real revolution because it addresses a problem that has bothered the automobile industry ever since series production began: the complexity of responding to structural changes. If a plant is designed to meet current requirements, it may soon reach its capacity limits. And if it is planned on a larger scale in order to cope with possible future growth, valuable capital is tied up and structures are built which may never be needed.

The "Greenfield" project team found a solution to this dilemma: build for today, provide for tomorrow. At the very start, the planners considered every possible scenario for the development of the automobile industry over the next 25 years. Then the plant was designed accordingly. For example, pipes were laid, for future use, right up to the sides of the building, and central track areas were kept free within the halls so that additional conveyor technology can be installed as required. Additional production lines can be set up at any time on the large open spaces next to the halls without having to interrupt ongoing production.

The assembly hall's "finger structure" is the answer to short-term technological innovations and model changes. Formerly, each time a new assembly element was added, the various stations of the production line had to be shifted, a cumbersome and costly process. Now, at the Leipzig plant, almost any number of elements can be added within the fingers (and thus in between existing stations). The "fingers" thus literally work as docking points for the future.

Winter 2003/2004. At the beginning of every week, dozens of buses take employees from Leipzig to the BMW plants in Bavaria. On Friday evening they travel back again. 1,500 Leipzig BMW employees spend time in the Munich, Dingolfing and Regensburg plants to prepare for their tasks in Leipzig. “Training camps” of this kind last between six and twenty-four months.

The advantage of experience: the Leipzig plant builds on all the automotive engineering know-how accumulated by the BMW Group over the past 75 years.

In the meantime, the first of a total of 1.6 kilometres of assembly lines are adjusted in the still unheated halls of the Leipzig plant. Each day suppliers transport machines, robots and materials to the site. This is the most strenuous phase for the assembly planners. Some of them were involved in developing the BMW plant in Spartanburg, South Carolina. Put more generally, the experience that the Company has accumulated and taken stock of over the years is integrated into the plant’s design. “Ultimately, Leipzig is the essence gained from 75 years of automotive engineering in the BMW Group”, says one of them. The point is that the plant will not only be “state of the art” when it is opened, but will continue to grow as the market, technologies and development of the BMW Group require. For however permanent its outer shell may appear – it is designed inside as an extremely lively, learning organism.

Mid-2004. Module suppliers for the BMW 3 Series move into the four supply centres on the grounds of the Leipzig plant. What is unusual is not only that the suppliers set up shop directly on the grounds, but that, for a limited time, the BMW Group will let them utilise its own infrastructure. “This is a new form of cooperation for us”, explains Peter Claussen, Plant Director. “Being so close together means we can be up and running more quickly and cope with problems more easily. In short: the risks become more manageable for both sides.”

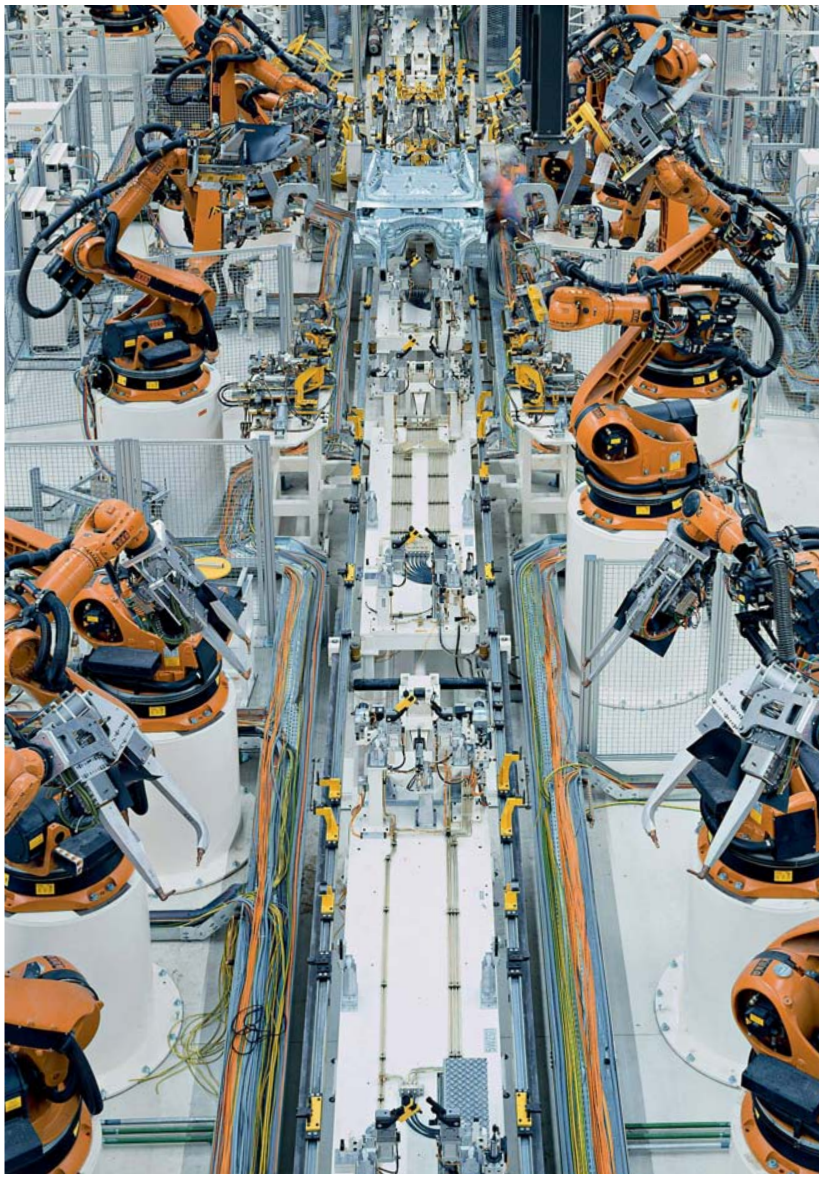
July 2004. The first five kestrels born on the grounds are ringed. They are to help control the number of pigeons (and thus the pollution they cause) at the plant. The first apples ripen on trees planted in the courtyard of the central building.

July 2004. Beginning of test operation in the paint shop. The paint robots at the Leipzig plant – this is another innovation – use only water-based colour paints and powder-based clear paint and thus the most environment-friendly paint technology worldwide. As one of the first of its kind, the Leipzig paint shop will be accessible to visitors. The glass tunnels through which guests will be guided serve not so much to shield the visitors (as health-damaging and polluting solvents barely occur with this technology) as to protect the freshly painted BMW bodies from impurities, such as dust, which the guests might bring into the facilities.

The new plant is one of the region's most attractive employers from the very beginning – more than 125,000 applications received so far speak for themselves.

New Year 2004/2005. By the turn of the year, the BMW Group has received more than 125,000 applications for jobs at the Leipzig plant. The Company has hired almost 2,000 employees by the end of 2004 and trained them thoroughly at the plants in Bavaria. Gradually, they transfer to the new plant, some of them having been involved as early as during the plant's development phase and the integration process.

March 2005. The "process training" phase has been completed, the systems have been synchronised and the employees' training is complete. The plant is still operating only on a single shift. After months of so-called "integration operation", the first BMW 3 Series automobile produced for a customer rolls off the assembly lines on 1 March. Production quality has been up to the usual BMW standards for a long time now; the only thing lower than usual is the number of automobiles produced in the plant. However, this will be increased step by step in the coming weeks and months until the Leipzig plant finally runs in phase with the BMW Group's worldwide production network, thus attaining "steady state", as the stage is known in which employees and systems are adjusted to one another.



Body shop: the bodies are made predominantly by robots from several hundred individual components with around 5,000 weld points.

Sustainability in practice: a glass tunnel will allow groups of visitors to watch environment-friendly water-based paints being applied to car bodies in fully automated processes. Robots apply the top-coat using powder-based paint technology, which is particularly environment-friendly.

Focus on quality: from the beginning, the new plant had to conform to the high quality standards which apply uniformly throughout the BMW Group's worldwide production network.

Teamwork in assembly: most employees at the new plant are prepared for their new tasks on six- to 24-month assignments at the BMW Group's production plants in Bavaria.

After the start-up phase, up to 650 BMW 3 Series automobiles will leave the BMW Leipzig plant each day.

The year 2007. This is the year the plant achieves its planned capacity of 650 BMW vehicles a day. Then the history of the plant's development will be over, although the plant's own history is only just beginning. So far, the plant takes up only one-sixth of the site. Depending on market situation and requirements within the BMW Group's production network, capacities can be increased within just a few months without having to stop ongoing operations. The BMW Leipzig plant can thus breathe without first having to inhale deeply. That, too, is what the BMW Group understands by sustainability.

Technology and innovation


BMW

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--2

Hydrogen – H2R --1 and --2

The BMW Group was the world's first automobile manufacturer to gear the medium- and long-term development of its vehicles consistently to hydrogen-based operation. The aim of this concept known as BMW CleanEnergy is to avoid emissions and make use of regenerative sources of energy.

Hydrogen can be used in a vehicle in different ways: either in a combustion engine or as the supplier of electric power for so-called "cold" combustion in a fuel cell. The BMW Group chooses the technology with the most advantages for the respective purpose. Thus, the combustion engine is used for propulsion, while a hydrogen-burning fuel cell is to replace the generator supplying the on-board network with electricity.

In 2004 the BMW Group demonstrated a hydrogen-powered automobile's potential. The H2R prototype set nine international records for vehicles powered by a hydrogen-burning combustion engine. The H2R's technical data are impressive: its six-litre, 12-cylinder power unit puts out more than 210 kW (285 bhp). The hydrogen combustion engine is based on the BMW 760i petrol engine and thus features ultramodern technologies, such as fully variable VALVETRONIC valve drive. The vehicle accelerates to 100 km/h in approximately six seconds and reaches a top speed of more than 300 km/h.

The H2R vehicle benefited from the ongoing series development of the future BMW hydrogen engine. During the production cycle of the current BMW 7 Series, the BMW Group will make a 7 Series version available to customers that can run on both hydrogen and petrol – the world's first premium sedan with dual-mode operation.

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Variable Twin Turbo Diesel --1

The three-litre, straight-six diesel power unit with Variable Twin Turbo technology (multi-stage charging) is the most powerful diesel engine of its class. It develops output of 200 kW (272 bhp) at 4,400 rpm and 560 Nm at 2,000 rpm (530 Nm at as early as 1,500 rpm).

The Variable Twin Turbo technology consists of two different-sized, successively activated turbochargers. Depending on engine speed, intake air is compressed by one of the turbochargers or by both, as required. This multi-stage charging process is regulated by specially designed electronics.

Fitted with the powerful diesel engine, the new BMW 535d Sedan and 535d Touring will be by far the sportiest series-production diesel vehicles ever. Nevertheless, diesel fuel consumption is particularly low (Sedan: 10.9 l/100 km (urban), 6.3 l/100 km (extra-urban), combined 8.0 l/100 km and CO_2 emissions combined 211 g/km. Touring: 11.1 l/100 km (urban), 6.5 l/100 km (extra-urban), combined 8.2 l/100 km and CO_2 emissions combined 216 g/km). Both vehicles meet the EU4 emission requirements and are equipped with particle filters as standard.

V10 engine --2

Ten cylinders, five litres of displacement, 373 kW (507 bhp) and 520 Nm make the V10 the most powerful BMW production engine of all time. It has not only the same number of cylinders as the Formula 1 engine that powers the BMW WilliamsF1, but also the same high engine speed concept. A maximum engine speed of 8,250 rpm is achieved as a result of the low moving masses, for example in the valve mechanism, high-precision production with extremely low tolerances, and the use of innovative materials.

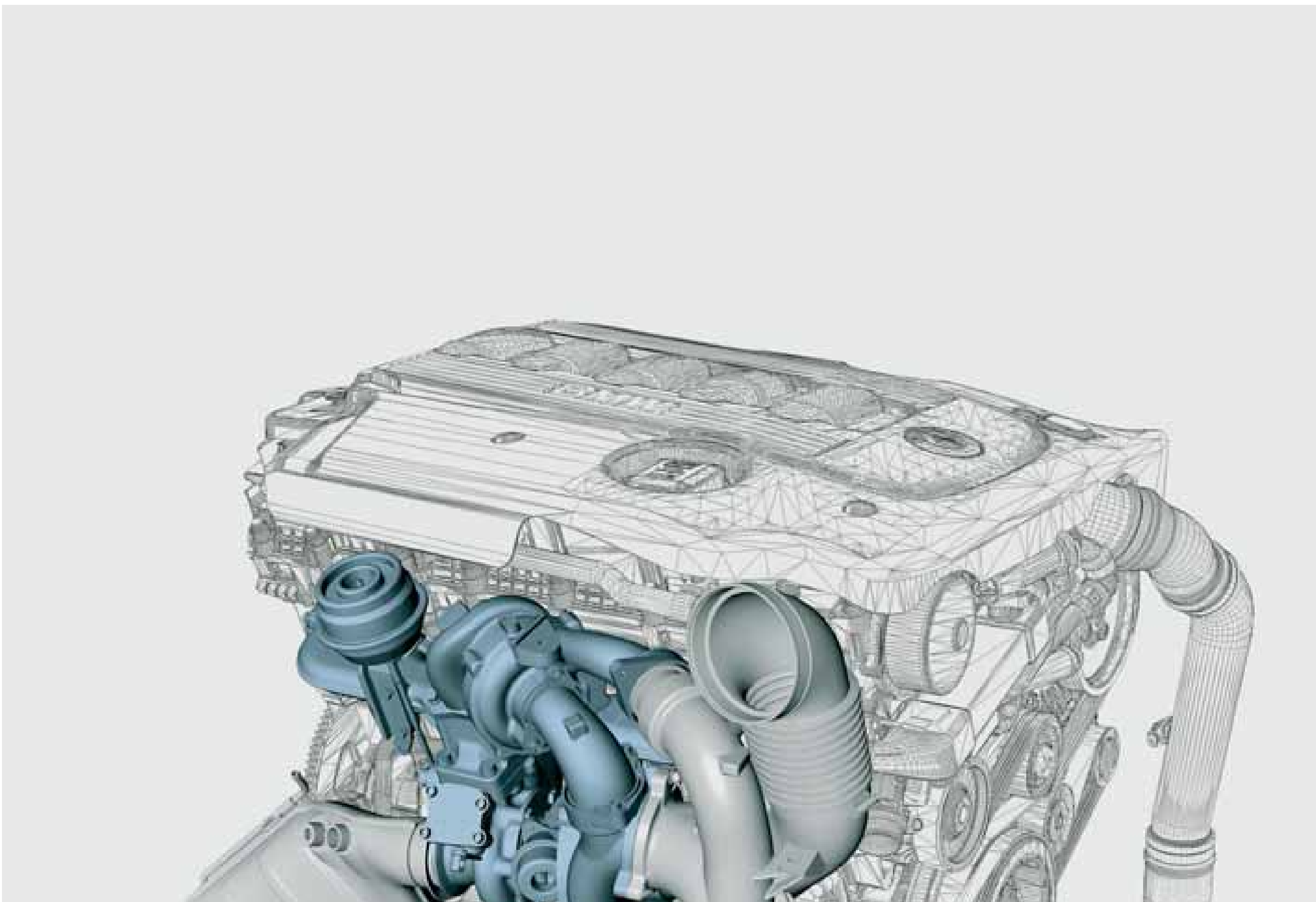
From more than 50 input signals, the engine management system calculates for each individual cylinder and for each individual cycle the optimum ignition point, the ideal cylinder charge, the injection quantity and the injection point. At the same time, this system calculates and makes the necessary adjustments for the optimum camshaft angle and the position of the ten individual throttle valves. In addition, each spark plug serves as sensor for monitoring the combustion process, transmitting the data it gathers to the engine management system. The driver benefits from lower fuel consumption and even more power output.

Straight-six petrol engine --3

Weighing in at 161 kg, the new three-litre, straight-six power unit is seven percent lighter than its predecessor, making it the world's lightest six-cylinder engine. At 63 kW/l and 1.18 kW/kg respectively, the power unit has the highest power output per litre and the lowest weight per horsepower in its class. While power output has increased by 12 percent to 190 kW (258 bhp), fuel consumption has been reduced by 12 percent.

The composite magnesium/aluminium crankcase weighs only 57 percent of a comparable grey-cast iron block and 24 percent less than an aluminium crankcase. The design of the bedplate, adapted from motor sport, guarantees the highest level of structural and torsional stiffness.

Continuously variable valve control VALVETRONIC ensures efficient fuel economy and powerful torque, even at low engine speeds. The electric water pump operates absolutely independently of the current engine speed and is controlled entirely by the engine's actual cooling requirement. This results in a significant reduction in fuel consumption.



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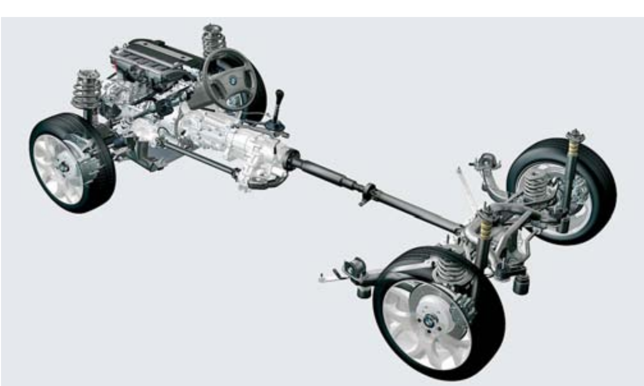
Seven-speed SMG transmission
The new seven-speed SMG transmission offers the driver eleven gearshift options: from comfortable cruising with automatic gear selection to very quick gearshifts achieved using paddles on the steering wheel for extremely sporty driving. Gearshift is executed almost without any interruption in the flow of power and is much faster than even an experienced driver could ever manage. The system also features Launch Control, a programme for maximum acceleration inspired by Formula 1.

Second-generation ActiveSteering
ActiveSteering alters the steering ratio according to driving situation requirements. When manoeuvring slowly, the driver barely needs to rotate the steering wheel for the wheels to turn lock-to-lock. At higher speeds, driving is safer as a result of an increasingly indirect ratio.

ActiveSteering's second generation offers an additional function. Previously, when applying the brakes on surfaces with differing grip levels on the right and left, the driver had to countersteer to keep the vehicle on course. By actively intervening in the steering control the second generation of ActiveSteering automatically stabilises the vehicle; the braking distance is also shortened. The result: more comfort and safety.

xDrive all-wheel-drive system --1
Conventional all-wheel drive systems will not react unless one of the wheels is spinning. By contrast, xDrive acts well before the wheels begin to lose their grip. Within fractions of a second, an electronically controlled multi-plate clutch shifts the power between the front and rear axle. xDrive relies on data such as the yaw rate or steering angle, which are continuously monitored by Dynamic Stability Control (DSC). Based on this data, xDrive offers both sporty driving behaviour and optimum traction.

MINI Convertible soft top system --2
The MINI Convertible is the only one of its kind worldwide to allow the front section of the soft top to be opened and closed at the press of a button while motoring – like a sunroof. Opening the fully automatic soft top all the way takes no more than 15 seconds. In addition, when the top is open, it can be lifted up, making the trunk easily accessible not only through the horizontal tailgate but also from above.



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BMW 3 Series Sedan --1

- More power, smoother running and more economy – a choice of three petrol and one diesel engine upon model launch
- Stiffer and lighter body – greater safety and increased driving dynamics
- Six-speed manual gearbox as standard or six-speed automatic transmission as option
- Six-cylinder models with second-generation ActiveSteering as option

BMW 1 Series --2

- Optimum handling – first compact class car with rear-wheel drive
- Comprehensive range of safety features and equipment as standard: run-flat tyres with tyre defect indicator, Brake Force Display and an indication of when wear parts should be replaced

BMW 320Cd

- First BMW Convertible with diesel engine
- Smooth-running four-cylinder for driving dynamics and comfort

BMW 5 Series Touring --1
---- More space and reduced weight due to lightweight construction with aluminium/steel body
---- Large, variable luggage compartment with automatic operation of the rear lid, Soft-Close Automatic, separately opening rear-window and semi-automatic roll cover
---- xDrive all-wheel-drive system as option

BMW M5 --2 and --3
---- Most powerful series-production BMW 5 Series of all time
---- Seven-speed SMG transmission, best power to weight ratio, exceptional handling and everyday driving qualities
---- Only V10 high-revving power unit in a series-production sedan
---- Active safety due to racing sport brake system, electronic control systems and adapted chassis

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BMW M6 --1
---- Carbon roof – reduced weight and lower centre of gravity for more driving dynamics and a continued high level of safety
---- Sports car with everyday driving qualities – high degree of active and passive safety, tremendous performance and comfort

BMW 6 Series Convertible and Coupé --2 and --3
---- 2+2 Coupé with maximum passenger comfort, luxurious equipment and elegant atmosphere
---- BMW 6 Series Convertible – elegant lines both when open and closed

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BMW X3 --1

- xDrive all-wheel-drive system – agility and safety on the road and better traction on slippery or rough terrain
- Range of engines extended – two petrol and two diesel engines are now available
- BMW X3 2.0d – the first BMW Sports Activity Vehicle available with a four-cylinder engine

BMW 7 Series --2

- New six- and eight-cylinder petrol and diesel engines – more power, unchanged or reduced fuel consumption
- Newly designed front and rear

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BMW K 1200 S --1

---- Most powerful engine for a BMW series-production motorcycle: maximum output 123 kW (167 bhp) at 10,250 rpm
---- Low centre of gravity for easy handling – dry sump lubrication permits an extremely low engine position (no oil sump)
---- New BMW Duolever front wheel suspension and, as option, Electronic Suspension Adjustment (ESA) at the press of a button while riding

BMW K 1200 R --2

---- Thoroughbred high-performance roadster completely without fairing, based on K 1200 S technology
---- BMW Duolever front wheel suspension adapted to roadster characteristics for even greater agility

BMW R 1200 GS --3

---- Excellent qualities offroad and enhanced agility onroad
---- Reduced weight due to intelligent lightweight construction and extremely strong materials
---- New boxer engine with 1,200 cc and a balance shaft for supreme smoothness
---- Increase in torque and power of almost 18 percent at the same time as an eight percent reduction in fuel consumption

BMW R 1200 ST --4

---- Successor of the R 1150 RS – for tour riders with sports ambitions
---- Weight just under 230 kg – more agile and sportier

BMW R 1200 RT --5

---- Ergonomically perfect active riding feature – sets the standard for dynamic, comfortable and safe touring on two wheels
---- Touring motorcycle with extremely effective protection from wind and weather
---- 16 percent more power and around 20 kg less weight than its predecessor

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--3

--4

--5

MINI Convertible --1
---- Real four-seater with fun factor, high functionality and optimum use of space
---- Convertible with integrated sunroof – fresh air at the press of a button while motoring
---- Choice of three engines

Update for the MINI --2
---- Clear-glass headlamps
---- Rear lights in LED look
---- Modified five-speed transmission
---- More storage compartments in the interior
---- Front seats with increased side support

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Rolls-Royce 100EX Centenary Experimental Car --1
---- Aluminium space-frame body
---- Convertible with four seats and two doors
---- Yacht look (teak deck)
---- Nine-litre, 16-cylinder engine

Rolls-Royce Centenary Phantom, special model
to mark the centenary --2
---- "Spirit of Ecstasy" made of solid silver
---- Rolls-Royce logo with red lettering – as it was from 1904 to 1930
---- Special colour for paint and interior
---- Edition limited to 35 motor cars

The resolute implementation of its product and market initiative has moved the BMW Group to a new dimension. With the BMW, MINI and Rolls-Royce brands, the Company has three of the strongest premium brands in the automobile business. With these three brands and, in the meantime, their ten model series, the BMW Group addresses all the currently relevant premium segments on the international automobile markets.

BMW Group
2004

BMW brand

1 Series
116i
118i
120i
130i (from autumn 2005)
118d
120d

3 Series
Sedan
316i
318i
320i
325i*
330i*
318d
320d
330d*

Sedan
(new model from 03/2005)
320i
325i
330i
320d

Coupé
318Ci
320Ci
325Ci
330Ci
320Cd
330Cd

Touring
316i
318i
320i
325i*
330i*
318d
320d
330d*

Compact (until 12/2004)
316ti
318ti
325ti
318td
320td

Convertible
318Ci
320Ci
325Ci
330Ci
320Cd
330Cd (from 04/2005)

* available with all-wheel drive as an option

Z4
Z4 Roadster 2.0i (from 04/2005)
Z4 Roadster 2.2i
Z4 Roadster 2.5i
Z4 Roadster 3.0i

5 Series
Sedan
520i (until 03/2005)
523i (from 03/2005)
525i*
530i*
545i
525d
530d
535d

Touring
523i (from 03/2005)
525i*
530i*
545i
525d
530d
535d

* available with all-wheel drive as an option (from 03/2005).

6 Series
Coupé
630i
645Ci

Convertible
630i
645Ci

7 Series
730i
735i (until 04/2005)
740i (from 04/2005)
745i (until 04/2005)
750i (from 04/2005)
760i
730Li
735Li (until 04/2005)
740Li (from 04/2005)
745Li (until 04/2005)
750Li (from 04/2005)
760Li
730d
740d (until 04/2005)
745d (from 04/2005)

X3
X3 2.5i
X3 3.0i
X3 2.0d
X3 3.0d

X5
X5 3.0i
X5 4.4i
X5 4.8is
X5 3.0d

M
M3 Coupé
M3 Convertible
M5 (from 04/2005)
M6 (from 04/2005)

Motorcycles
Enduro
F 650 GS
F 650 GS Dakar
R 1150 GS Adventure
R 1200 GS

Roadster
F 650 CS
R 850 R
R 850 R Comfort
R 1150 R
R 1150 R Rockster
K 1200 R (from 06/2005)

Cruiser
R 1200 C Classic
R 1200 C Independent
R 1200 C Montauk
R 1200 CL

Sports Bikes
K 1200 S

Sports Tourer
R 1100 S
R 1200 ST
K 1200 RS

Tourer and Luxury Tourer
R 1200 RT
K 1200 GT
K 1200 LT

MINI brand

MINI
MINI One
MINI One D
MINI Cooper
MINI Cooper S

Convertible
MINI One Convertible
MINI Cooper Convertible
MINI Cooper S Convertible

Rolls-Royce brand

Rolls-Royce
Rolls-Royce Phantom

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