

Interim Report to 30 June 2006

Q2



Rolls-Royce
Motor Cars Limited



BMW Group

The BMW Group – an Overview

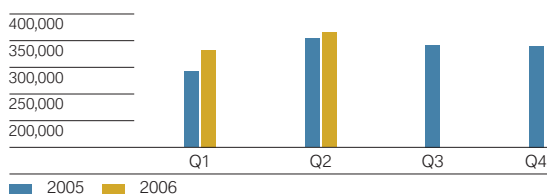
| BMW Group in figures | | 2nd quarter 2006 | 2nd quarter 2005 | Change in % |
|--|--------------|---------------------|---------------------|------------------|
| Vehicle production | | | | |
| Automobiles | units | 355,072 | 343,649 | 3.3 |
| Motorcycles | units | 31,531 | 31,960 | -1.3 |
| Deliveries to customers | | | | |
| Automobiles | units | 365,547 | 354,324 | 3.2 |
| Motorcycles | units | 37,052 | 35,983 | 3.0 |
| Workforce at end of quarter | | 106,150 | 105,888 | 0.2 |
| Cash flow^{2]} | euro million | 1,683 | 1,529 | 10.1 |
| Operating cash flow^{1]} | euro million | 2,522 | 2,605 | -3.2 |
| Revenues | euro million | 13,193 | 12,159 | 8.5 |
| Profit before tax^{2]} | euro million | 1,232 | 927 | 32.9 |
| Thereof: | | | | |
| Automobiles ^{2]} | euro million | 947 | 817 | 15.9 |
| Motorcycles | euro million | 56 | 53 | 5.7 |
| Financial Services | euro million | 180 | 161 | 11.8 |
| Reconciliations ^{2]} | euro million | 49 | -104 | - |
| Income taxes | euro million | -445 | -257 | 73.2 |
| Net profit^{2]} | euro million | 787 | 670 | 17.5 |
| Earnings per share^{2]3]} | euro | 1.20/1.21 | 0.99/1.00 | 21.2/21.0 |

1] In its Group financial statements for 2005, the BMW Group brought the cash flow computation into line with standards normally applied on the financial markets. In addition to the simplified definition of cash flow, as used to date, the BMW Group also discloses the figures for the cash flow from operating activities (operating cash flow), the latter corresponding to the cash flow from Industrial operations reported in the cash flow statement.

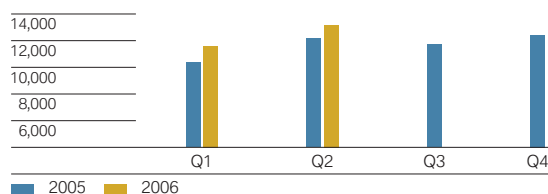
2] Previous year's figures adjusted for the new accounting treatment of pension obligations. A detailed analysis of measures taken is provided in the Annual Report 2005.

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

Deliveries of automobiles
in units



Revenues
in euro million



| BMW Group in figures | | 1 January to 30 June 2006 | 1 January to 30 June 2005 | Change in % |
|---|--------------|------------------------------|------------------------------|------------------|
| Vehicle production | | | | |
| Automobiles | units | 699,806 | 645,402 | 8.4 |
| Motorcycles | units | 61,071 | 57,940 | 5.4 |
| Deliveries to customers | | | | |
| Automobiles | units | 698,470 | 646,531 | 8.0 |
| Motorcycles | units | 56,103 | 57,287 | -2.1 |
| Workforce at end of quarter | | 106,150 | 105,888 | 0.2 |
| Cash flow^{2]} | euro million | 3,314 | 2,829 | 17.1 |
| Operating cash flow^{1]} | euro million | 3,743 | 3,721 | 0.6 |
| Revenues | euro million | 24,811 | 22,516 | 10.2 |
| Profit before tax^{2]}^{3]} | euro million | 2,528 | 1,749 | 44.5 |
| Thereof: | | | | |
| Automobiles ^{2]} | euro million | 1,708 | 1,527 | 11.9 |
| Motorcycles | euro million | 85 | 84 | 1.2 |
| Financial Services | euro million | 353 | 311 | 13.5 |
| Reconciliations ^{2]} | euro million | 382 | -173 | - |
| Income taxes | euro million | -793 | -554 | 43.1 |
| Net profit^{2]} | euro million | 1,735 | 1,195 | 45.2 |
| Earnings per share^{2]}^{4]} | euro | 2.64/2.65 | 1.77/1.78 | 49.2/48.9 |

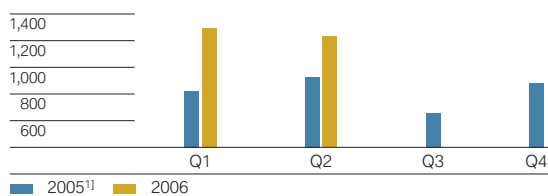
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2] Previous year's figures adjusted for the new accounting treatment of pension obligations. A detailed analysis of measures taken is provided in the Annual Report 2005.

3] Profit before tax includes a one-off gain of euro 375 million arising from the partial settlement of the exchangeable bond on Rolls-Royce plc shares.

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

Profit before tax in euro million



1] adjusted for new accounting treatment of pension obligations

Strong second quarter for the BMW Group

After a successful start to the year, the BMW Group continued to perform very well in the second quarter 2006. By achieving record figures for sales volume and revenues and the best half-year result in the company's history, the Company has once again demonstrated its operating strength and asserted its position as the leading premium manufacturer.

The BMW Group surpassed its own records for both quarterly and half-year car sales volumes. A total of 365,547 BMW, MINI and Rolls-Royce brand cars was delivered to customers in the second quarter 2006, 3.2% more than in the same quarter last year. This brings the sales volume for the first half of 2006 to 698,470 units, an increase of 8.0% over the same period of the previous year.

In the Motorcycle segment, weak sales in the early part of 2006 due to adverse weather conditions were almost completely offset in the second quarter. 37,052 BMW motorcycles were sold during the second quarter 2006, thus beating the previous year's figure by 3.0%. For the six-month period, unit sales now lag 2.1% behind the previous year.

The BMW Group continued to make very good progress with its financial services business, recording strong contract portfolio growth. The number of lease and financing contracts in place at the end of the second quarter stood at 2,179,933 units, 11.1% more than one year earlier.

Revenues and earnings demonstrate operating strength

Group revenues for the second quarter 2006, at euro 13,193 million, were 8.5% ahead of the same quarter last year. For the six-month period, group revenues totalled euro 24,811 million, an increase of 10.2% over the previous year.

The BMW Group achieved a profit before tax of euro 1,232 million for the second quarter, an improvement of 32.9% over the previous year. Group profit before tax for the six-month period was euro 2,528 million, 44.5% ahead of the previous year and as a result, the highest half-year profit ever achieved in the history of the company.

In the previous year, earnings had been adversely affected by fair value losses on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London. In 2006, by contrast, partial settlement of the exchangeable bond gives rise to an accounting gain which has a positive impact on earnings over the course of the year.

Workforce virtually unchanged

The BMW Group had a worldwide workforce of 106,150 employees at 30 June 2006, 0.2% more than one year earlier.

Further additions to model range

In June 2006, the BMW Group introduced two new models – the BMW Z4 Coupé and the BMW Z4 M Coupé – thus adding two particularly sporty, dynamic models to its range of products. The new BMW 3 Series Coupé and the updated BMW X3 will be available to customers from September onwards.

The MINI brand product range will be expanded within the next three years by a new model with greater functionality and a more spacious interior, as the imaginative concepts presented at the car shows in Frankfurt, Tokyo and Detroit have already shown.

Preparations for a Rolls-Royce Convertible are proceeding according to plan. This vehicle will further extend the range of vehicles offered by Rolls-Royce Motor Cars in the super luxury segment.

Sales organisation expanded

The BMW Group has been operating its own sales organisation in the Czech Republic and Slovakia since July 1. In parallel to the current market offensive, the Group is therefore continuing to pursue its strategy of assuming market responsibility in all EU countries in Central and Eastern Europe. In addition to its function as an importer, the BMW Group is also assuming responsibility for operational tasks, such as controlling the retail operations, including after-sales service and marketing. Following the start of activities in the Czech Republic and Slovakia, the

BMW Group has a direct sales presence in 37 countries around the world.

Global economy with dynamic growth

The global economy continues to be in good shape in 2006. Despite the slight slowdown expected towards the end of the year, it will nevertheless grow at a similar rate to 2005. The USA and the emerging Asian countries continue to be the main sources of momentum. Japan's economy is also growing very strongly once again and even the difference in growth rates between Europe and the other regions has narrowed somewhat.

Price increases on the commodity markets still pose the greatest risk to the global economy, despite the fact that it has stood up surprisingly well to price increases so far. In the euro region, further appreciation of the euro also poses a risk.

International automobile markets performing inconsistently

The traditional car markets (USA, Japan and Western Europe) got off to a slow start in 2006, a trend that is likely to persist over the remainder of the year. Only Western Europe has been able to generate some growth, albeit small. The German market also lacks dynamism and will only register a small growth rate for the year. By contrast, growth rates in Asia and Latin America are still strong, if somewhat less dynamic than in previous years.

Outlook remains optimistic

The BMW Group forecasts that business will continue to develop positively in the second half of 2006.

The strong first half-year performance will be instrumental in achieving the targeted record car sales volume for the full year, even though – as already reported – it is likely that sales volume growth during the second half of year will be more moderate.

As far as motorcycle business is concerned, the BMW Group reiterates its positive forecast for the full year 2006; the current shortfall in sales volume should be more than offset during the remainder of the year.

Likewise, the BMW Group also forecasts that its financial services business will continue to flourish. However, the adverse impact of changes in interest rate – as predicted at the beginning of the year – is likely to result in slower earnings growth than in 2005.

External factors will continue to affect reported results of the BMW Group in the second half of 2006, with currency factors and high raw material prices still having a negative impact, particularly on the Automobile segment. There will again be an adverse impact for the BMW Group over the year as a whole, albeit on a lower scale than in 2005. This is partly due to the fact that, compared to one year earlier, less favourable hedging rates are in place for the US dollar and the Japanese yen. Currency fluctuations influenced earnings during the first half of the year, whereas their impact during the second half of the year is likely to be less marked.

By contrast, the group profit before tax will benefit in 2006 from the one-off gain (reported within Reconciliations) arising on the settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Corresponding losses were recognised over the course of 2005 on the fair value measurement of the option.

In the light of the situation described above, and strengthened by the good progress made during the first half of the year, the BMW Group believes that the forecasted group profit before tax of euro 4 billion for the financial year 2006 (as previously reported) will be achieved. Even excluding the exceptional gain on the exchangeable bond, the profit before tax should still exceed the amount reported for 2005. The BMW Group aims to continue its profitable growth course over the coming years and, by comparison to the sector as a whole, continue to generate above-average returns.

Sharp sales volume increase in first half of year

New record figures for sales volume and revenues characterised the performance of the Automobiles segment in the first half of 2006.

The BMW Group's car sales volume figures for the second quarter 2006 and the six-month period were well ahead of those for the previous year. In total, 365,547 BMW, MINI and Rolls-Royce brand cars were delivered to customers during the second quarter 2006, 3.2% more than in the same quarter last year. 698,470 units were sold during the six-month period, thus exceeding the figure achieved in the same period last year by 8.0%.

The number of BMW brand cars sold during the second quarter 2006 rose by 5.0% to 313,823 units, giving a sales volume for the six-month period of 597,120 units (+11.0%).

The availability of MINI brand models remained restricted during the second quarter due to measures aimed at increasing the production capacity of the Oxford plant. This meant that sales volume of MINI brand cars, at 51,544 units, was again lower in the second quarter (-7.0%). At 101,063 units, the number of MINI brand cars sold during the six-month period was 6.5% below the previous year.

The Rolls-Royce Phantom was handed over to 180 customers during the second quarter 2006, 13.2% more than one year earlier. 287 Rolls-Royce Phantom were sold during the period from January to June, an increase of 0.7% compared to the previous year.

Significant sales volume growth in nearly all markets

The car sales volume increase recorded by the BMW Group was achieved in almost all markets. In North America, the number of BMW, MINI and Rolls-Royce brand vehicles sold during the second quarter 2006 was up by 6.7% to 91,824 units. The sales volume in this region for the six-month period increased by 8.5% to 168,926 units. The USA continues to be the world's largest single market for the BMW Group. 84,722 vehicles (+6.7%) were sold there during the second quarter 2006, giving a total sales volume for the six-month period of 157,344 units (+8.5%).

The BMW Group sold 218,979 vehicles in Europe during the second quarter, marginally down (-0.8%) against the previous year. For the six-month period, the sales volume was up by 5.1% to 422,338 units.

With 76,668 vehicles sold (-6.9%) during the second quarter, Germany was the largest individual market of the BMW Group in Europe and its second largest worldwide. With 149,227 (+0.8%) units sold in the first half of the year, the BMW Group achieved a similar sales volume to the corresponding period last year.

The sales volume in the United Kingdom for the second quarter and for the first half of 2006 fell marginally short of the previous year's figures: 37,471 cars were sold during the second quarter (-1.3%) and 74,065 during the six-month period (-1.1%).

| Automobiles | | 2nd quarter 2006 | 2nd quarter 2005 | Change in % |
|---------------------------------|--------------|---------------------|---------------------|----------------|
| Production | units | 355,072 | 343,649 | 3.3 |
| Deliveries to customers | units | 365,547 | 354,324 | 3.2 |
| Revenues | euro million | 12,943 | 11,911 | 8.7 |
| Profit before tax ¹⁾ | euro million | 947 | 817 | 15.9 |
| Workforce at end of quarter | | 98,347 | 98,748 | -0.4 |

1) Previous year's figures adjusted for new accounting treatment of pension obligations. A detailed analysis of measures taken is provided in the Annual Report 2005.

On almost all of the other European markets, the BMW Group was able to increase sales volumes on a half-yearly basis. In the period from January to June, 53,130 units (+11.7%) were sold in Italy, 32,422 units (+15.0%) in Spain and 27,352 units (+0.8%) in France. A particularly high volume growth rate was achieved in Belgium and Luxembourg, with 19,841 units (+30.9%) sold during the first half of 2006.

The good performance on the Asian markets continued with second quarter sales of 35,995 units, a 19.8% rise over the previous year. The BMW Group therefore sold 68,218 cars in Asia during the first half of 2006, 20.7% more than in the first six months of 2005.

Japan is the largest individual market for the BMW Group in the Asian region: 30,815 cars were sold there between January and June, 9.7% more than in the equivalent period of the previous year.

Developments on the Chinese markets (China, Hong Kong and Taiwan) have been particularly dynamic. During the six-month period under report the BMW Group handed over 21,598 vehicles to customers in these markets, giving a growth rate of 55.8%.

Good growth rates for the BMW 3 and BMW 7 Series

The number of BMW brand cars sold in the first half of 2006 represented a new sales volume record: 597,120 BMW cars were sold, surpassing the pre-

vious year's record figure by 11.0%. The figure for the second quarter was also a new record: never before have so many BMW brand cars been sold during a second quarter. In total, 313,823 units were sold between April and June, 5.0% more than in the same quarter last year.

Demand for the BMW 1 Series remained high. With 79,008 units sold during the first half of 2006, the sales volume of the BMW 1 Series was 5.6% up on the same period of the previous year.

In April, international automotive journalists voted the BMW 3 Series as the "World Car of the Year". The popularity of the 3 Series is also reflected in the sales volume achieved: 254,338 units were sold during the six-month period, giving a particularly strong growth rate of 30.0%. More than 400,000 units of the BMW 3 Series Sedan have been delivered to customers since the model change in spring 2005. The sales volume for the first half of 2006 was 175,141 units, 36.9% more than one year earlier. During the same period, 53,728 BMW 3 Series Touring (introduced in September 2005) were handed over to customers, representing a 95.6% increase over the previous year. The sales volume figures for the BMW 3 Series Coupé and of the BMW 3 Series Convertible were lower than in the previous year as a result of life-cycle factors. 11,401 units of the BMW 3 Series Coupé were sold, 35.4% fewer than in the same period last year. The BMW 3 Series Coupé model change will take place in September 2006. With 13,838 units sold, the sales

| Automobiles | | 1 January to 30 June 2006 | 1 January to 30 June 2005 | Change in % |
|---------------------------------|--------------|------------------------------|------------------------------|----------------|
| Production | units | 699,806 | 645,402 | 8.4 |
| Deliveries to customers | units | 698,470 | 646,531 | 8.0 |
| Revenues | euro million | 24,174 | 21,865 | 10.6 |
| Profit before tax ¹⁾ | euro million | 1,708 | 1,527 | 11.9 |

¹⁾ Previous year's figures adjusted for new accounting treatment of pension obligations. A detailed analysis of measures taken is provided in the Annual Report 2005.

volume of the BMW 3 Series Convertible was 22.7% lower than one year earlier.

The BMW 5 Series also achieved sales volume growth compared to the previous year. In total, the BMW 5 Series was handed over to 118,570 customers during the first half of 2006, 4.8% more than in the corresponding period last year. This included 92,275 units of BMW 5 Series Sedan, a rise of 5.8%. At 26,295 units, the six-month sales volume of BMW 5 Series Touring model increased by 1.7% compared to the previous year.

Demand for the BMW M5 was encouragingly high, with 3,848 units sold during the first half of 2006.

The sales volume of the BMW 6 Series in the first half of 2006 fell just short of the number sold one year earlier. Whereas sales of the BMW 6 Series Coupé were up by 2.7% to 6,216 units, the number of BMW 6 Series Convertibles sold fell by 11.3% to 5,259 units. In total, 11,475 BMW 6 Series vehicles were sold during the first half of 2006 (–4.2%). With a sales volume of 1,616 BMW M6 Coupés, the proportion of M models was particularly high for the BMW 6 Series for the six-month period: one in four BMW 6 Series Coupés sold was an M6.

BMW 7 Series sales volume continues to grow strongly. By the end of June, the BMW 7 Series had been handed over to 25,434 customers, corresponding to a growth rate of 26.4% compared to the first half of 2005. Almost 235,000 BMW 7 Series Sedans have been sold in the four and a half years since the market launch of this model.

Demand for the BMW X3 Sports Activity Vehicle remained at a high level. 56,301 BMW X3 vehicles were sold during the first half of the year, slightly less (–3.3%) than in the first six-months of 2005. The market introduction of the updated BMW X3 model will commence in September, generating further positive sales momentum for this model series.

The BMW X5 is now in its seventh year of production since coming on to the markets. During the

first half of 2006, 38,746 customers chose to acquire the BMW X5, a decrease of 19.0% compared to the corresponding period last year.

The market introduction of the revised BMW Z4 Roadster and the sporty Z4 M Roadster model has been underway since March 2006. These were followed in June 2006 by the new BMW Z4 Coupé and the BMW Z4 M Coupé, the latter a two-seater sports car with particularly dynamic driving qualities, giving reason to believe that demand will pick up further. The 10,008 units of the BMW Z4 sold in the second quarter 2006 were just 2.6% below the previous year's equivalent sales volume figure. 13,233 (–19.1%) BMW Z4 Roadsters were sold during the first half of 2006.

Capacity expansion measures at the Oxford plant hold down MINI sales volume

Limited availability continues to have an effect on MINI sales volumes. Capacity expansion measures at the British plant in Oxford resulted in production being interrupted from mid-December 2005 to mid-January 2006; these measures also restricted availability of MINI brand cars during the second quarter. These measures will, however, enable annual capacity to be increased in the medium-term to approximately 240,000 units, reflecting the continuing success of the MINI brand. The annual production capacity originally envisaged for the Oxford plant was 100,000 units.

Due to the break in production, the total number of MINI brand cars sold during the first half of 2006 was down by 6.5% to 101,063 units, comprising 78,658 MINIs and 22,405 MINI Convertibles.

The MINI brand (including the MINI Convertible) continues to generate a very high-value product mix. 29,316 units (29%) of the starter model, the MINI One (including the MINI One D) were sold during the six-month period. During the same period, 42,024 (42%) customers chose to buy the MINI Cooper and almost one in three customers (29,723 units; 29%)

selected the MINI Cooper S, the model with the most powerful engine.

Sales volume increase achieved by the Rolls-Royce Phantom

180 Rolls-Royce Phantom were sold during the second quarter 2006, an increase of 13.2% compared to the same quarter in 2005. This brought the number of Rolls-Royce Phantom handed over to customers during the first half of 2006 to 287 (+0.7%), compared to the 285 vehicles in the corresponding period last year.

Approximately 70% of Rolls-Royce Phantom sold incorporate specific customer wishes such as wine storage facilities, safes or humidors. In some markets, such as Japan, this proportion is as high as 90%.

Car production volume increased

The BMW Group's production volume in the second quarter 2006 totalled 355,072 units, up by 3.3% compared to the second quarter 2005. This includes 304,382 BMW brand cars, 4.8% more than in the previous year. The 100,000th BMW 3 Series came off the production line at the BMW plant in Leipzig in mid-June 2006: serial production commenced there on March 1, 2005.

An innovative painting technology has been introduced at the MINI plant in Oxford. This highly efficient process will make a significant and sustainable contribution towards reducing emissions and energy consumption. A total of 50,459 MINIs were manufactured at the Oxford plant during the second quarter 2006, 4.7% fewer than in the second quarter 2005.

231 Rolls-Royce Phantom were manufactured at Goodwood, England, during the second quarter, 59.3% more than in the same quarter last year.

The BMW Group manufactured a total of 699,806 vehicles during the first half of 2006, up 8.4% compared to the previous year. This included

605,181 BMW brand cars, 11.6% more than in the first six months of 2005. 94,234 units were manufactured at the MINI plant in Oxford during the first half of 2006, 8.4% fewer than one year earlier. During the same period, 391 Rolls-Royce Phantom were manufactured at the Goodwood plant in England, compared to 278 units in the first half of 2005 (+40.6%).

Revenues and earnings of the Automobiles segment increased

Revenues of the Automobiles segment for the second quarter 2006 increased by 8.7% to euro 12,943 million, thus registering the highest level to date on a quarterly basis. For the six-month period under report, revenues of the Automobiles segment totalled euro 24,174 million, also a new high level.

Segment earnings continue to be affected negatively by high raw material prices and adverse currency factors. The impact of these external factors in 2006 is, however, less pronounced than in the previous year. The segment profit before tax for the second quarter was euro 947 million (+15.9%) and for the first half year euro 1,708 million (+11.9%).

Workforce of Automobiles segment practically unchanged

At 30 June 2006, the Automobiles segment had a workforce of 98,347 employees, 0.4% fewer than one year earlier.

Second quarter sales volume increase for the Motorcycle segment

The performance of the international motorcycle markets remains inconsistent. In the second quarter 2006, the markets in Southern Europe, Asia and South Africa generated positive momentum, whereas the markets in Northern and Western Europe were characterised chiefly by negative trends. For the six-month period, these markets were also affected adversely by the weak demand experienced at the beginning of the year due to poor weather conditions. This was particularly evident in the case of Germany where the market has now been in decline for a period of seven years. For the six-month period, the total market for motorcycles in Germany contracted by a further 7.9% compared to one year earlier.

Whilst the inconsistent developments on the various markets also influenced the BMW Group's motorcycle business, this was countered by the positive impact on sales volume created by the newly introduced R 1200 S and F 800 S. In total, the Motorcycles segment sold 37,052 units during the second quarter, 3.0% more than in the second quarter 2005. This almost compensated for the volume decline registered in the first three months of the year due to poor weather conditions: for the six-month period, the sales volume was only 2.1% lower at 56,103 units.

Europe remains the largest market for BMW motorcycles. The BMW Group sold 43,019 units here during the first half of 2006, more than 75% of its total motorcycle sales volume. The European markets continued to develop inconsistently. While the sales volume in Germany, the largest single market for BMW motorcycles, fell by 8.4% to 13,452 units

during the six-month period, increases of 17.0% and 8.2% were achieved in Spain and Italy during the same period.

6,792 motorcycles were sold in the USA during the first half of the year, almost at the same level as in the previous year (-1.1%).

The performance on the Japanese market, where the new models introduced in the previous year were all available for the start of the season, was particularly encouraging. 1,408 units were sold up to the end of June 2006, giving a growth rate of 30.1%. Strong volume growth was also achieved in South Africa. 1,276 BMW motorcycles were sold there during the first half of 2006, 34.3% more than in the corresponding period last year.

R 1200 GS remains the most popular motorcycle

Once again, the R 1200 GS, a large long-distance enduro, was the best-selling BMW motorcycle in the second quarter 2006, with a sales volume of 11,951 units (including the Adventure version). The R 1200 RT touring bike took second place with 5,047 units sold, followed by the single cylinder F 650 GS Enduro (including the Dakar version), with 4,583 units sold.

Motorcycle production volume up for the six-month period

Motorcycle production volume in the second quarter, at 31,531 units, was 1.3% lower than in the same quarter last year. During the six-month period, 61,071 BMW motorcycles were produced at the BMW plant in Berlin, representing an increase of 5.4% over the corresponding period last year.

| Motorcycles | | 2nd quarter 2006 | 2nd quarter 2005 | Change in % |
|-----------------------------|--------------|---------------------|---------------------|----------------|
| Production | units | 31,531 | 31,960 | -1.3 |
| Deliveries to customers | units | 37,052 | 35,983 | 3.0 |
| Revenues | euro million | 419 | 423 | -0.9 |
| Profit before tax | euro million | 56 | 53 | 5.7 |
| Workforce at end of quarter | | 2,826 | 2,878 | -1.8 |

Product initiative continues

The BMW Group still considers that it will be able to achieve the targets set at the beginning of the year for the motorcycle business, thus improving on the sales volume, revenues and earnings figures achieved in the previous year. 2006 will be dominated again by the segment's product initiative, with numerous new products being presented over the course of the year. Two new BMW motorcycles – the long-distance enduro R 1200 GS Adventure and the sporty long-distance K 1200 GT – have already made their debut during the first quarter 2006. They were joined in the second quarter by the R 1200 S Sport Boxer and the new F 800 S. Following the market introduction of the R 1200 R Roadster in September, the full Boxer series range will be available on the market. The F 800 ST Sport Tourer will also be launched in September. Alongside the well-established single-cylinder, boxer and four-cylinder models, these new motorcycles with a parallel-twin engine enhance BMW's motorcycle range within the highly competitive middle class.

Efficiency improvements help Motorcycle segment earnings

Segment revenues for the second quarter 2006 totalled euro 419 million, marginally (–0.9%) lower than in the second quarter 2005. Segment revenues for the six-month period amounted to euro 732 million, 1.2% short of the figure achieved in the corresponding period last year.

Segment profit before tax for the second quarter 2006 amounted to euro 56 million, 5.7% higher than the amount reported for the second quarter 2005. For the six-month period, segment profit

before tax was just above the previous year's level (+1.2%) at euro 85 million. The improvement in earnings achieved by the Motorcycles segment was attributable to the steady implementation of efficiency improvement measures throughout the segment.

Workforce of the Motorcycles segment almost unchanged

At 30 June 2006, the Motorcycles segment had a workforce of 2,826 employees, 1.8% fewer than at 30 June 2005.

| Motorcycles | | 1 January to 30 June 2006 | 1 January to 30 June 2005 | Change in % |
|-------------------------|--------------|------------------------------|------------------------------|----------------|
| Production | units | 61,071 | 57,940 | 5.4 |
| Deliveries to customers | units | 56,103 | 57,287 | –2.1 |
| Revenues | euro million | 732 | 741 | –1.2 |
| Profit before tax | euro million | 85 | 84 | 1.2 |

Financial services business remains on growth course

The Financial Services segment, whose products supplement the comprehensive range of services relating to cars offered by the BMW Group, continued to perform well in the second quarter. Despite more challenging conditions in the light of rising interest rates in the main regions in which the segment operates, it continued to grow dynamically, thus maintaining the positive trend recorded in recent years. Compared to one year earlier, the business volume of the segment at 30 June 2006 rose, in balance sheet terms, by 12.5 % to euro 41,420 million. The number of lease and financing contracts in place with dealers and retail customers reached 2,179,933 units at 30 June 2006, an increase of 11.1 % compared to one year earlier. The proportion of new BMW Group cars leased or financed by the Financial Services segment during the first half of 2006 was 42.1%, 0.9 percentage points above the proportion recorded for the corresponding period in 2005.

Strong growth in retail customer business

250,190 new contracts were signed during the second quarter 2006, 5.6% more than in the second quarter 2005. For the six-month period, the number of new contracts signed rose by 7.2% to 466,774 contracts. Credit financing contributed particularly to this growth, with an 8.4% increase in the number of contracts signed; lease business grew by 5.2% compared to the corresponding period last year.

The number of new financing contracts for used cars in the first half of 2006 increased by 3.5% compared to the corresponding period in 2005. The number of used BMW cars covered by financing contracts increased by 6.3%.

The overall volume of new contracts signed with retail customers during the first half of 2006 totalled euro 12,541 million, surpassing the previous year's equivalent figure by 9.5%.

The segment's portfolio of 1,999,621 contracts reflects the continuing positive development of retail customer business; the portfolio grew by 11.7% compared to 30 June 2005. The number of retail customer contracts in Germany increased by 10.7%, whilst the remaining European markets and the East-Asia region grew by 15.5% and 12.0% respectively. The Americas region, with 645,642 contracts in place, still has the largest contract portfolio: the increase compared to one year earlier was 9.1%.

Dealer financing continues to grow

The dealer financing activities of the Financial Services segment actively contribute towards supporting the BMW Group's dealer organisation. In addition to the financing of vehicle inventories, these activities also include real estate and equipment financing. The total volume of dealer financing contracts managed by the Financial Services segment at 30 June 2006 stood at euro 6,614 million, 6.1% higher than one year earlier.

Further expansion of fleet business contract portfolio

The fleet business activities of the BMW Group continued to expand during the first half of 2006, maintaining the rapid growth rate despite intense competition. The contract portfolio grew by 35.2% compared to one year earlier. The number of contracts managed by Alphabet exceeded the 150,000 mark during the second quarter to reach 159,561 contracts at 30 June 2006.

| Financial Services | | 2nd quarter 2006 | 2nd quarter 2005 | Change in % |
|-------------------------------------|--------------|---------------------|---------------------|----------------|
| New contracts with retail customers | | 250,190 | 236,889 | 5.6 |
| Revenues | euro million | 2,869 | 2,383 | 20.4 |
| Profit before tax | euro million | 180 | 161 | 11.8 |
| Workforce at end of quarter | | 3,330 | 3,030 | 9.9 |

Strong demand for banking products

The total number of customer banking accounts rose sharply by 34.9% to stand at 548,394 accounts at 30 June 2006. The segment's deposit volume worldwide amounted to euro 6,097 million at 30 June 2006, 5.6% higher than one year earlier. The main contributing factors behind this positive development were the competitive conditions offered for online savings accounts in Germany.

The number of custodian accounts rose by 35.3% to reach 30,865 accounts at 30 June 2006. Overall, the net cash inflow for investment funds during the first half of 2006 increased by 60.9% to euro 75.8 million.

Further growth for insurance business

124,390 new insurance contracts were signed during the first half of 2006, 26.8% more than in the first six months of 2005.

Compared to one year earlier, the number of insurance contracts in place rose by 32.0% to stand at 551,225 contracts at 30 June 2006. The growth in insurance business related to all product lines.

BMW Group Financial Services wins awards

The steady growth of BMW Group Financial Services' customer business is largely attributable to its distinctly customer-friendly approach. This was demonstrated when the BMW Bank received the European Call Center Award (ECCCO AWARD) for the best customer centre.

It was especially satisfying that BMW Group Financial Services in the USA won the award for best residual value management (ALG Luxury Brand Residual Value Award). This award was received for the third consecutive year, underlining the con-

tinuity of the residual value management policies employed by BMW Group Financial Services.

Financial Services segment earnings increased

Reflecting these positive developments, the segment profit before tax was significantly higher than in the previous year, rising by 11.8% to euro 180 million for the second quarter 2006 and by 13.5% to euro 353 million for the first half of 2006.

Increase in segment workforce

The Financial Services segment had 3,330 employees at 30 June 2006. The segment workforce was therefore 9.9% higher than at 30 June 2005.

| Financial Services | | 1 January to 30 June 2006 | 1 January to 30 June 2005 | Change in % |
|-------------------------------------|--------------|------------------------------|------------------------------|----------------|
| New contracts with retail customers | | 466,774 | 435,523 | 7.2 |
| Business volume ¹⁾ | euro million | 41,420 | 36,802 | 12.5 |
| Revenues | euro million | 5,607 | 4,518 | 24.1 |
| Profit before tax | euro million | 353 | 311 | 13.5 |

¹⁾ leased products plus receivables from sales financing (per Group balance sheet)

BMW stock in the second quarter 2006

The stock markets were again influenced during the second quarter 2006 by fluctuations in the US dollar exchange rate and by rising raw material prices, in particular that of crude oil.

The US dollar exchange rate fell from US dollar 1.21 for one euro at the beginning of the quarter to US dollar 1.28 for one euro at 30 June 2006, a drop in value of 5.5% over the three-month period.

The price of Brent crude went up from US dollar 67.53 to US dollar 73.70 per barrel during the quarter, an increase of 9.1%.

In the light of these developments, the main German stock index, the DAX, weakened towards the middle of the year after a good first quarter. Export-orientated automobile stocks in particular underperformed during the quarter. Compared to its level at the end of the previous quarter, the DAX fell by almost 287 points, thus losing almost one half of the gains made during the first three months of the year. The DAX closed on 30 June 2006 at 5,683.31 points, 4.8% below its closing level at the end of the first quarter. Compared to the beginning of the year, the level at 30 June 2006 still represents a rise of 5.0%.

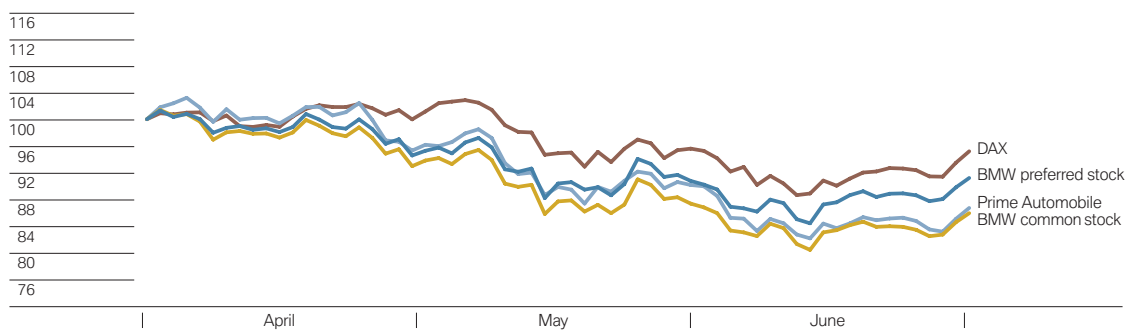
In contrast to the first quarter 2006, the sector index for the main German automobile stocks also

suffered from the depreciation of the US dollar. During the second quarter, the Prime Automobile Performance Index underperformed the market as a whole, closing on 30 June 2006 at 463.4 points, a drop of 13.3% over the course of the quarter. Compared to its level at the beginning of the year, the sector index was still marginally up (+2.2%) at 30 June 2006.

This negative market trend also took its toll on the price of BMW common stock during the quarter, closing at euro 39.06 at 30 June 2006; this was therefore euro 6.39 or 14.1% lower than at the end of the previous quarter. The price of BMW preferred stock was slightly more stable, falling by euro 3.61 or 8.8% compared to its price on the final day of trading in the first quarter 2006.

However, compared to the levels at the beginning of the year, both categories of BMW stock fared somewhat better than the sector index as a whole. As an example, BMW common stock gained 5.0% in value during the first half of 2006, thus performing significantly better than the Prime Automobile index which went up by only 2.2% during the period. BMW preferred stock has gained 15.6% in value since the beginning of the year, thus registering one of the highest growth rates in the sector for the six-month period.

Development of BMW common and preferred stock compared to stock exchange indices
 (Index: 31 March 2006 = 100)



New authorisation to buy back shares

At the Annual General Meeting of BMW AG, held on 16 May 2006, the shareholders passed the resolution proposed by the Board of Management and the Supervisory Board to withdraw the current authorisation and to issue a new authorisation, valid until 15 November 2007, to acquire treasury shares (common and/or preferred stock) via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution. The Board of Management was also authorised to withdraw these treasury shares from circulation without any further shareholder resolution. It has not yet been decided whether, when or to what extent, the authorisation will be used.

Buy-back of preferred stock for employee share scheme

BMW AG has allowed employees to participate in its success for more than 30 years; since 1989, this participation has been in the form of an employee share scheme. The Board of Management of BMW AG has decided to continue this scheme in 2006. In order to be able to settle the subsequent issue of shares to employees, it is planned to acquire up to 1.5 million preferred shares via the stock exchange. As in previous programmes, the shares will be acquired with the aid of a securities house or bank, which will decide the timing of individual buy-backs independently of, and uninfluenced by, BMW AG.

Further information will be made known under www.bmwgroup.com/ir; progress of the buy-back programme will be reported there on a regular basis.

Earnings performance

Earnings performance for the second quarter 2006

Group revenues increased by 8.5% to euro 13,193 million. External revenues of the Automobiles segment and of the Financial Services segment were 5.5% and 24.1% higher than in the second quarter 2005. External revenues of the Motorcycles segment fell marginally (-1.7%). Revenues from other activities of the Group amounted to euro 51 million and related mainly to the softlab Group. The comparable figure for the second quarter 2005 was euro 28 million.

Cost of sales amounted to euro 10,097 million, rising by 8.5% in line with the increase in revenues. The negative impact of external factors relating to currency effects and high raw material prices (as already reported) were counteracted by significant performance improvements. Compared to the second quarter 2005, the gross profit increased by 8.6% to euro 3,096 million. Despite the adverse factors mentioned above, the gross profit percentage remained at its second quarter 2005 level (23.5%). The gross profit of Industrial operations fell slightly (by 0.5 percentage points) to 20.7% and that of Financial operations fell by 0.6 percentage points to 11.4%.

Sales and administrative costs increased by 4.4% and represented only 9.8% of revenues (second quarter 2005: 10.1%).

Research and development costs decreased by 3.9% and represented 4.5% of revenues (second quarter 2005: 5.1%). Research and development costs include the amortisation of capitalised development costs amounting to euro 192 million (second quarter 2005: euro 185 million). Total research and development costs for the second quarter 2006 amounted to euro 735 million (second quarter 2005: euro 780 million). This figure comprises research

costs, development costs not recognised as assets and capitalised development costs. For the second quarter 2006, this gives a research and development expenditure ratio of 5.6% (second quarter 2005: 6.4%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 782 million (second quarter 2005: euro 765 million).

The positive net amount of other operating income and expenses decreased compared to the second quarter 2005, mainly as a result of the lower level of income from the reversal of write-downs.

The financial result improved, mainly as a result of higher net gains on financial instruments recognised in the second quarter 2006. The fair value gain on the remaining exchangeable bond option obligation relating to the BMW Group's investment in Rolls-Royce plc, London, contributed euro 19 million to the financial result. In the second quarter 2005, this obligation had resulted in the recognition of a loss of euro 57 million. Similarly within the financial result, the result from investments improved by euro 8 million and the net interest expense fell by euro 10 million.

Good earnings from operations translated into a 32.9% increase in the profit before tax for the second quarter 2006. Income tax expense increased mainly as a result of the fact that certain special factors no longer applied during the quarter under report. The effective tax rate was 36.1% (second quarter 2005: 27.7%).

The BMW Group recorded a net profit of euro 787 million for the second quarter 2006, euro 117 million or 17.5% above the result for the same quarter last year. The post-tax return on sales was 6.0% (second quarter 2005: 5.5%).

In the second quarter, the Group generated earnings per share of common stock of euro 1.20

(second quarter 2005: euro 0.99) and earnings per share of preferred stock of euro 1.21 (second quarter 2005: euro 1.00).

Earnings performance for the first half of 2006

Group revenues rose by 10.2% to euro 24,811 million for the six-month period. Excluding the effect of currency fluctuations, the increase would have been 8.9%. Within group revenues, external revenues of the Automobiles and Financial segments were 6.7% and 27.5% up on the corresponding period in 2005. External revenues of the Motorcycles segment were slightly lower than one year earlier (-1.9%). Revenues from other activities of the Group amounted to euro 94 million and related mainly to the softlab Group. The comparable figure for revenues from other activities of the Group was euro 50 million.

Cost of sales amounted to euro 19,144 million, the increase being 1.0 percentage points higher than the increase in revenues. This was largely attributable to additional negative currency effects, which, unlike in the previous year, had a particularly strong impact on earnings in the first half of the year. Despite these effects, the gross profit improved by 6.9% compared to the first half of 2005. The gross profit percentage, at 22.8%, was only 0.7 percentage points lower. The gross profit of Industrial operations fell by 1.2 percentage points and that of Financial operations fell by 1.9 percentage points.

Sales and administrative costs increased by 4.2% and represent 9.8% of revenues (first half-year 2005: 10.4%).

Research and development costs decreased by 1.0% and represent 4.9% of revenues (first half-year 2005: 5.4%). Research and development costs include amortisation of capitalised development costs amounting to euro 370 million (first half-year 2005: euro 353 million). Total research and development costs for the first half of 2006 amounted to euro

1,437 million (first half-year 2005: euro 1,423 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for the first half of 2006 was 5.8% (first half-year 2005: 6.3%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 1,507 million (first half-year 2005: euro 1,478 million).

The positive net amount from other operating income and expenses for the six-month period also decreased compared to one year earlier, mainly due to the lower level of income from the reversal of write-downs.

The financial result for the first half of 2006 improved by euro 581 million compared to the first six months of 2005. This includes a one-off gain of euro 375 million arising on the partial settlement of the exchangeable bond on Rolls-Royce plc, London, shares. This gain is reported mostly in other financial result and the remainder in net interest result. The fair value gain on the remaining exchangeable bond option obligation relating to the BMW Group's investment in Rolls-Royce plc, London, contributed euro 9 million to the financial result for the six-month period. In the first half of 2005, this obligation had resulted in the recognition of a loss of euro 56 million. The net result from financial instruments also developed positively. Within the financial result, the result from investments decreased by euro 3 million and the net interest expense fell by euro 12 million.

The profit before tax for the six-month period improved by 44.5% to euro 2,528 million. Excluding the impact of the partial settlement of the exchangeable bond on the shares in Rolls-Royce plc, London, and the effect of the fair market change of the related option obligation, the profit before tax improved by 18.8% to euro 2,144 million. Income tax expense

increased by euro 239 million, and the effective tax rate, at 31.4%, was similar to the previous year (first half-year 2005: 31.7%).

The BMW Group recorded a net profit of euro 1,735 million for the first half of 2006, euro 540 million or 45.2% above the result for the first six months of 2005. The post-tax return on sales was 7.0% (first half-year 2005: 5.3%). Excluding the gain on the exchangeable bond, the post-tax return on sales was 5.4% (first half-year 2005: 5.6%).

For the first half of 2006, the Group generated earnings per share of common stock of euro 2.64 (first half-year 2005: euro 1.77) and earnings per share of preferred stock of euro 2.65 (first half-year 2005: euro 1.78).

Earnings performance by segment

Revenues of the Automobiles segment for the second quarter 2006 increased by 8.7%, and the segment profit before tax increased by 15.9% due to good earnings from operations. Segment revenues for the first half of 2006 rose by 10.6%, while the segment profit before tax for the period improved by 11.9% to euro 1,708 million.

Revenues of the Motorcycles segment decreased marginally (–0.9%) in the second quarter, whilst the segment profit before tax went up by 5.7% thanks to efficiency improvement measures.

For the six-month period, segment revenues of euro 732 million were roughly at the same level as one year earlier. The segment profit before tax, at euro 85 million, edged up by 1.2% compared to the first half of 2005.

Revenues of the Financial Services segment for the second quarter 2006 increased by 20.4%. As a result of higher business volumes, the segment profit before tax was up 11.8% compared to the figure reported for the second quarter 2005. On a half-yearly basis, segment revenues rose by 24.1%, with the segment profit before tax 13.5% above the equivalent figure for the first half of 2005.

Reconciliations to the Group profit from ordinary activities were positive in the second quarter 2006, with a net income of euro 49 million (second quarter 2005: net expense of euro 104 million). The second quarter 2005 had been affected by the fair value loss recognised on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, and by fair value losses on financial instruments. Reconciliations to the Group profit from ordinary activities for the first half of 2006 were also positive, with a net income of euro 382 million, an improvement of euro 555 million compared to the corresponding period last year. This was mainly due to the accounting gain recognised on the partial settlement of the exchangeable bond on shares in

| Revenues by segment in the 2nd quarter in euro million | Revenues with third parties | | Revenues with other segments | | Total revenues | |
|--|--------------------------------|---------------|---------------------------------|----------|-------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Automobiles | 10,234 | 9,700 | 2,709 | 2,211 | 12,943 | 11,911 |
| Motorcycles | 413 | 420 | 6 | 3 | 419 | 423 |
| Financial Services | 2,495 | 2,011 | 374 | 372 | 2,869 | 2,383 |
| Reconciliations | 51 | 28 | –3,089 | –2,586 | –3,038 | –2,558 |
| Group | 13,193 | 12,159 | – | – | 13,193 | 12,159 |

| Revenues by segment for the period from 1 January to 30 June in euro million | Revenues with third parties | | Revenues with other segments | | Total revenues | |
|--|-----------------------------|---------------|------------------------------|----------|----------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Automobiles | 19,089 | 17,883 | 5,085 | 3,982 | 24,174 | 21,865 |
| Motorcycles | 723 | 737 | 9 | 4 | 732 | 741 |
| Financial Services | 4,905 | 3,846 | 702 | 672 | 5,607 | 4,518 |
| Reconciliations | 94 | 50 | -5,796 | -4,658 | -5,702 | -4,608 |
| Group | 24,811 | 22,516 | - | - | 24,811 | 22,516 |

Rolls-Royce plc, London, the fair value change of the related option obligation and the fair value gain on derivative financial instruments.

Financial position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the first half of the financial years 2005 and 2006, classified into cash flows from operating, investing and financing activities. Cash

and cash equivalents in the cash flow statement correspond to those disclosed in the balance sheet.

The cash inflow from operating activities in the first half of 2006 increased by euro 592 million to euro 6,077 million (first half-year 2005: euro 5,485 million).

The cash outflow for investing activities for the six-month period amounted to euro 5,975 million and was therefore euro 1,169 million higher than in the first half of 2005. This noticeable increase in the

| Profit before tax by segment in euro million | 2nd quarter 2006 | 2nd quarter 2005 | 1 January to 30 June 2006 | 1 January to 30 June 2005 |
|--|---------------------|---------------------|------------------------------|------------------------------|
| Automobiles ^{1]} | 947 | 817 | 1,708 | 1,527 |
| Motorcycles | 56 | 53 | 85 | 84 |
| Financial Services | 180 | 161 | 353 | 311 |
| Reconciliations ^{1]} | 49 | -104 | 382 | -173 |
| Profit before tax^{1]} | 1,232 | 927 | 2,528 | 1,749 |
| Income taxes | -445 | -257 | -793 | -554 |
| Net profit | 787 | 670 | 1,735 | 1,195 |

1] Previous year's figures adjusted for new accounting treatment of pension obligations.

net cash outflow for investing activities was mainly due to the receipt of the final sales price instalment on the sale of Land Rover totalling euro 1 billion in the previous year. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 62 million compared to the corresponding period last year. Cash outflow in conjunction with the net investment in leased products and receivables from sales financing increased by euro 275 million. 101.7% (first half-year 2005: 114.1%) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The sub-group cash flow statement for Industrial operations shows a significantly greater coverage, namely 233.8% (first half-year 2005: 530.1%). As expected, the cash flow statement of the Financial operations sub-group shows that cash inflow from operating activities does not cover cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing.

Cash inflow from financing activities includes inflows of euro 3,501 million from bond issues (first half-year 2005: euro 2,102 million) and outflows from repayments of euro 2,905 million (first half-year 2005: euro 1,243 million). The cash outflow of euro 271 million from financing activities during the first half of 2006 was attributable primarily to the portion of the share buy-back program expended in 2006.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group, the various cash flows resulted in a decrease in cash and cash equivalents of euro 87 million (first half-year 2005: increase of euro 536 million).

Net interest-bearing assets relating to Industrial operations (including receivables from the Financial operations sub-group) amounted to euro 6,190 million at 30 June 2006. This represents an increase of

euro 1,313 million since 31 December 2005. Net interest-bearing assets relating to Industrial operations comprise cash and cash equivalents (euro 1,125 million), marketable securities relating to Industrial operations (euro 1,875 million) and receivables from the Financial operations sub-group (euro 4,551 million) less financial liabilities relating to Industrial operations. Excluding interest and currency derivatives, the latter amounts to euro 1,361 million.

Net assets position

The balance sheet total of the BMW Group increased by euro 701 million or 0.9% compared to 31 December 2005. The main reason for this increase on the assets side of the balance sheet were financial assets (+12.0%), leased-out products (+7.3%) and inventories (+7.4%). In the opposite direction, other investments fell by 64.1%. On the equity and liabilities side of the balance sheet, the increase was due to the increase in equity (+6.0%), trade payables (+17.6%) and other liabilities (+12.4%). By contrast, financial liabilities decreased by 4.4%.

Other investments decreased mainly as a result of the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. The stock market price of these decreased in the period to 30 June 2006. In the meantime, it is approximately at its 31 December 2005 level, so that no significant fair value gains or losses have arisen on the remaining shares. Any such fair value gains or losses on the shares would be recognised directly in other accumulated equity.

Leased products increased by euro 825 million. Excluding the effect of currency fluctuations, the increase would have been approximately euro 600 million higher.

Group equity increased primarily as a result of the net profit. Within group equity, accumulated other equity decreased by euro 25 million. This

decrease was due to the euro 447 million reduction in fair value gains on securities, mainly as a result of the partial settlement of the exchangeable bond on shares in Rolls-Royce plc, London. Translation differences reduced other accumulated equity by euro 206 million. In the opposite direction, changes in the fair value of financial instruments increased other accumulated equity by euro 227 million. The increase in interest rates gave rise, net of deferred taxes, to actuarial gains of euro 401 million on pension obligations.

During the period from the third quarter 2005 to the first quarter 2006, shares of common stock equivalent to 3% of the share capital of BMW AG were acquired in conjunction with the share buy-back programme and withdrawn from circulation in accordance with the resolution passed by the Board of Management dated 21 February 2006.

The equity ratio of the BMW Group improved overall by 1.1 percentage points to 23.9%. The equity ratio for Industrial operations was 39.5% (31 December 2005: 39.1%) and that for Financial operations was unchanged at 10.4%.

Other provisions amounted to euro 5,800 million, slightly below their level at 31 December 2005. Financial liabilities decreased during the first half of 2006 mainly as a result of the reduction in asset backed financing liabilities (down by euro 518 million), bonds (down by euro 227 million) and liabilities from customer deposits (down by euro 295 million).

Other liabilities, at euro 5,887 million were euro 651 million higher than at 31 December 2005, mainly as a result of an increase in accruals and deferred income.

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

| in euro million | Notes | Group | | Industrial operations ¹⁾ | | Financial operations ¹⁾ | |
|---|-------|--------------|--------------------|-------------------------------------|--------------------|------------------------------------|--------------------|
| | | 2006 | 2005 ²⁾ | 2006 | 2005 ²⁾ | 2006 | 2005 ²⁾ |
| Revenues | [5] | 13,193 | 12,159 | 13,413 | 12,362 | 2,941 | 2,423 |
| Cost of sales | [6] | -10,097 | -9,307 | -10,639 | -9,745 | -2,606 | -2,132 |
| Gross profit | | 3,096 | 2,852 | 2,774 | 2,617 | 335 | 291 |
| Sales and administrative costs | [7] | -1,287 | -1,233 | -1,167 | -1,120 | -126 | -117 |
| Research and development costs | [8] | -598 | -622 | -598 | -622 | - | - |
| Other operating income | [9] | 157 | 215 | 140 | 199 | 29 | 21 |
| Other operating expenses | [9] | -108 | -92 | -101 | -88 | -19 | -21 |
| Profit before financial result | | 1,260 | 1,120 | 1,048 | 986 | 219 | 174 |
| Financial result | [10] | -28 | -193 | -34 | -148 | 20 | -25 |
| Profit before tax | | 1,232 | 927 | 1,014 | 838 | 239 | 149 |
| Income taxes | [11] | -445 | -257 | -380 | -224 | -77 | -51 |
| Net profit | | 787 | 670 | 634 | 614 | 162 | 98 |
| Profit attributable to minority interest | | - | - | - | - | - | - |
| Profit attributable to shareholders of BMW AG | | 787 | 670 | 634 | 614 | 162 | 98 |
| Earnings per share of common stock in euro | [12] | 1.20 | 0.99 | | | | |
| Earnings per share of preferred stock³⁾ in euro | [12] | 1.21 | 1.00 | | | | |

1) before consolidation of transactions between the sub-groups

2) adjusted figures

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

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

| in euro million | Notes | Group | | Industrial operations ¹⁾ | | Financial operations ¹⁾ | |
|---|-------|--------------|--------------------|-------------------------------------|--------------------|------------------------------------|--------------------|
| | | 2006 | 2005 ²⁾ | 2006 | 2005 ²⁾ | 2006 | 2005 ²⁾ |
| Revenues | [5] | 24,811 | 22,516 | 25,001 | 22,656 | 5,765 | 4,690 |
| Cost of sales | [6] | -19,144 | -17,214 | -19,891 | -17,757 | -5,147 | -4,099 |
| Gross profit | | 5,667 | 5,302 | 5,110 | 4,899 | 618 | 591 |
| Sales and administrative costs | [7] | -2,443 | -2,344 | -2,203 | -2,129 | -250 | -224 |
| Research and development costs | [8] | -1,207 | -1,219 | -1,207 | -1,219 | - | - |
| Other operating income | [9] | 355 | 401 | 298 | 363 | 78 | 45 |
| Other operating expenses | [9] | -223 | -189 | -198 | -176 | -48 | -38 |
| Profit before financial result | | 2,149 | 1,951 | 1,800 | 1,738 | 398 | 374 |
| Financial result | [10] | 379 | -202 | 384 | -167 | 44 | -3 |
| Profit before tax | | 2,528 | 1,749 | 2,184 | 1,571 | 442 | 371 |
| Income taxes | [11] | -793 | -554 | -686 | -499 | -143 | -127 |
| Net profit | | 1,735 | 1,195 | 1,498 | 1,072 | 299 | 244 |
| Profit attributable to minority interest | | 1 | - | 1 | - | - | - |
| Profit attributable to shareholders of BMW AG | | 1,734 | 1,195 | 1,497 | 1,072 | 299 | 244 |
| Earnings per share of common stock in euro | [12] | 2.64 | 1.77 | | | | |
| Earnings per share of preferred stock³⁾ in euro | [12] | 2.65 | 1.78 | | | | |

1) before consolidation of transactions between the sub-groups

2) adjusted figures

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

BMW Group Group and sub-group Balance Sheets

| Assets in euro million | Notes | Group | | Industrial operations ¹⁾ | | Financial operations ¹⁾ | |
|--|-------|---------------|---------------|-------------------------------------|---------------|------------------------------------|---------------|
| | | 30.6.2006 | 31.12.2005 | 30.6.2006 | 31.12.2005 | 30.6.2006 | 31.12.2005 |
| Intangible assets | [13] | 4,850 | 4,593 | 4,813 | 4,569 | 37 | 24 |
| Property, plant and equipment | [14] | 10,731 | 11,087 | 10,707 | 11,060 | 24 | 27 |
| Leased products | [15] | 12,200 | 11,375 | 268 | 230 | 14,846 | 14,110 |
| Investments accounted for using the equity method | [16] | 101 | 94 | 101 | 94 | – | – |
| Other investments | [16] | 423 | 1,178 | 351 | 1,147 | 72 | 31 |
| Receivables from sales financing | [17] | 17,531 | 17,202 | – | – | 17,531 | 17,202 |
| Financial assets | [18] | 668 | 642 | 109 | 126 | 559 | 516 |
| Deferred tax | [19] | 848 | 772 | 1,129 | 1,144 | –1,625 | –1,674 |
| Other assets | [20] | 453 | 613 | 1,142 | 908 | 222 | 273 |
| Non-current assets | | 47,805 | 47,556 | 18,620 | 19,278 | 31,666 | 30,509 |
| Inventories | [21] | 7,007 | 6,527 | 7,000 | 6,521 | 7 | 6 |
| Trade receivables | | 2,173 | 2,135 | 2,123 | 2,086 | 50 | 49 |
| Receivables from sales financing | [17] | 11,689 | 11,851 | – | – | 11,689 | 11,851 |
| Financial assets | [18] | 3,022 | 2,654 | 2,180 | 2,022 | 842 | 632 |
| Current tax | [19] | 214 | 267 | 186 | 238 | 28 | 29 |
| Other assets | [20] | 1,823 | 1,955 | 5,299 | 3,411 | 833 | 753 |
| Cash and cash equivalents | | 1,534 | 1,621 | 1,125 | 1,372 | 409 | 249 |
| Current assets | | 27,462 | 27,010 | 17,913 | 15,650 | 13,858 | 13,569 |
| Total assets | | 75,267 | 74,566 | 36,533 | 34,928 | 45,524 | 44,078 |
| Total assets adjusted for asset backed financing transactions | | 71,886 | 70,667 | – | – | 42,143 | 40,179 |

1) before consolidation of transactions between the sub-groups

| Equity and liabilities in euro million | Notes | Group | | Industrial operations ¹⁾ | | Financial operations ¹⁾ | |
|---|-------|---------------|---------------|-------------------------------------|---------------|------------------------------------|---------------|
| | | 30.6.2006 | 31.12.2005 | 30.6.2006 | 31.12.2005 | 30.6.2006 | 31.12.2005 |
| Subscribed capital | | 654 | 674 | | | | |
| Capital reserves | | 1,911 | 1,971 | | | | |
| Revenue reserves | | 16,987 | 16,351 | | | | |
| Accumulated other equity | | -1,542 | -1,517 | | | | |
| Treasury shares | | -12 | -506 | | | | |
| Minority interest | | -1 | - | | | | |
| Equity | [22] | 17,997 | 16,973 | 14,426 | 13,672 | 4,752 | 4,581 |
| Pension provisions | | 4,671 | 5,255 | 4,633 | 5,220 | 38 | 35 |
| Other provisions | [23] | 3,431 | 3,243 | 2,921 | 2,921 | 510 | 322 |
| Deferred tax | [24] | 2,968 | 2,522 | 2,165 | 1,611 | 544 | 658 |
| Financial liabilities | [25] | 14,396 | 16,830 | 1,145 | 1,070 | 13,251 | 15,760 |
| Other liabilities | [26] | 1,723 | 1,659 | 1,299 | 1,224 | 1,741 | 1,457 |
| Non-current provisions and liabilities | | 27,189 | 29,509 | 12,163 | 12,046 | 16,084 | 18,232 |
| Other provisions | [23] | 2,369 | 2,663 | 2,200 | 2,367 | 199 | 328 |
| Current tax | [24] | 631 | 462 | 442 | 322 | 189 | 140 |
| Financial liabilities | [25] | 18,749 | 17,838 | 418 | 655 | 18,331 | 17,183 |
| Trade payables | | 4,168 | 3,544 | 3,637 | 3,118 | 531 | 426 |
| Other liabilities | [26] | 4,164 | 3,577 | 3,247 | 2,748 | 5,438 | 3,188 |
| Current provisions and liabilities | | 30,081 | 28,084 | 9,944 | 9,210 | 24,688 | 21,265 |
| Total equity and liabilities | | 75,267 | 74,566 | 36,533 | 34,928 | 45,524 | 44,078 |
| Total equity and liabilities adjusted for asset backed financing transactions | | 71,886 | 70,667 | - | - | 42,143 | 40,179 |

1) before consolidation of transactions between the sub-groups

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

| in euro million | 2006 | Group 2005 ¹⁾ |
|---|---------------|-----------------------------|
| Net profit | 1,735 | 1,195 |
| Depreciation of leased products | 1,866 | 1,656 |
| Depreciation and amortisation of tangible, intangible and investment assets | 1,547 | 1,478 |
| Change in provisions | 138 | 263 |
| Change in deferred tax | 186 | 146 |
| Change in net current assets and other items | 605 | 747 |
| Cash inflow from operating activities | 6,077 | 5,485 |
| Investment in intangible assets and property, plant and equipment | -1,508 | -1,570 |
| Net investment in leased products and receivables from sales financing | -4,371 | -4,096 |
| Other | -96 | 860 |
| Cash outflow from investing activities | -5,975 | -4,806 |
| Cash inflow/outflow from financing activities | -271 | -179 |
| Effect of exchange rate and changes in composition of group on cash and cash equivalents | 82 | 36 |
| Change in cash and cash equivalents | -87 | 536 |
| Cash and cash equivalents at 1 January | 1,621 | 2,128 |
| Cash and cash equivalents at 30 June | 1,534 | 2,664 |

1) adjusted figures

| Industrial operations | | Financial operations | | |
|-----------------------|--------------------|----------------------|--------------------|---|
| 2006 | 2005 ¹⁾ | 2006 | 2005 ¹⁾ | |
| 1,498 | 1,072 | 299 | 244 | Net profit |
| 3 | 2 | 1,752 | 1,354 | Depreciation of leased products |
| 1,539 | 1,455 | 8 | 23 | Depreciation and amortisation of tangible, intangible and investment assets |
| 49 | 262 | 89 | 10 | Change in provisions |
| 198 | 137 | 24 | 80 | Change in deferred tax |
| 456 | 793 | 162 | 53 | Change in net current assets and other items |
| 3,743 | 3,721 | 2,334 | 1,764 | Cash inflow from operating activities |
| -1,482 | -1,544 | -26 | -26 | Investment in intangible assets and property, plant and equipment |
| -42 | -13 | -4,329 | -4,083 | Net investment in leased products and receivables from sales financing |
| -77 | 855 | -19 | 5 | Other |
| -1,601 | -702 | -4,374 | -4,104 | Cash outflow from investing activities |
| -2,485 | -2,458 | 2,214 | 2,279 | Cash inflow /outflow from financing activities |
| 96 | 12 | -14 | 24 | Effect of exchange rate and changes in composition of group on cash and cash equivalents |
| -247 | 573 | 160 | -37 | Change in cash and cash equivalents |
| 1,372 | 1,997 | 249 | 131 | Cash and cash equivalents at 1 January |
| 1,125 | 2,570 | 409 | 94 | Cash and cash equivalents at 30 June |

BMW Group Statement of Changes in Equity

| in euro million | Subscribed capital | Capital reserves | Revenue reserves | Accumulated other equity | | | Treasury shares | Minority interest | Total | |
|--|--------------------|------------------|------------------|--------------------------|---|----------------------------------|-----------------|-------------------|-----------|---------------------|
| | | | | Translation differences | Fair value measurement of marketable securities | Derivative financial instruments | | | | Pension obligations |
| 31 December 2004 ¹⁾ | 674 | 1,971 | 14,531 | -763 | 62 | 1,072 | -1,013 | - | - | 16,534 |
| Acquisition of treasury shares | - | - | - | - | - | - | - | -13 | - | -13 |
| Dividends paid | - | - | -419 | - | - | - | - | - | - | -419 |
| Translation differences | - | - | - | 169 | - | 105 | - | - | - | 274 |
| Financial instruments | - | - | - | - | 166 | -1,661 | - | - | - | -1,495 |
| Actuarial gains and losses on pension obligations | - | - | - | - | - | - | - | - | - | - |
| Deferred tax on transactions recognised directly in equity | - | - | - | - | - | 623 | - | - | - | 623 |
| Net profit 30 June 2005 | - | - | 1,195 | - | - | - | - | - | - | 1,195 |
| 30 June 2005 ¹⁾ | 674 | 1,971 | 15,307 | -594 | 228 | 139 | -1,013 | -13 | - | 16,699 |
| 31 December 2005 | 674 | 1,971 | 16,351 | -646 | 562 | 29 | -1,462 | -506 | - | 16,973 |
| Acquisition of treasury shares | - | - | - | - | - | - | - | -265 | - | -265 |
| Dividends paid | - | - | -419 | - | - | - | - | - | - | -419 |
| Withdrawal of shares from circulation | -20 | -60 | -679 | - | - | - | - | 759 | - | - |
| Translation differences | - | - | - | -206 | - | 7 | 6 | - | - | -193 |
| Financial instruments | - | - | - | - | -456 | 319 | - | - | - | -137 |
| Actuarial gains and losses on pension obligations | - | - | - | - | - | - | 630 | - | - | 630 |
| Deferred tax on transactions recognised directly in equity | - | - | - | - | 9 | -99 | -235 | - | - | -325 |
| Net profit 30 June 2006 | - | - | 1,734 | - | - | - | - | - | 1 | 1,735 |
| Other changes | - | - | - | - | - | - | - | - | -2 | -2 |
| 30 June 2006 | 654 | 1,911 | 16,987 | -852 | 115 | 256 | -1,061 | -12 | -1 | 17,997 |

See also Note [22]
1) adjusted figures

BMW Group
Statement of Income and Expenses recognised directly in Equity
for the period from 1 January to 30 June

| in euro million | 2006 | 2005 ¹⁾ |
|--|--------------|--------------------|
| Fair value gains and losses on available-for-sale investments recognised directly in equity | -456 | 166 |
| Fair value gains and losses on financial instruments used for hedging purposes recognised directly in equity | 326 | -1,556 |
| Exchange differences arising on the translation of foreign subsidiaries | -206 | 169 |
| Actuarial gains and losses on defined benefit pension and similar obligations | 636 | - |
| Deferred tax on gains and losses recognised directly in equity | -325 | 623 |
| Gains and losses recognised directly in equity | -25 | -598 |
| Profit after tax attributable to shareholders of BMW AG | 1,734 | 1,195 |
| Aggregate amount of net profit for period and gains and losses recognised directly in equity | 1,709 | 597 |

1) adjusted figures

BMW Group Notes to the Interim Group Financial Statements to 30 June 2006 Accounting Principles and Policies

[1] Basis of preparation

The Group financial statements of BMW AG at 31 December 2005 were drawn up in accordance with International Financial Reporting Standards (IFRSs), as applicable in the EU. The interim Group financial statements (Interim Report) at 30 June 2006, which have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting), have been drawn up using, in all material respects, the same accounting methods as in the 2005 Group financial statements. Necessary changes resulting from the application of new or revised Standards are explained in Note [4]. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which are mandatory at 30 June 2006 have also been applied. The interim report also complies with German Accounting Standard No. 6 (GAS 6) – Interim Financial Reporting – issued by the German Accounting Standards Committee e.V. (GASC). The interim Group financial statements have neither been audited nor reviewed by the group auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

Further information about the Group's accounting principles and policies is contained in the BMW Group financial statements at 31 December 2005. The Group currency is the euro. All amounts are disclosed in millions of euros (euro million) unless stated otherwise.

In order to support the sale of its products, the BMW Group provides various financial services – mainly loan and lease financing – to retail customers and to dealers. The inclusion of the financial services activities of the Group therefore has an impact on the interim Group financial statements. In order to provide a better insight into the assets, liabilities, financial position and performance of the Group, additional information has been presented in the BMW Group financial statements on the industrial and financial operations. Financial operations include financial services and the activities of the Group financing companies. The operating interest income and expense of Financial operations are included in revenues and cost of sales respectively. The holding companies BMW (UK) Holdings Ltd.,

Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, BMW (US) Holding Corp., Wilmington, BMW España Finance S.L., Madrid, and BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, are allocated to Industrial operations. The main business transactions between Industrial and Financial operations, which are eliminated in the Group financial statements, are internal sales of products, the provision of funds for Group companies and the related interest. These additional disclosures allow the assets, liabilities, financial position and performance of the industrial and financial operations to be presented, in accordance with the recognition and measurement principles stipulated by IFRSs, as if they were two separate groups. This information is provided on a voluntary basis.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial and financial companies. These transactions are usually in the form of “asset-backed financing” transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to “service” the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated and Separate Financial Statements) and the interpretation contained in SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet on transfer of the related significant risks and rewards. The balance sheet value of the assets sold at 30 June 2006 totalled euro 3.4 billion (31 December 2005: euro 3.9 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

[2] Consolidated companies The BMW Group financial statements for the second quarter 2006 include, besides BMW AG, 44 German and 146 foreign subsidiaries. This includes 17 special securities funds and 20 trusts, almost all of which are used for asset backed financing. The group reporting entity is unchanged from the first quarter.

Compared to the corresponding period last year, entory AG, Ettlingen, Silverstroke AG, Ettlingen, entory S.A. Luxembourg, Luxembourg, Bavaria Reinsurance Malta Ltd., Valletta, BMW Hellas Trade of Cars SA, Athen, Park Lane Ltd., Bracknell, BMW Portugal Lda., Lisbon, BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, BMW Malaysia Sdn Bhd, Kuala Lumpur, BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur, BMW (China) Automotive Trading Ltd., Beijing, BMW Leasing (Thailand) Co., Ltd., Bangkok, BMW Danmark A/S, Kolding, and BMW International Investment B.V., Rijswijk, are included for the first time in the income statements for the first half of 2006.

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

[3] New financial reporting rules No new financial reporting rules were required to be applied for the first time in the second quarter 2006.

Furthermore, no new financial reporting rules were issued during the second quarter 2006.

[4] Changes to the second quarter and the first half-year 2005 interim financial statements The IASB issued Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure) in December 2004 permitting actuarial gains and losses arising in conjunction with defined benefit pension obligations to be recognised directly in equity.

Under the corridor method used by the BMW Group up to 30 September 2005, actuarial gains and losses were recognised when their net cumulative amount exceeded the higher of the present value of the obligations and the fair value of plan assets at the end of the preceding period by more than 10% (10 percent corridor). The amount exceeding the corridor was required to be recognised as income or expense over the average remaining working lives of the employees participating in the plans concerned. Fluctuations in the net cumulative amount of actuarial gains and losses within the corridor were not recognised. Unrecognised actuarial losses represented a short-fall in the amount recognised as liabilities in the balance sheet.

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

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

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

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

Attention is drawn by footnotes in the notes to the Group financial statements to the adjustments made to prior year figures.

BMW Group Notes to the Interim Group Financial Statements to 30 June 2006 Notes to the Income Statement

[5] Revenues Revenues by activity comprise the following:

| in euro million | 2nd quarter 2006 | 2nd quarter 2005 | 1 January to 30 June 2006 | 1 January to 30 June 2005 |
|--|---------------------|---------------------|------------------------------|------------------------------|
| Sales of products and related goods | 10,626 | 10,043 | 19,690 | 18,497 |
| Income from lease instalments | 1,007 | 791 | 2,003 | 1,516 |
| Sales of products previously leased to customers | 912 | 731 | 1,770 | 1,365 |
| Interest income on loan financing | 465 | 402 | 914 | 785 |
| Other income | 183 | 192 | 434 | 353 |
| Revenues | 13,193 | 12,159 | 24,811 | 22,516 |

An analysis of revenues by business segment is shown in the segment information on page 39.

[6] Cost of sales Cost of sales in the second quarter include euro 2,232 million (second quarter 2005: euro 1,805 million) relating to financial services business. For the period from 1 January to 30 June 2006, euro 4,421 million (first half-year 2005: euro 3,426 million) relates to financial services business.

[7] Sales and administrative costs Sales costs in the second quarter amounted to euro 1,043 million (second quarter 2005: euro 1,001 million¹⁾). For the period from 1 January to 30 June 2006, they amounted to euro 1,990 million (first half-year 2005: euro 1,924 million¹⁾) and comprise mainly marketing, advertising and sales personnel costs. Administrative costs in the second quarter amounted to euro 244 million (second quarter 2005: euro 232 million¹⁾), and in the first half of the year to euro 453 million (first half-year 2005: euro 420 million¹⁾): These comprise expenses for administration which are not attributable to development, production or sales functions.

[8] Research and development costs Research and development costs in the second quarter of euro 598 million (second quarter 2005: euro 622 million¹⁾) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs of euro 192 million (second quarter 2005: euro 185 million). For the first half of the year, research and development costs amounted to euro 1,207 million (first half-year 2005: euro 1,219 million¹⁾). This includes amortisation on capitalised development costs of euro 370 million (first half-year 2005: euro 353 million).

[9] Other operating income and expenses Other operating income in the second quarter amounted to euro 157 million (second quarter 2005: euro 215 million). For the period from 1 January to 30 June 2006, they amounted to euro 355 million (first half-year 2005: euro 401 million). Other operating expenses in the second quarter amounted to euro 108 million (second quarter 2005: euro 92 million). For the period from 1 January to 30 June 2006, they amounted to euro 223 million (first half-year 2005: euro 189 million).

¹⁾ adjusted in accordance with Note [4]

[10] Financial result

| in euro million | 2nd quarter 2006 | 2nd quarter 2005 | 1 January to 30 June 2006 | 1 January to 30 June 2005 |
|-------------------------|---------------------|---------------------|------------------------------|------------------------------|
| Result on investments | 6 | -2 | 11 | 14 |
| Net interest expense | -57 | -67 | -112 | -124 |
| Other financial result | 23 | -124 | 480 | -92 |
| Financial result | -28 | -193 | 379 | -202 |

The improvement in other financial result related to the partial exercise of exchange rights on the BMW

Group's investment in Rolls-Royce plc, London, and to fair value gains on derivative financial instruments.

[11] Income taxes

Taxes on income comprise the following:

| in euro million | 2nd quarter 2006 | 2nd quarter 2005 ¹⁾ | 1 January to 30 June 2006 | 1 January to 30 June 2005 ¹⁾ |
|----------------------|---------------------|-----------------------------------|------------------------------|--|
| Current tax expense | 304 | 78 | 561 | 338 |
| Deferred tax expense | 141 | 179 | 232 | 216 |
| Income taxes | 445 | 257 | 793 | 554 |

1) adjusted in accordance with Note [4]

The increase in current tax expense was attributable to the higher pre-tax profit. In addition, the previous year's figures included tax reimbursements.

[12] Earnings per share

The computation of earnings per share is based on the following figures:

| in euro million | | 2nd quarter 2006 | 2nd quarter 2005 ¹⁾ | 1 January to 30 June 2006 | 1 January to 30 June 2005 ¹⁾ |
|---|------------------------|---------------------|-----------------------------------|------------------------------|--|
| Profit attributable to the shareholders | euro million | 787.3 | 669.7 | 1,734.5 | 1,194.6 |
| Profit attributable to common stock | euro million (rounded) | 724.6 | 618.1 | 1,596.6 | 1,102.2 |
| Profit attributable to preferred stock | euro million (rounded) | 62.7 | 51.6 | 137.9 | 92.4 |
| Average number of common stock shares in circulation | number | 601,995,196 | 622,227,918 | 602,928,149 | 622,227,918 |
| Average number of preferred stock shares in circulation | number | 51,890,850 | 51,731,162 | 51,890,850 | 51,731,162 |
| Earnings per share of common stock | euro | 1.20 | 0.99 | 2.64 | 1.77 |
| Earnings per share of preferred stock | euro | 1.21 | 1.00 | 2.65 | 1.78 |

1) adjusted in accordance with Note [4]

BMW Group Notes to the Interim Group Financial Statements to 30 June 2006 Notes to the Balance Sheet

Earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, as attributable to each category of stock, by the average number of shares in circulation.

In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread

over the quarters of the corresponding financial year. Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. Diluted earnings per share were not applicable in either of the reporting periods.

[13] Intangible assets

Intangible assets comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 30 June 2006 amounted to euro 4,376 million (31 December 2005: euro 4,146 mil-

lion). Capital expenditure for development costs in the first half of 2006 amounted to euro 600 million (first half-year 2005: euro 557 million). Amortisation amounted to euro 370 million (first half-year 2005: euro 353 million).

[14] Property, plant and equipment

Capital expenditure for property, plant and equipment in the first six months of 2006 was euro 852 million (first half-year 2005: euro 1,005 million).

The depreciation expense for the same period amounted to euro 1,099 million (first half-year 2005: euro 1,087 million).

[15] Leased products

Additions to leased products and depreciation thereon amounted to euro 4,373 million (first half-year 2005: euro 3,402 million) and euro 759 million (first half-year 2005: euro 604 million) respectively. Disposals amounted to euro 2,154 million (first half-

year 2005: euro 1,670 million). The translation of foreign currency financial statements resulted in a net negative translation difference of euro 635 million (first half-year 2005: net positive translation difference of euro 820 million).

[16] Investments accounted for using the equity method and Other investments

Investments accounted for using the equity method relate to interests in joint ventures.

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

[17] Receivables from sales financing

Receivables from sales financing totalling euro 29,220 million (31 December 2005: euro 29,053 million) relate to credit financing for retail customers and dealers and to finance leases.

Receivables from sales financing include euro 17,531 million (31 December 2005: euro 17,202 million) with a remaining term of more than one year.

[18] Financial assets Financial assets comprise:

| in euro million | 30.6.2006 | 31.12.2005 |
|--|--------------|--------------|
| Interest and currency derivatives | 1,247 | 806 |
| Marketable securities and investment funds | 2,018 | 2,074 |
| Loans to third parties | 62 | 90 |
| Other | 363 | 326 |
| Financial assets | 3,690 | 3,296 |
| thereof non-current | 668 | 642 |
| thereof current | 3,022 | 2,654 |

The increase in interest and currency derivatives was attributable primarily to increases in fair values

due to changed exchange rate parities with the US dollar.

[19] Income tax assets Income tax assets can be analysed as follows:

| 30 June 2006 in euro million | Maturity within one year | Maturity later than one year | Total |
|---------------------------------|-----------------------------|------------------------------------|--------------|
| Deferred tax | – | 848 | 848 |
| Current tax | 214 | – | 214 |
| Income tax assets | 214 | 848 | 1,062 |

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

[20] Other assets

| in euro million | 30.6.2006 | 31.12.2005 |
|---|--------------|--------------|
| Other taxes | 410 | 418 |
| Receivables from subsidiaries | 576 | 766 |
| Receivables from other companies in which an investment is held | 138 | 87 |
| Prepayments | 685 | 635 |
| Sundry other assets | 467 | 662 |
| Other assets | 2,276 | 2,568 |
| thereof non-current | 453 | 613 |
| thereof current | 1,823 | 1,955 |

[21] Inventories

Inventories comprise the following:

| in euro million | 30.6.2006 | 31.12.2005 |
|--------------------------------------|--------------|--------------|
| Raw materials and supplies | 709 | 674 |
| Work in progress, unbilled contracts | 922 | 931 |
| Finished goods | 4,614 | 4,042 |
| Goods for resale | 762 | 880 |
| Inventories | 7,007 | 6,527 |

[22] Equity

The Group Statement of Changes in Equity is shown on page 28.

Treasury shares

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

In conjunction with this authorisation, the Board of Management of BMW AG resolved on 20 September 2005 to put a programme in place to buy

back shares via the stock exchange. Under this programme, 3% of BMW AG's common stock was acquired.

Up to 17 February 2006, a total of 20,232,722 treasury shares of common stock was bought back via the stock exchange at an average price per share of euro 37.47 and a total acquisition cost of euro 758 million; these shares were withdrawn from circulation in accordance with the resolution taken by the Board of Management on 21 February 2006. Equity was reduced by the buy-back amount.

Transaction costs amounted to euro 0.776 million (net of deferred taxes) and were recognised directly in equity.

At the Annual General Meeting of BMW AG held on 16 May 2006, the shareholders passed the

resolution proposed by the Board of Management and the Supervisory Board to withdraw the current authorisation and to issue a new authorisation, valid until 15 November 2007, to acquire treasury shares (common and/or preferred stock) via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution and to withdraw these shares from circulation without any further shareholder resolution. It has not yet been decided whether or to what extent the authorisation will be used.

During the first half of 2006, the BMW Group acquired 305,312 shares of BMW preferred stock at an average price of euro 38.18 per share. It is intended to issue these shares to employees during

the financial year 2006 at a reduced price in conjunction with an employee share scheme. These shares of preferred stock are subject to a vesting period of four years.

Equity attributable to shareholders

Equity attributable to shareholders of BMW AG at 30 June 2006 amounted to euro 17,998 million (31 December 2005: euro 16,973 million).

Equity attributable to minority interests was a negative amount of euro 0.605 million (31 December 2005: positive amount of euro 0.188 million). This includes a minority interest of euro 1.4 million (31 December 2005: euro 0.026 million) in subsidiaries' results for the period.

[23] Other Provisions

Other provisions, at euro 5,800 million (31 December 2005: euro 5,906 million) include primarily personnel-related obligations and obligations for on-going operational expenses.

Current provisions at 30 June 2006 amounted to euro 2,369 million (31 December 2005: euro 2,663 million).

[24] Income tax liabilities

| 30 June 2006 in euro million | Maturity within one year | Maturity later than one year | Total |
|---------------------------------|-----------------------------|------------------------------------|--------------|
| Deferred tax | – | 2,968 | 2,968 |
| Current tax | 596 | 35 | 631 |
| Income tax liabilities | 596 | 3,003 | 3,599 |

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

Current tax liabilities of euro 631 million (31 December 2005: euro 462 million) comprise euro 423 million (31 December 2005: euro 243 million) for tax

provisions and euro 208 million (31 December 2005: euro 219 million) for taxes payable.

[25] Financial liabilities Financial liabilities include all obligations of the BMW Group relating to financing activities and comprise:

| in euro million | 30.6.2006 | 31.12.2005 |
|--|---------------|---------------|
| Bonds | 14,935 | 15,162 |
| Liabilities to banks | 3,579 | 3,653 |
| Liabilities from customer deposits (banking) | 6,097 | 6,392 |
| Commercial paper | 3,831 | 3,814 |
| Asset backed financing transactions | 3,381 | 3,899 |
| Interest and currency derivatives | 414 | 850 |
| Other | 908 | 898 |
| Financial liabilities | 33,145 | 34,668 |
| thereof non-current | 14,396 | 16,830 |
| thereof current | 18,749 | 17,838 |

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

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

| in euro million | 30.6.2006 | 31.12.2005 |
|---|--------------|--------------|
| Other taxes | 497 | 329 |
| Social security | 41 | 122 |
| Advance payments from customers | 363 | 366 |
| Deposits received | 145 | 164 |
| Liabilities to subsidiaries | 52 | 39 |
| Liabilities to other companies in which an investment is held | 36 | 2 |
| Deferred income | 2,471 | 2,421 |
| Sundry other liabilities | 2,282 | 1,793 |
| Other liabilities | 5,887 | 5,236 |
| thereof non-current | 1,723 | 1,659 |
| thereof current | 4,164 | 3,577 |

BMW Group
Notes to the Interim Group Financial Statements to 30 June 2006
Other disclosures

[27] Explanatory comments to segment information

The activities of the various segments are described in the Group financial statements of BMW AG at 31 December 2005.

Segment information for the second quarter 2006 is as follows:

| Segment information by business segment in euro million | Automobiles | | Motorcycles | | Financial Services | | Reconciliations | | Group | | |
|---|---------------|--------------------|-------------|------------|--------------------|--------------|-----------------|--------------------|---------------|--------------------|-----|
| | 2006 | 2005 ¹⁾ | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 ¹⁾ | 2006 | 2005 ¹⁾ | |
| Revenues with third parties | 10,234 | 9,700 | 413 | 420 | 2,495 | 2,011 | 51 | 28 | 13,193 | 12,159 | |
| Inter-segment revenues | 2,709 | 2,211 | 6 | 3 | 374 | 372 | -3,089 | -2,586 | - | - | |
| Total revenues | 12,943 | 11,911 | 419 | 423 | 2,869 | 2,383 | -3,038 | -2,558 | 13,193 | 12,159 | |
| Profit before financial result | 990 | 896 | 59 | 55 | 180 | 164 | 31 | 5 | 1,260 | 1,120 | |
| Result from equity method accounting | 9 | -4 | - | - | - | - | - | - | 9 | -4 | |
| Other net financial result | -52 | -75 | -3 | -2 | - | -3 | 18 | -109 | -37 | -189 | |
| Profit before tax | 947 | 817 | 56 | 53 | 180 | 161 | 49 | -104 | 1,232 | 927 | |
| Return on sales | % | 7.3 | 6.9 | 13.4 | 12.5 | 6.3 | 6.8 | - | - | 9.3 | 7.6 |

1) adjusted figures

Segment information for the first half of 2006 is as follows:

| Segment information by business segment in euro million | Automobiles | | Motorcycles | | Financial Services | | Reconciliations | | Group | | |
|---|---------------|--------------------|-------------|------------|--------------------|--------------|-----------------|--------------------|---------------|--------------------|-----|
| | 2006 | 2005 ¹⁾ | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 ¹⁾ | 2006 | 2005 ¹⁾ | |
| Revenues with third parties | 19,089 | 17,883 | 723 | 737 | 4,905 | 3,846 | 94 | 50 | 24,811 | 22,516 | |
| Inter-segment revenues | 5,085 | 3,982 | 9 | 4 | 702 | 672 | -5,796 | -4,658 | - | - | |
| Total revenues | 24,174 | 21,865 | 732 | 741 | 5,607 | 4,518 | -5,702 | -4,608 | 24,811 | 22,516 | |
| Profit before financial result | 1,705 | 1,636 | 89 | 87 | 356 | 325 | -1 | -97 | 2,149 | 1,951 | |
| Result from equity method accounting | 10 | -1 | - | - | - | - | - | - | 10 | -1 | |
| Other net financial result | -7 | -108 | -4 | -3 | -3 | -14 | 383 | -76 | 369 | -201 | |
| Profit before tax | 1,708 | 1,527 | 85 | 84 | 353 | 311 | 382 | -173 | 2,528 | 1,749 | |
| Return on sales | % | 7.1 | 7.0 | 11.6 | 11.3 | 6.3 | 6.9 | - | - | 10.2 | 7.8 |

1) adjusted figures

Financial calendar

| | |
|-------------------------------------|-----------------|
| Interim Report to 30 September 2006 | 2 November 2006 |
| Annual Report 2006 | 14 March 2007 |
| Interim Report to 31 March 2007 | 3 May 2007 |
| Annual General Meeting | 15 May 2007 |
| Interim Report to 30 June 2007 | 1 August 2007 |
| Interim Report to 30 September 2007 | 6 November 2007 |

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Published by

Bayerische Motoren Werke

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