

# Interim Report to 31 March 2005

Q1



---

Rolls-Royce  
Motor Cars Limited



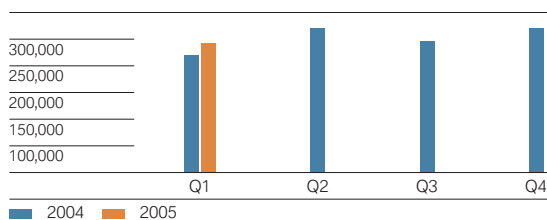
**BMW Group**

## The BMW Group – an Overview

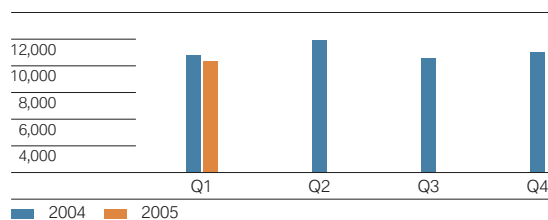
<b>BMW Group in figures</b>		1st quarter 2005	1st quarter 2004	Change in %
<b>Vehicle production</b>				
Automobiles	units	301,753	290,003	4.1
Motorcycles	units	25,980	32,257	-19.5
<b>Deliveries to customers</b>				
Automobiles	units	292,207	269,973	8.2
Motorcycles	units	21,304	17,935	18.8
<b>Workforce at end of quarter</b>		<b>106,033</b>	<b>105,123</b>	<b>0.9</b>
<b>Cash flow</b>	euro million	<b>1,294</b>	<b>1,146</b>	<b>12.9</b>
<b>Revenues</b>	euro million	<b>10,357</b>	<b>10,805</b>	<b>-4.1</b>
<b>Profit before tax</b>	euro million	<b>812</b>	<b>851</b>	<b>-4.6</b>
Thereof:				
Automobiles	euro million	702	742	-5.4
Motorcycles	euro million	31	28	10.7
Financial Services	euro million	150	132	13.6
Reconciliations	euro million	-71	-51	-39.2
<b>Income taxes</b>	euro million	<b>-293</b>	<b>-328</b>	<b>10.7</b>
<b>Net profit</b>	euro million	<b>519</b>	<b>523</b>	<b>-0.8</b>
<b>Earnings per share<sup>1)</sup></b>	euro	<b>0.77/0.77</b>	<b>0.78/0.78</b>	<b>-1.3</b>

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

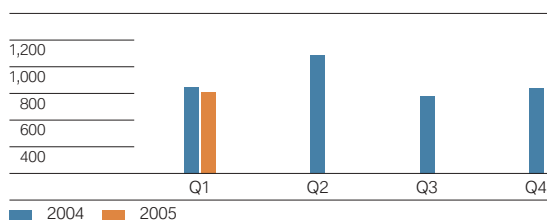
**BMW Group Deliveries of automobiles**  
in units



**BMW Group Revenues**  
in euro million



**Profit before tax**  
in euro million



### **BMW Group makes a successful start to 2005**

The BMW Group has started 2005, as expected, with rising sales volume figures and another successful financial performance.

BMW, MINI and Rolls-Royce brand car sales rose during the first quarter 2005 by 8.2% to 292,207 units, the highest level ever achieved by the Group in a first quarter.

Motorcycle sales also increased significantly. 21,304 BMW motorcycles were delivered to customers during the first quarter 2005, 18.8% more than in the same quarter last year.

The Financial Services segment continued to perform well during the first quarter 2005. The number of lease and financing contracts in place with dealers and retail customers increased to 1,894,897 contracts, 14.0% more than one year earlier.

### **Revenues and earnings influenced by external factors**

Group revenues for the first quarter 2005 amounted to euro 10,357 million, a 4.1% reduction compared to the same quarter last year. This was due primarily to model life-cycle factors in the Automobiles segment and to the weakness of the US dollar against the euro.

BMW Group's reported results continue to be adversely affected by external factors. In particular, significantly higher raw material prices, currency factors and increased competitive pressure have all had a negative impact during the first quarter of 2005. As a result, profit before tax, at euro 812 million, was 4.6% lower than in the same quarter last year.

The Group recorded a profit after tax of euro 519 million, almost the same as in the first quarter 2004 (-0.8%).

### **Slight increase in workforce**

The BMW Group had a worldwide workforce of 106,033 employees at 31 March 2005, 0.9% more than one year earlier. Compared to 31 December 2004, the number of employees was largely unchanged (+0.1%).

### **Numerous new models in the course of 2005**

The BMW Group will again be introducing numerous new models onto the market during 2005. Following on from the new BMW 3 Series Sedan, which became available from 5 March 2005 onwards, the new BMW 3 Series Touring, the revised BMW 7 Series, the high performance BMW M5 and BMW M6 models and the BMW 130i will all come onto the market during the course of the year. In addition, from spring onwards, the dynamic four-wheel xDrive system will also be available for the first time in a BMW Sedan, namely in the BMW 525xi and 530xi.

The BMW Group also announced in mid-March that it would continue to broaden the range of vehicles on offer by bringing out two new model series in the coming years. In this way, the BMW Group is creating opportunities to increase sales volume and profitability in the future by taking advantage of the increasingly differentiated development of the various segments of the international car markets.

### **Outlook confirmed**

The adverse effect of higher raw material prices, changes in the US dollar exchange rate and increased market competition will all influence the reported results of the BMW Group for the full year. These factors contrast with rising sales volumes and benefits gained from continuous efficiency improvement measures. The BMW Group's unchanged aim for 2005 is to achieve approximately the high earnings level of 2004.

### Strong sales volume growth in the first quarter

The BMW Group increased its car sales volume during the first quarter 2005 by 8.2% compared to the first quarter 2004. 292,207 BMW, MINI and Rolls-Royce brand cars were delivered to customers during the first three months of 2005.

At 239,387 units, the number of BMW brand cars sold between January and March 2005 surpassed the previous year's equivalent figure by 7.8%. 52,694 MINI brand cars were delivered to customers during the same period, 10.3% more than in the previous year.

Rolls-Royce Motor Cars handed over 126 Phantoms to customers during the first quarter 2005, 10.0% fewer than in the same quarter last year.

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

The BMW Group sold 176,284 cars in Western Europe in the period from January to March 2005, an increase of 8.1% over the same quarter last year. This figure includes 65,681 cars delivered to customers in Germany (+8.6%). The second strongest market of the BMW Group in Western Europe is the United Kingdom, where 36,905 cars were sold during the first quarter 2005, down 1.2% against the first quarter 2004. In Italy, the number of cars sold by the BMW Group during the first three months of the year increased by 12.6% to 22,206 units, while the sales volume in Spain and France rose to 13,022 units (+26.4%) and 11,562 units (+15.7%) respectively.

The sales volume of the BMW Group in North America grew by 7.7% during the first quarter 2005 to reach 69,677 units, including 65,599 units (+7.0%) sold in the USA.

23,413 units were delivered to customers in Asia during the first quarter 2005, an increase of 1.2%.

Japan is the largest market for the BMW Group in this region. In total, 13,733 units were delivered to customers in Japan during the first quarter 2005, representing a growth of 8.0% compared to the first quarter 2004.

The number of cars sold by the BMW Group on the Chinese markets (China, Hong Kong, Taiwan) fell by 6.6% to 6,054 units.

### BMW 3 Series Sedan launched successfully

The BMW Group expanded the BMW brand in 2004 by introducing the BMW 1 Series into the compact category. During the first three months of 2005, 36,042 BMW 1 Series cars were delivered to customers.

As a result of the pending model change, the number of BMW 3 Series cars sold during the first three months of 2005 decreased, in line with expectations, by 28.5% to 79,537 units. The new BMW 3 Series Sedan's market introduction commenced in Europe at the beginning of March 2005 and the USA will follow in May 2005. 6,444 units had been delivered to customers by the end of the quarter. The sales volume of the BMW 3 Series Convertible, the BMW 3 Series Coupé and the BMW 3 Series Touring during the first quarter 2005 totalled 7,385 units (–30.6%), 8,680 units (–42.9%) and 15,155 units (–22.0%) respectively.

A total of 54,239 units of the BMW 5 Series were delivered during the first quarter 2005, 1.4% more than in the previous year. The BMW 5 Series is thus the world's best-selling car in its segment. With 42,168 units sold, the BMW 5 Series Sedan accounts for more than 75% of the total sales volume of the BMW 5 Series. 12,071 units of the BMW 5 Series Touring were sold during the first quarter 2005 (including 261 units of the predecessor model).

<b>Automobiles</b>		1st quarter 2005	1st quarter 2004	Change in %
Production	units	301,753	290,003	4.1
Deliveries to customers	units	292,207	269,973	8.2
Revenues	euro million	9,954	9,744	2.2
Profit before tax	euro million	702	742	–5.4
Workforce at end of quarter		98,987	98,366	0.6

5,185 units of the BMW 6 Series were delivered to customers during the first three months of 2005, including 2,483 units of the BMW 6 Series Convertible which had been introduced on the market in March 2004. The sales volume of the BMW 6 Series Coupé during the first quarter 2005 totalled 2,702 units.

The updated version of the BMW 7 Series became available from the beginning of April 2005, midway through the series' model life-cycle, incorporating both technical and visual refinements. New engines, delivering enhanced performance with similar or lower fuel consumption, as well as a revised design, are expected to lead to an increase in demand. 8,025 units of the BMW 7 Series were sold during the first quarter 2005, 28.1% fewer than in the first quarter 2004, with anticipation of the model revision contributing to the reduction.

The BMW X3 Sports Activity Vehicle was introduced on the markets from the beginning of 2004. During the first three months of 2005, 27,529 units (+147.3%) were delivered to customers.

Demand for the BMW X5 remains strong even in its sixth year of production. 22,740 units were delivered to customers during the first quarter 2005, 3.4% more than in the same quarter last year.

The sales volume of the BMW Z4 Roadster during the first quarter 2005 totalled 6,074 units (-36.5%). The BMW Z4 was introduced on the market at the end of 2002. Since that date, more than 95,500 units of the model, which is manufactured at the BMW Group plant in Spartanburg/USA, have been sold.

#### **More than 52,000 MINI cars sold during the first quarter**

52,694 MINI brand cars were sold during the first three months of 2005, 10.3% more than in the corresponding period last year.

During the first quarter 2005, 11,277 units of the MINI Convertible were sold. This model, which was introduced in mid-2004, is available with three engine options. The best-selling convertible model is the MINI Cooper Convertible with 5,586 units. The sales volume of the more powerful MINI Cooper S Convertible and of the MINI One Convertible starter version totalled 3,810 and 1,881 units respectively.

The sales volume of the fixed-top versions of the MINI during the period from January to March 2005 was down by 13.3% compared to the previous year. In total, 41,417 units were delivered to customers during the first quarter 2005. The MINI Cooper remained the best-selling MINI model, with a sales volume of 18,240 units during the first quarter 2005, followed by the MINI One (including the MINI One D) with a sales volume of 13,639 units. The sales volume of the MINI Cooper S, the most powerful MINI model, totalled 9,538 units.

#### **Extended wheelbase version of the Rolls-Royce Phantom presented**

126 Rolls-Royce Phantoms were handed over to customers during the first quarter 2005, compared to 140 (-10.0%) in the same quarter last year.

Two years on from the launch of the Rolls-Royce Phantom, an extended wheelbase version will become available in the course of 2005 to meet demand in the Middle East and Asia Pacific regions. The additional space offers even more comfort for passengers sitting in the rear.

#### **Car production increased**

The BMW Group manufactured 301,753 cars during the first quarter 2005, 4.1% more than in the same quarter last year. This comprised 251,729 BMW brand vehicles, 49,891 MINI brand vehicles and 133 Rolls-Royce Phantoms.

#### **Revenues and earnings held down**

The weakness of the US dollar against the euro and model life-cycle induced factors held down the revenues and earnings performance of the Automobiles segment for the first quarter 2005. Whereas segment revenue increased by 2.2% to euro 9,954 million, segment profit before tax fell by 5.4% to euro 702 million compared to the first quarter last year.

#### **Workforce slightly higher**

At the end of the first quarter 2005, the Automobiles segment had 98,987 employees, 0.6% more than one year earlier.

### Sharp increase in sales volume in the first quarter

The Motorcycles segment has started the financial year 2005 with a sharp increase in sales volume.

The product offensive initiated in 2004 had a positive effect on segment performance, with the full availability of the K 1200 S and R 1200 RT contributing to good growth rates.

Sales volume was up in almost all markets compared to the first quarter 2004. The BMW Group benefited from the positive market trends in its traditional selling regions (Western Europe, America and Japan) by registering above-market average growth rates.

Sales of BMW motorcycles rose significantly in Europe. Spain recorded a sales volume growth of 67.6% due to specific regional factors. Sales units also climbed significantly in the United Kingdom (+24.9%). In Germany, the largest single market for BMW motorcycles, 5,522 units were delivered to customers during the first quarter 2005, 6.6% more than in the same quarter last year.

The number of BMW motorcycles sold in the USA during the first quarter 2005 increased by 8.8% to 2,550 units, significantly better than the growth rate (+0.5%) for the market as a whole.

### R 1200 GS remains the best-selling model

The R 1200 GS long-distance enduro, of which 6,772 units were sold during the first quarter 2005, remained the best-selling BMW motorcycle. This was followed by the F 650 GS (including the Dakar version) with 2,436 units delivered to customers during the first three months of 2005. The R 1200 RT took third place with 2,230 units sold in the same period.

### Model offensive continued

Following on from the K 1200 R in September 2004, the BMW Group unveiled the high performance HP2 enduro to the public in April. The technology of this new uncompromisingly sporty and exceptionally light enduro is based on that of the R 1200 GS and will satisfy the highest demands of off-road enthusiasts.

### Motorcycle production with focus on new start-ups

Motorcycle production at the Berlin plant during the first quarter 2005 was lower than in the same quarter last year. The new models K 1200 S, R 1200 RT and R 1200 ST were brought up to their full production volume levels during the reporting period in line with schedule. In total, 25,980 BMW motorcycles were manufactured during the first quarter 2005, 19.5% fewer than in the same quarter last year.

### Segment revenues and earnings increased

Revenues of the Motorcycles segment for the first quarter 2005 increased by 12.8% to euro 318 million. Segment profit before tax for the quarter improved by 10.7% to euro 31 million.

At 31 March 2005, the Motorcycles segment's workforce comprised 2,892 employees, 3.1% less than one year earlier.

Motorcycles		1st quarter 2005	1st quarter 2004	Change in %
Production	units	25,980	32,257	-19.5
Deliveries to customers	units	21,304	17,935	18.8
Revenues	euro million	318	282	12.8
Profit before tax	euro million	31	28	10.7
Workforce at end of quarter		2,892	2,983	-3.1

### Financial services business remains on growth course

The BMW Group's financial services business continued to perform well, posting strong growth in the first quarter 2005. The total segment business volume at the end of the first quarter, based on balance sheet carrying amounts, increased by 13.0% to euro 34,134 million; compared to 31 December 2004, the increase was 4.8%. The number of lease and financing contracts in place with dealers and retail customers at 31 March 2005 stood at 1,894,897 contracts, an increase of 14.0% compared to one year earlier. The proportion of new BMW Group cars financed by the Financial Services segment during the first three months went up from 39.5% to 42.3%.

### Sharp increase in retail customer business

198,634 new contracts with retail customers were signed during the first quarter 2005, 11.4% more than during the first quarter 2004. This growth related particularly to lease business, for which the number of contracts signed increased by 30.2% compared to the first quarter last year. New credit financing business grew by 2.1%. Due to the stronger growth of lease business, it now accounts for 38.5% of all new contracts (first quarter 2004: 32.9%). The number of new financing contracts for used cars increased by 8.6% compared to the first quarter 2004.

The overall volume of new contracts signed with retail customers during the first quarter 2005 amounted to euro 5,110 million, surpassing the previous year's equivalent figure by 9.6%.

This strong performance is reflected in the overall contract portfolio. At the end of the quarter,

1,722,083 contracts were in place with retail customers, 14.1% more than one year earlier. The contract portfolio increased at double-digit percentage rates in all regions. In Germany, for example, it grew by 13.7% and for the other European markets, it grew by 14.0%. Growth in the East Asia region was 11.8% and in the Americas region it was as high as 15.4%.

### Dealer financing business continues to grow

The reported figures for dealer financing business continue to reflect strong growth. The Financial Services segment is therefore able to provide an important contribution to support the BMW Group's dealer organisation. The total volume of dealer financing contracts managed by the Financial Services segment at the end of the first quarter 2005 stood at euro 5,808 million, 12.7% higher than one year earlier.

### Fleet business continues to develop positively

Fleet business, with its focus on the European market, was further expanded during the first quarter 2005. The number of managed contracts surpassed the 100,000 mark for the first time in January 2005. 109,572 contracts were in place at the end of the first quarter 2005, representing a sharp growth of 40.2% compared to one year earlier.

### Banking products generate continuous growth

Banking operations have also seen continuous growth. Thanks largely to steady cash inflows from deposit business, the managed volume at the end of the first quarter 2005 stood at euro 5,410 million, 27.6% more than one year earlier. The main contributing factors for this development were the

Financial Services		1st quarter 2005	1st quarter 2004	Change in %
New contracts with retail customers		198,634	178,368	11.4
Business volume <sup>1]</sup>	euro million	34,134	30,218	13.0
Revenues	euro million	2,135	1,965	8.7
Profit before tax	euro million	150	132	13.6
Workforce at end of quarter		2,944	2,673	10.1

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

attractive terms and conditions offered for online call deposits and savings accounts in Germany. At 31 March 2005, the total number of customer accounts worldwide stood at 381,453 accounts, 43.1% more than one year earlier.

Net cash inflows from fund-related products also increased, with the total volume of investment funds offered growing by 182.5% to euro 28.8 million. The range of investment funds, selected using the FundNavigator system, was further expanded during the first quarter 2005 and now comprises 14 funds offered by eleven enterprises. The number of custodian accounts rose to 21,554, an increase of 42.6% compared to 31 March 2004.

#### **Insurance business heading for expansion**

Insurance business with retail customers continued to perform well during the first quarter 2005. In total, 384,891 insurance contracts were in place at the end of the quarter, 15.6% more than one year earlier. Plans are in hand to expand retail customer insurance business to other markets during the course of 2005.

#### **Segment earnings increase again**

The profit before tax of the Financial Services segment for the first quarter 2005 increased by 13.6% to euro 150 million.

At 31 March 2005, the segment had 2,944 employees, 10.1% more than one year earlier.



## BMW stock in the first quarter 2005

The stock markets continued to be affected by currency exchange rate developments and rising raw material costs during the first quarter 2005. After the downward slide of the US dollar accelerated again towards the end of 2004, this trend came to a halt during the course of the first quarter 2005.

Export-orientated automobile stocks in particular performed well during the quarter. The DAX was unable to match this performance however and only managed to add 92.96 points to its level at the end of 2004. The main German stocks index eased up somewhat in March, closing on 31 March 2005 at 4,348.77 points, 2.2% higher than at the end of 2004.

The development of the US dollar/euro exchange rate discussed above was reflected in the Prime Automobile Performance Index, the sector index for German automobile stocks: the slight recovery of the US dollar in March helped the index to stabilise. The Prime Automobile Performance Index closed on

31 March 2005 at 364.96 points, 5.6% above its level at the end of 2004, and thus outperforming the market as a whole.

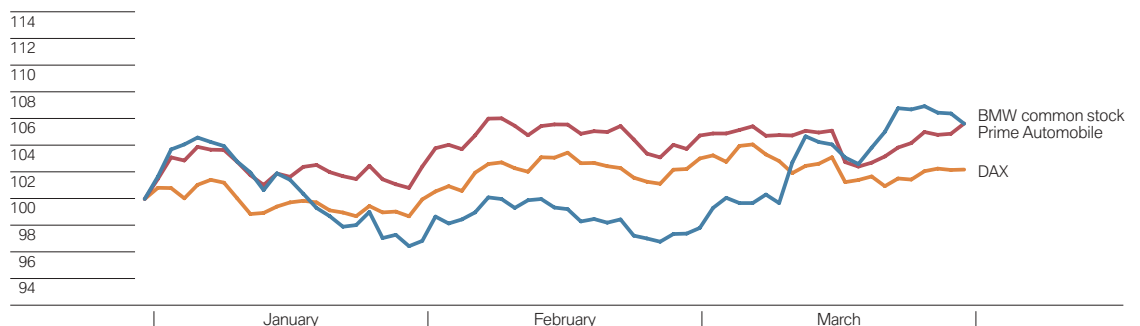
The market price of BMW common stock was also able to outperform the DAX. It closed at euro 35.05 at the end of the quarter, and hence euro 1.85 or 5.6% higher than at the year-end.

## Share buy-back proposed

The Board of Management and the Supervisory Board of BMW AG will propose a resolution at the Annual General Meeting to be held on 12 May 2005 authorising the buy-back of up to 10% of the Company's share capital. The aim of this measure is to reduce the company's share capital by withdrawing the shares from circulation. Sustained high profitability and the related positive development of cash flows over the past years have enabled the BMW Group to accumulate a substantial level of cash funds and to achieve a solid equity ratio. The BMW Group considers that cash flow will continue to grow dynamically over the coming years.

## Development of BMW stock compared to stock exchange indices

(Index: 3 January 2005 = 100)



### Earnings performance during the first quarter

The BMW Group recorded a net profit of euro 519 million for the first quarter 2005, 0.8% below the result for the same quarter last year. The post-tax return on sales was 5.0% (first quarter 2004: 4.8%). For the first quarter 2005, the Group generated earnings per share of common stock and preferred stock of euro 0.77 (first quarter 2004: euro 0.78).

Group revenues fell by 4.1% to euro 10,357 million. External revenues of the Automobiles segment were 6.5% lower than in the same quarter last year. External revenues of the Motorcycles and Financial Services segments increased by 14.0% and 4.6% respectively for the same quarter. Revenues from other activities of the Group amounted to euro 22 million and related mainly to the softlab Group. The comparable figure for the first quarter 2004 was euro 21 million.

Cost of sales amounted to euro 7,914 million, whereby the decrease was 0.7 percentage points higher than the decrease in revenues. Gross profit in absolute terms was down by 2.1% and the gross profit percentage was 23.6% (first quarter 2004: 23.1%). The gross profit of industrial operations fell by 0.1 percentage points to 22.1% and that of financial operations improved by 0.1 percentage points to 13.2%. The increase in the Group's gross margin can be attributed to the higher level of revenue eliminations caused by the sharp increase in lease business.

Sales and administrative costs increased by 5.5% compared to the first quarter 2004 and represent 10.7% (first quarter 2004: 9.8%) of revenues.

Research and development costs increased by 8.7% compared to the first quarter 2004. Research

and development costs amounted to euro 598 million (first quarter 2004: euro 550 million) and represent 5.8% (first quarter 2004: 5.1%) of revenues. Research and development costs include amortisation of capitalised development costs amounting to euro 168 million (first quarter 2004: euro 143 million). Total research and development costs for the first quarter 2005 amounted to euro 644 million (first quarter 2004: euro 621 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. This gives a research and development expenditure ratio for the first quarter 2005 of 6.2% (first quarter 2004: 5.7%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 713 million (first quarter 2004: euro 571 million). The increase reflects the effect of the start of operations at the Leipzig plant and the introduction of new products, since depreciation expense is recognised after the start of production.

The positive net amount from other operating income and expenses increased compared to the corresponding period in 2004. Other operating income remained at the previous year's level, whereas other operating expenses decreased by euro 71 million, mainly due to lower exchange losses.

The financial result for the first quarter 2005 improved by euro 57 million compared to the same quarter last year. This improvement was attributable to the positive fair value change of the exchangeable bond option on the BMW Group investment in Rolls-Royce plc, London. The fair value change resulted in an income of euro 1 million in "Other

Revenues by segment in the 1st quarter in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2005	2004	2005	2004	2005	2004
Automobiles	8,183	8,751	1,771	993	9,954	9,744
Motorcycles	317	278	1	4	318	282
Financial Services	1,835	1,755	300	210	2,135	1,965
Reconciliations	22	21	-2,072	-1,207	-2,050	-1,186
<b>Group</b>	<b>10,357</b>	<b>10,805</b>	<b>-</b>	<b>-</b>	<b>10,357</b>	<b>10,805</b>

<b>Profit before tax by segment</b> in euro million	1st quarter 2005	1st quarter 2004
Automobiles	702	742
Motorcycles	31	28
Financial Services	150	132
Reconciliations	-71	-51
<b>Profit before tax</b>	<b>812</b>	<b>851</b>
Income taxes	-293	-328
<b>Net profit</b>	<b>519</b>	<b>523</b>

financial result" in the first quarter of 2005, as compared to an expense of euro 65 million in the first quarter of 2004. The fair value of the option remains negative due to the market price of the stock. The market value of the BMW Group's investment in Rolls-Royce plc improved by euro 9 million during the first quarter 2005. This increase was recognised directly in equity. Within the financial result, the result from investments decreased by euro 33 million and the net interest expense improved by euro 7 million.

Group profit before tax fell by 4.6% compared to the same quarter last year. The income tax expense decreased by 10.7%. As a result of the reduction in tax rates in a number of countries, the effective tax rate, at 36.1%, was below the rate applicable for the first quarter 2004.

After an income tax expense of euro 293 million (first quarter 2004: euro 328 million), the Group net profit for the first quarter 2005 amounted to euro 519 million (first quarter 2004: euro 523 million), a reduction of 0.8%.

Revenues of the Automobiles segment for the first quarter 2005 increased by 2.2%. The segment result fell by 5.4% due to the external factors described above and to model life-cycle factors.

Revenues of the Motorcycles segment rose by 12.8%. The segment result improved accordingly by 10.7%.

Revenues and profit before tax of the Financial Services segment for the first quarter 2005 increased by 8.7% and 13.6% respectively as a result of

the higher volume of business compared to the first quarter 2004.

Reconciliations to the Group profit before tax for the first quarter 2005 were again negative and increased by euro 20 million compared to the first quarter 2004. Gains on the fair value remeasurement of financial instruments were more than offset by the higher level of intra-segment profit eliminations on leased products.

#### **Financial position during the first quarter**

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

Operating activities of the BMW Group during the first quarter 2005 generated a positive cash flow of euro 2,334 million (first quarter 2004: euro 2,591 million).

The cash outflow for investing activities for the first quarter 2005, at euro 2,520 million, was higher than in the previous year. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 102 million compared to the same quarter last year. Cash outflow in conjunction with the net investment in leased products and receivables from sales financing increased by euro 317 million. 92.6% (first quarter 2004: 125.5%) of

the cash outflow for investing activities was covered by the cash inflow from operating activities. By contrast, the cash flow statement for industrial operations shows coverage of 145.9% (first quarter 2004: 309.1%). The cash flow statement of the financial operations sub-group shows that cash inflow from operating activities does, as expected, 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 1,035 million from bond issues (first quarter 2004: euro 1,200 million) and outflows for repayments of euro 840 million (first quarter 2004: euro 1,161 million). The cash inflow of euro 73 million from financing activities during the first quarter 2005 was attributable primarily to the increase in financial liabilities.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group, the various cash flows resulted in a decrease in cash and cash equivalents of euro 86 million (first quarter 2004: increase of euro 346 million).

Net interest-bearing assets relating to industrial operations (including receivables from the financial operations sub-group) amounted to euro 3,162 million at 31 March 2005. This represents an increase of euro 530 million since 31 December 2004. Net interest-bearing assets relating to industrial operations comprise cash and cash equivalents (euro 1,962 million), marketable securities (euro 2,041 million) and receivables from the financial operations sub-group (euro 608 million) less financial liabilities relating to industrial operations. Excluding interest and currency derivatives, the latter amounts to euro 1,449 million.

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

In the first quarter 2005, the BMW Group has applied revised IAS 1 (Presentation of Financial Statements), amended as a part of the "Improvement Project". This Standard requires the balance sheet to be classified on the basis of the maturity of assets and liabilities (current/non-current distinction) and has resulted in a changed presentation of the Group balance sheet (see also Note [4]).

#### **Net assets position at the end of the first quarter**

The balance sheet total of the BMW Group increased by euro 1,516 million or 2.2% compared to 31 December 2004. Excluding the effect of currency fluctuations, the increase would have been only 0.8%. The main factors behind the increase on the assets side of the balance sheet were leased products (+10.4%), receivables from sales financing (+3.2%) and trade receivables (+20.1%). By contrast, financial assets decreased by 7.9%. The increase in total equity and liabilities was due to the higher level of financial liabilities (+2.1%), other liabilities (+13.6%) and equity (+0.9%).

Inventories increased by euro 268 million compared to 31 December 2004. New models introduced in conjunction with the product offensive led to higher inventories of finished goods.

The euro 455 million decrease in financial assets was largely due to the fact that the amount recognised for derivative financial instruments was euro 789 million lower than at 31 December 2004. By contrast, marketable securities increased by euro 209 million.

Group equity increased mainly as a result of the group net profit of euro 519 million. Within group equity, accumulated other equity decreased by euro 357 million. This reduction resulted from the lower fair values of derivative financial instruments (decreased by euro 472 million). In the opposite direction, changes in the fair value of marketable securities and translation differences recognised directly in equity increased other accumulated equity by euro 5 million and euro 110 million respectively. Treasury shares acquired in conjunction with employee share schemes reduced equity by euro 5 million. Overall, equity increased by euro 157 million or 0.9% during the first quarter 2005, whereas the Group equity ratio fell slightly by 0.4 percentage points to 25.6%. The equity ratio for industrial operations was 44.0% (31 December 2004: 44.9%) and that for financial operations was 10.7% (31 December 2004: 9.7%).

Other provisions amounted to euro 5,673 million, similar to the level at 31 December 2004. Deferred tax liabilities decreased by 5.7% to euro 2,448 million as a result of the lower fair values of derivative financial instruments.

Within the balance sheet item Financial liabilities, asset backed financing liabilities increased by euro 339 million. Overall, financing liabilities increased by euro 661 million during the first quarter 2005.

# BMW Group Group and sub-group Income Statements for the 1st quarter

in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2005	2004	2005	2004	2005	2004
Revenues	[5]	10,357	10,805	10,294	10,047	2,267	2,022
Cost of sales	[6]	-7,914	-8,309	-8,019	-7,816	-1,967	-1,757
<b>Gross profit</b>		<b>2,443</b>	<b>2,496</b>	<b>2,275</b>	<b>2,231</b>	<b>300</b>	<b>265</b>
Sales and administrative costs	[7]	-1,113	-1,055	-1,011	-952	-107	-105
Research and development costs	[8]	-598	-550	-598	-550	-	-
Other operating income and expenses	[9]	89	26	76	26	7	-14
<b>Profit before financial result</b>		<b>821</b>	<b>917</b>	<b>742</b>	<b>755</b>	<b>200</b>	<b>146</b>
Financial result	[10]	-9	-66	-19	-65	22	8
<b>Profit before tax</b>		<b>812</b>	<b>851</b>	<b>723</b>	<b>690</b>	<b>222</b>	<b>154</b>
Income taxes	[11]	-293	-328	-271	-267	-76	-58
<b>Net profit</b>		<b>519</b>	<b>523</b>	<b>452</b>	<b>423</b>	<b>146</b>	<b>96</b>
<b>Earnings per share of common stock</b> in euro	[12]	0.77	0.78				
<b>Earnings per share of preferred stock<sup>2)</sup></b> in euro	[12]	0.77	0.78				

1) before consolidation of transactions between the sub-groups

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

## BMW Group Group and sub-group Balance Sheets

Assets in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		31.3.2005	31.12.2004	31.3.2005	31.12.2004	31.3.2005	31.12.2004
Intangible assets	[13]	3,805	3,758	3,785	3,739	20	19
Property, plant and equipment	[14]	10,698	10,724	10,678	10,703	20	21
Leased products	[15]	8,284	7,502	238	221	10,482	9,450
Investments accounted for using the equity method	[16]	72	65	72	65	–	–
Other investments	[16]	695	704	676	685	19	19
Receivables from sales financing	[17]	15,367	15,737	–	–	15,367	15,737
Financial assets	[18]	940	1,236	171	193	769	1,043
Deferred tax	[19]	312	296	303	191	–1,180	–1,012
Other assets	[21]	618	581	623	849	398	366
<b>Non-current assets</b>		<b>40,791</b>	<b>40,603</b>	<b>16,546</b>	<b>16,646</b>	<b>25,895</b>	<b>25,643</b>
Inventories	[20]	6,735	6,467	6,727	6,458	8	9
Trade receivables		2,243	1,868	2,157	1,820	86	48
Receivables from sales financing	[17]	10,483	9,317	–	–	10,483	9,317
Financial assets	[18]	4,358	4,517	3,374	3,254	984	1,263
Current tax	[19]	194	291	160	261	34	30
Other assets	[21]	2,085	2,224	2,026	2,217	840	800
Cash and cash equivalents		2,042	2,128	1,962	1,997	80	131
<b>Current assets</b>		<b>28,140</b>	<b>26,812</b>	<b>16,406</b>	<b>16,007</b>	<b>12,515</b>	<b>11,598</b>
<b>Total assets</b>		<b>68,931</b>	<b>67,415</b>	<b>32,952</b>	<b>32,653</b>	<b>38,410</b>	<b>37,241</b>
Total assets adjusted for asset backed financing transactions		64,323	63,146	–	–	33,802	32,972

1) before consolidation of transactions between the sub-groups

<b>Equity and liabilities</b> in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		31.3.2005	31.12.2004	31.3.2005	31.12.2004	31.3.2005	31.12.2004
Subscribed capital		674	674				
Capital reserves		1,971	1,971				
Revenue reserves		15,020	14,501				
Accumulated other equity		14	371				
Treasury shares		-5	-				
<b>Equity</b>	[22]	<b>17,674</b>	<b>17,517</b>	<b>14,485</b>	<b>14,647</b>	<b>4,095</b>	<b>3,613</b>
Pension provisions		2,765	2,703	2,743	2,680	22	23
Other provisions	[24]	3,030	2,991	3,018	2,938	12	53
Deferred tax	[23]	2,448	2,596	1,685	1,800	549	601
Financial liabilities	[25]	15,698	15,667	1,121	1,117	14,577	14,550
Other liabilities	[26]	1,384	1,358	1,029	1,046	1,048	1,195
<b>Non-current provisions and liabilities</b>		<b>25,325</b>	<b>25,315</b>	<b>9,596</b>	<b>9,581</b>	<b>16,208</b>	<b>16,422</b>
Other provisions	[24]	2,643	2,662	2,386	2,423	311	287
Current tax	[23]	575	497	469	406	106	91
Financial liabilities	[25]	15,894	15,264	428	463	15,466	14,801
Trade payables		3,499	3,376	3,090	3,070	409	306
Other liabilities	[26]	3,321	2,784	2,498	2,063	1,815	1,721
<b>Current provisions and liabilities</b>		<b>25,932</b>	<b>24,583</b>	<b>8,871</b>	<b>8,425</b>	<b>18,107</b>	<b>17,206</b>
<b>Total equity and liabilities</b>		<b>68,931</b>	<b>67,415</b>	<b>32,952</b>	<b>32,653</b>	<b>38,410</b>	<b>37,241</b>
Total equity and liabilities adjusted for asset backed financing transactions		64,323	63,146	-	-	33,802	32,972

1) before consolidation of transactions between the sub-groups

## BMW Group Group and sub-group Cash Flow Statements for the period from 1 January to 31 March

in euro million	Group	
	2005	2004
Net profit	519	523
Depreciation of leased products	875	641
Depreciation and write-downs on intangible assets, property, plant and equipment and other investments	713	571
Change in provisions	15	540
Change in deferred tax	41	127
Change in net current assets and other items	171	189
<b>Cash inflow from operating activities</b>	<b>2,334</b>	<b>2,591</b>
Investment in intangible assets and property, plant and equipment	- 588	- 690
Net investment in leased products and receivables from sales financing	- 1,768	- 1,451
Other	- 164	76
<b>Cash outflow from investing activities</b>	<b>- 2,520</b>	<b>- 2,065</b>
<b>Cash inflow/outflow from financing activities</b>	<b>73</b>	<b>- 214</b>
<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>	<b>27</b>	<b>34</b>
<b>Change in cash and cash equivalents</b>	<b>- 86</b>	<b>346</b>
Cash and cash equivalents at 1 January	2,128	1,659
<b>Cash and cash equivalents at 31 March</b>	<b>2,042</b>	<b>2,005</b>



Industrial operations		Financial operations		
2005	2004	2005	2004	
452	423	146	96	Net profit
1	1	689	623	Depreciation of leased products
706	566	7	5	Depreciation and write-downs on intangible assets, property, plant and equipment and other investments
49	553	-28	-13	Change in provisions
60	126	34	-2	Change in deferred tax
-152	241	370	-28	Change in net current assets and other items
<b>1,116</b>	<b>1,910</b>	<b>1,218</b>	<b>681</b>	<b>Cash inflow from operating activities</b>
-583	-686	-5	-4	Investment in intangible assets and property, plant and equipment
-18	-7	-1,750	-1,444	Net investment in leased products and receivables from sales financing
-164	75	-	1	Other
<b>-765</b>	<b>-618</b>	<b>-1,755</b>	<b>-1,447</b>	<b>Cash outflow from investing activities</b>
<b>-393</b>	<b>-752</b>	<b>466</b>	<b>538</b>	<b>Cash inflow/outflow from financing activities</b>
<b>7</b>	<b>4</b>	<b>20</b>	<b>30</b>	<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>
<b>-35</b>	<b>544</b>	<b>-51</b>	<b>-198</b>	<b>Change in cash and cash equivalents</b>
1,997	1,247	131	412	Cash and cash equivalents at 1 January
<b>1,962</b>	<b>1,791</b>	<b>80</b>	<b>214</b>	<b>Cash and cash equivalents at 31 March</b>

## BMW Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity			Treasury shares	Total
				Translation differences	Fair value measurement of marketable securities	Derivative financial instruments		
<b>31 December 2003</b>	<b>674</b>	<b>1,971</b>	<b>12,671</b>	<b>-720</b>	<b>-146</b>	<b>1,700</b>	<b>-</b>	<b>16,150</b>
Acquisition of treasury shares	-	-	-	-	-	-	-3	-3
Translation differences	-	-	-	148	-	55	-	203
Financial instruments	-	-	-	-	159	-553	-	-394
Net profit January to March 2004	-	-	523	-	-	-	-	523
<b>31 March 2004</b>	<b>674</b>	<b>1,971</b>	<b>13,194</b>	<b>-572</b>	<b>13</b>	<b>1,202</b>	<b>-3</b>	<b>16,479</b>
<b>31 December 2004</b>	<b>674</b>	<b>1,971</b>	<b>14,501</b>	<b>-763</b>	<b>62</b>	<b>1,072</b>	<b>-</b>	<b>17,517</b>
Acquisition of treasury shares	-	-	-	-	-	-	-5	-5
Translation differences	-	-	-	70	-	40	-	110
Financial instruments	-	-	-	-	5	-472	-	-467
Net profit January to March 2005	-	-	519	-	-	-	-	519
<b>31 March 2005</b>	<b>674</b>	<b>1,971</b>	<b>15,020</b>	<b>-693</b>	<b>67</b>	<b>640</b>	<b>-5</b>	<b>17,674</b>

# BMW Group

## Notes to the Interim Group Financial Statements to 31 March 2005

### Accounting Principles and Policies

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

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

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

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

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial and financial companies. These transactions are usually in the form of "asset backed financing" transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) and the interpretation in SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet. The balance sheet value of the assets sold at 31 March 2005 totalled euro 4.6 billion (31 December 2004: euro 4.3 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

- [2] Consolidated companies    The BMW Group financial statements for the first quarter 2005 include, besides BMW AG, 42 German and 135 foreign subsidiaries. This includes 17 special securities funds and 21 trusts, almost all of which are used for asset backed financing. BMW Automotive (Ireland) Ltd., Dublin, Parkhaus Oberwiesenfeld GmbH, Munich, and Gesellschaft für Vermietung und Verwaltung von Kraftfahrzeugen mbH, Munich, were consolidated for the first time in the first quarter 2005. These subsidiaries are allocated to industrial operations.
- Compared to the first quarter 2004, five German and foreign subsidiaries, including two trusts and one special securities fund, are no longer consolidated and 15 German and foreign subsidiaries, including seven trusts, are consolidated for the first time.
- 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    The following Standards, as revised in conjunction with the “Improvement Project” of the IASB, were applied for the first time in the interim financial statements as at 31 March 2005:
- IAS 1 (Presentation of Financial Statements)
  - IAS 2 (Inventories)
  - IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
  - IAS 10 (Events after the Balance Sheet Date)
  - IAS 16 (Property, Plant and Equipment)
  - IAS 17 (Leases)
  - IAS 21 (The Effects of Changes in Foreign Exchange Rates)
  - IAS 24 (Related Party Disclosures)
  - IAS 27 (Consolidated and Separate Financial Statements)
  - IAS 28 (Investments in Associates)
  - IAS 31 (Interests in Joint Ventures)
  - IAS 33 (Earnings per Share)
  - IAS 32 (Financial Instruments – Disclosure and Presentation)
  - IAS 39 (Financial Instruments – Recognition and Measurement)
  - IAS 40 (Investment Property).
- The IASB issued ten new or revised Standards or amendments to existing Standards in 2004, as follows:
- IFRS 2 (Share-based Payment)
  - IFRS 3 (Business Combinations)
  - IFRS 4 (Insurance Contracts)
  - IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
  - IFRS 6 (Exploration for and Evaluation of Mineral Resources)
  - IAS 36 (Impairment of Assets)
  - IAS 38 (Intangible Assets)
  - Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure)
  - Amendment to IAS 39 (Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk)
  - Amendment to IAS 39 (Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities)
- IFRS 3 is required to be applied (in conjunction with the relevant provisions of IAS 36 and IAS 38) for all

business combinations for which the agreement date is 31 March 2004 or later. All other provisions of IFRS 3, IAS 36 and IAS 38 have been applied from 1 January 2005 onwards. The other Standards listed above (except for IFRS 6 and Amendment to IAS 19) have also been applied from 1 January 2005 onwards. IFRS 6 and Amendment to IAS 19 do not become mandatory until 1 January 2006. The effect of applying the above Standards on the interim Group financial statements for the first quarter 2005 was not significant.

The IFRIC also issued six new Interpretations or amendments to existing Interpretations in 2004:

- IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities)

- IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments)
  - IFRIC 3 (Emission Rights)
  - IFRIC 4 (Determining whether an Arrangement contains a Lease)
  - IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds)
  - IFRIC (Amendment to SIC-12: Scope of SIC-12 Consolidation Special Purpose Entities)
- IFRIC 3, IFRIC 4 and IFRIC 5 become mandatory for the BMW Group from 1 January 2006 onwards; all of the other Interpretations have been applied from 1 January 2005 onwards.

[4] Changes to the first quarter 2004 interim financial statements

In the first quarter 2005, the main changes for the BMW Group arise from the application of IAS 1 (Presentation of Financial Statements), which has been amended as a part of the "Improvement Project". This Standard requires the balance sheet to be classified on the basis of the maturity of assets and liabilities (current/non-current distinction) and has resulted in a changed presentation of the Group balance sheet. Assets, liabilities and provisions are classified as current and non-current items depending on their remaining term (defined as less than or more than one year) or their relationship to the normal operating cycle of an entity. In conjunction with the new classification of the balance sheet by maturity, certain balance sheet items have been analysed into their constituent parts and presented accordingly.

The main changes were due to the following reclassifications:

- receivables from sales financing, financial assets and other assets are classified on the basis of the current/non-current distinction.
- prepayments are reclassified to other assets.
- other provisions, financial liabilities and other liabilities are classified on the basis of the current/non-current distinction. In addition, a number of items previously reported in provisions have been reclassified to liabilities in accordance with international practice.
- deferred income is reclassified to other liabilities.
- deferred tax assets and liabilities are not classified as current in accordance with applicable rules.

## BMW Group Notes to the Interim Group Financial Statements to 31 March 2005 Notes to the Income Statement

[5] Revenues Revenues by activity comprise the following:

in euro million	1st quarter 2005	1st quarter 2004
Sales of products and related goods	8,454	8,964
Income from lease instalments	725	662
Sales of products previously leased to customers	634	701
Interest income on loan financing	383	323
Other income	161	155
<b>Revenues</b>	<b>10,357</b>	<b>10,805</b>

Group revenues include revenues of euro 1,835 million (first quarter 2004: euro 1,755 million) relating to financial services business.

An analysis of revenues by business segment and geographical region is shown in the segment information on page 27.

[6] Cost of sales Cost of sales of euro 7,914 million (first quarter 2004: euro 8,309 million) include euro 1,621 million (first quarter 2004: euro 1,557 million) relating to financial services business.

[7] Sales and administrative costs Sales costs amounted to euro 925 million (first quarter 2004: euro 884 million) and comprise mainly marketing, advertising and sales personnel costs. Administrative costs amounted to euro 188 million (first quarter 2004: euro 171 million). These comprise expenses for administration which are not attributable to development, production or sales functions.

[8] Research and development costs Research and development costs of euro 598 million (first quarter 2004: euro 550 million) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs of euro 168 million (first quarter 2004: euro 143 million).

[9] Other operating income and expenses Other operating income amounted to euro 186 million (first quarter 2004: euro 194 million). Other operating expenses amounted to euro 97 million (first quarter 2004: euro 168 million), with the improvement being due to lower exchange losses.

[10] Financial result

in euro million	1st quarter 2005	1st quarter 2004
Result on investments	16	49
Net interest expense	-57	-64
Other financial result	32	-51
<b>Financial result</b>	<b>-9</b>	<b>-66</b>

The decrease in the result on investments was more than offset by the improvement in other financial result. This improvement was related to the fair value measurement of derivative financial instruments,

and includes the higher level of fair value remeasurement gains on the exchangeable bond option relating to the BMW Group investment in Rolls-Royce plc, London, compared to the same quarter last year.

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

in euro million	1st quarter 2005	1st quarter 2004
Current tax expense	260	198
Deferred tax expense	33	130
<b>Income taxes</b>	<b>293</b>	<b>328</b>

The overall tax expense decreased mainly as a result of the reduction in tax rates outside Germany. The

effective tax rate for the first quarter 2005 was 36.1% (first quarter 2004: 38.5%).

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

		1st quarter 2005	1st quarter 2004
Net profit	euro million	518.9	523.1
Profit attributable to common stock	euro million	478.9	482.5
Profit attributable to preferred stock	euro million	40.0	40.6
Average number of common stock shares outstanding	number	622,227,918	622,227,918
Average number of preferred stock shares outstanding	number	52,001,162	52,056,162
<b>Earnings per share of common stock</b>	euro	<b>0.77</b>	<b>0.78</b>
<b>Earnings per share of preferred stock</b>	euro	<b>0.77</b>	<b>0.78</b>

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

basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. Diluted earnings per share were not applicable in either of the reporting periods.

## BMW Group Notes to the Interim Group Financial Statements to 31 March 2005 Notes to the Balance Sheet

- [13] Intangible assets Intangible assets comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 31 March 2005 amounted to euro 3,541 million (31 December 2004: euro 3,495 million). Expenditure on capitalised development costs amounted, as in the first quarter of the previous year, to euro 214 million. The amortisation expense was euro 168 million (first quarter 2004: euro 143 million).
- [14] Property, plant and equipment Capital expenditure for property, plant and equipment in the first three months of 2005 was euro 392 million (first quarter 2004: euro 494 million). The depreciation expense for the quarter amounted to euro 526 million (first quarter 2004: euro 415 million).
- [15] Leased products Additions to leased products and depreciation thereon amounted to euro 1,579 million (first quarter 2004: euro 1,090 million) and euro 361 million (first quarter 2004: euro 219 million) respectively. Disposals amounted to euro 747 million (first quarter 2004: euro 810 million). The translation of the foreign currency financial statements of group entities gave rise to positive translation differences of euro 311 million (first quarter 2004: euro 147 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 25,850 million (31 December 2004: euro 25,054 million) relate to credit financing for retail customers and dealers and to finance leases. Receivables from sales financing include euro 15,367 million (31 December 2004: euro 15,737 million) with a remaining term of more than one year. The increase in receivables from sales financing was due to the expansion of business, in particular in Germany, the USA and the United Kingdom.

[18] Financial assets Financial assets comprise:

in euro million	31.3.2005	31.12.2004
Interest and currency derivatives	1,885	2,674
Marketable securities and investment funds	2,041	1,832
Loans to third parties	1,080	1,045
Other	292	202
<b>Financial assets</b>	<b>5,298</b>	<b>5,753</b>
thereof non-current	940	1,236
thereof current	4,358	4,517



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

31 March 2005 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	312	312
Current tax	194	–	194
<b>Income tax assets</b>	<b>194</b>	<b>312</b>	<b>506</b>

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

[20] Inventories Inventories comprise the following:

in euro million	31.3.2005	31.12.2004
Raw materials and supplies	658	617
Work in progress, unbilled contracts	957	978
Finished goods	4,255	3,991
Goods for resale	865	881
<b>Inventories</b>	<b>6,735</b>	<b>6,467</b>

The increase in inventories of finished goods was attributable to the build-up of inventory levels in conjunction with the market introduction of new models.

[21] Other assets

in euro million	31.3.2005	31.12.2004
Other taxes	328	376
Receivables from subsidiaries	729	842
Receivables from other companies in which an investment is held	301	275
Prepayments	559	543
Sundry other assets	786	769
<b>Other assets</b>	<b>2,703</b>	<b>2,805</b>
thereof non-current	618	581
thereof current	2,085	2,224

[22] Equity The Group Statement of Changes in Equity is shown on page 18.

#### Treasury shares

During the first three months of 2005, the BMW Group acquired 195,000 shares of BMW stock at an average price of euro 26.17 per share. It is intended

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

[23] Income tax liabilities

31 March 2005 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,448	2,448
Current tax	575	–	575
<b>Income tax liabilities</b>	<b>575</b>	<b>2,448</b>	<b>3,023</b>

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

Current tax of euro 575 million (31 December 2004: euro 497 million) comprises euro 391 million (31 December 2004: euro 427 million) for tax provisions

and euro 184 million (31 December 2004: euro 70 million) for taxes payable.

[24] Other Provisions

With an amount of euro 5,673 million, other provisions are at a similar level to 31 December 2004 and include primarily personnel-related obligations and obligations for on-going operational expenses.

Non-current provisions at 31 March 2005 amounted to euro 2,643 million (31 December 2004: euro 2,662 million).

[25] Financial liabilities

Financial liabilities of the BMW Group comprise:

in euro million	31.3.2005	31.12.2004
Bonds	12,814	12,448
Liabilities to banks	3,562	3,790
Liabilities from customer deposits (banking)	5,407	5,101
Commercial paper	3,841	4,059
Asset backed financing transactions	4,608	4,269
Interest and currency derivatives	361	382
Other	999	882
<b>Financial liabilities</b>	<b>31,592</b>	<b>30,931</b>
thereof non-current	15,698	15,667
thereof current	15,894	15,264

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

**BMW Group**  
**Notes to the Interim Group Financial Statements to 31 March 2005**  
**Other disclosures**

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

in Mio. Euro	31.3.2005	31.12.2004
Other taxes	441	321
Social security	124	123
Advance payments from customers	393	290
Deposits received	160	156
Liabilities to subsidiaries	18	46
Liabilities to other companies in which an investment is held	-	2
Deferred income	1,691	1,576
Sundry other liabilities	1,878	1,628
<b>Other liabilities</b>	<b>4,705</b>	<b>4,142</b>
thereof non-current	1,384	1,358
thereof current	3,321	2,784

[27] Explanatory comments to segment information

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

dated for the first time in the first quarter 2005 have been allocated to the Automobiles segment.

Segment information for the first quarter 2005 is as follows:

<b>Segment information by business segment</b> in euro million	Automobiles		Motorcycles		Financial Services		Reconciliations		Group		
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
Revenues with third parties	8,183	8,751	317	278	1,835	1,755	22	21	10,357	10,805	
Inter-segment revenues	1,771	993	1	4	300	210	-2,072	-1,207	-	-	
Total revenues	9,954	9,744	318	282	2,135	1,965	-2,050	-1,186	10,357	10,805	
Profit before financial result	732	737	32	29	161	130	-104	21	821	917	
Result from equity method accounting	3	19	-	-	-	-	-	-	3	19	
Other net financial expenses	-33	-14	-1	-1	-11	2	33	-72	-12	-85	
Profit before tax	702	742	31	28	150	132	-71	-51	812	851	
Return on sales	%	7.1	7.6	9.7	9.9	7.0	6.7	-	-	7.8	7.9

## Financial calendar

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

## Contacts

### Business Press

Telephone	+49 89 382-2 33 62
	+49 89 382-2 41 18
Fax	+49 89 382-2 44 18
E-mail	presse@bmwgroup.com

### Investor Relations

Telephone	+49 89 382-2 42 72
	+49 89 382-2 53 87
Fax	+49 89 382-2 44 18
E-mail	ir@bmwgroup.com

## The BMW Group on the Internet

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

## Published by

Bayerische Motoren Werke  
Aktiengesellschaft  
80788 Munich  
Germany  
Telephone +49 89 382-0