Contents

BMW Group
Group and sub-group Income Statements

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

* before consolidation of transactions between the sub-groups

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

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

* before consolidation of transactions between the sub-groups

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

*before consolidation of transactions between the sub-groups

BMW Group
Group and sub-group Cash Flow Statements

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

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

BMW Group
Group Statement of Changes in Equity

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

[1] Basis of preparation

The consolidated financial statements of Bayerische Motorenwerke Aktiengesellschaft ("BMW Group financial statements" or "Group financial statements") at 31 December 2004 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London and valid at the balance sheet date. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are mandatory for the financial year 2004, were also applied.

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

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

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

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from customer and dealer financing is sold. Similarly rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial and financial companies. These transactions are usually in the form of so-called "asset backed financing" transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) and the interpretation in SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet. The balance sheet value of the assets sold at 31 December 2004 totalled euro 4.3 billion (31.12. 2003: euro 5.0 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

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

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

[2] Consolidated companies

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

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

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

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

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

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

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

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

[3] Changes in the reporting entity

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

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

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

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

[4] Consolidation principles

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

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

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

[5] Foreign currency translation

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

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

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

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

[6] Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing costs are not included in acquisition or manufacturing costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing costs are not included in acquisition or manufacturing costs.

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

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

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

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

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

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

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

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

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

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

[7] New accounting rules

The IASB has issued ten new or revised Standards or amendments to existing Standards in 2004, as follows:
- IFRS 2 (Share-based Payment)
- IFRS 3 (Business Combinations)
- IFRS 4 (Insurance Contracts)
- IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IFRS 6 (Exploration for and Evaluation of Mineral Resources)
- IAS 36 (Impairment of Assets)
- IAS 38 (Intangible Assets)
- Amendment to IAS 19 (Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure)
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk)
- Amendment to IAS 39 (Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities)

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

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

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

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

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

[8] Revenues

Revenues by activity comprise the following:

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

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

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

[9] Cost of sales

Cost of sales comprises:

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

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

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

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

[10] Sales and administrative costs

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

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

[11] Research and development costs

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

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

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

[12] Other operating income and expenses

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

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

[13] Financial result

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

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

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

[14] Income taxes

Taxes on income comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

[15] Minority interest

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

[16] Earnings per share

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

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

[17] Other disclosures to the income statement

The income statement includes personnel costs as follows:

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

The average number of employees during the year was:

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

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

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

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

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

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

[19] Intangible assets

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

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

[20] Property, plant and equipment

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

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

Minimum lease payments of the relevant leases are as follows:

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

[21] Financial assets

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

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

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

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

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

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

[22] Leased products

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

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

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

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

[23] Inventories

Inventories comprise the following:

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

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

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

[24] Receivables and other assets

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

Receivables from sales financing

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

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

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

Other receivables

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

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

Miscellaneous assets comprise:

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

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

[25] Marketable securities

Current marketable securities comprise:

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

The contracted maturities of debt securities are as follows:

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

[26] Cash and cash equivalents

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

[27] Prepayments

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

[28] Equity

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

Number of shares issued

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

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

Capital reserves

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

Revenue reserves

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

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

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

Accumulated other equity

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

Minority interest

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

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

[29] Pension provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[30] Other provisions

Other provisions principally comprise the following items:

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

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

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

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

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

Provisions changed during the year as follows:

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

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

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

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

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

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

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

Bonds comprise:

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

The following details apply to the commercial paper:

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

[32] Trade payable

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

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

[33] Other liabilities

Other liabilities comprise the following items:

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

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

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

[34] Deferred income

Deferred income comprises the following items:

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

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

[35] Contingent liabilities and other financial commitments

Contingent Liabilities

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

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

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

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

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

Other financial commitments

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

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

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

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

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

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

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

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

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

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

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

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

[36] Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

[37] Explanatory notes to the cash flow statements

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

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

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

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

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

[38] Related party relationships

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

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

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

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

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

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

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

[39] Declaration with respect to the Corporate Governance Code

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

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

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

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

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

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

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

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

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

BMW Group
Notes to the Group Financial Statements
Segment Information

[42] Segment information

Description of business segments

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

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

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

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

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

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

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

Other explanatory comments on segment information

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

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

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

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

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

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

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

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

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

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

[43] Disclosures pursuant to § 292 a HGB

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

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

Non-current assets

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

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

Lease transactions

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

Inventories

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

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

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

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

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

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

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

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

Munich, 18 February 2005

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

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

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

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

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

Munich, 28 February 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos	Höfer
Wirtschaftsprüfer	Wirtschaftsprüfer