Statement by Stefan Krause,
Member of the Board of Management of BMW AG, Finance,
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Ladies and Gentlemen,

It is now my pleasure to present the key figures for the year 2005 and explain the main factors influencing the results. I would also like to say a few words about the financial management system for the Group and its business areas, this means for the segments.

As Dr. Panke has already shown to you, the business year 2005 was extremely successful in all segments. In terms of financial performance, it was also a year of special challenges. We had to deal with immense external burdens due to unfavourable developments on the currency and raw material markets. Our target was not just to accept these burdens on profit, but to offset them as far as possible. I will talk about this in greater detail later.

Last year’s earnings are impressive evidence of the Company’s efficiency and the strong motivation of our employees in all areas of the business.

Profit before tax amounts to almost euro 3.3 billion. Although 8.3% down on previous year, this is better than we had expected in the fall when the decrease looked as if it could be as much as 10%.

When we consider operating activities, this means without the effect of the fair value assessment of the Rolls-Royce exchangeable bond option, which I will discuss in more detail later, the picture is even more positive. We had to absorb additional fair value assessment costs of euro 356 million which were not foreseeable.
With net profit of euro 2.2 billion, we again achieved the previous year’s high level. This means earnings per share of euro 3.33 for common stock and euro 3.35 for preferred stock.

The free cash flow in the industrial business rose from euro 2.0 billion in the previous year to more than euro 3.7 billion in 2005. This figure shows you the BMW Group’s strong financial performance.

Before looking more closely at the results, I would like to tell you about the effects of a new accounting option.

**New accounting option in accordance with IAS 19**

In order to improve transparency in its financial reporting, the BMW Group applied a new accounting option for pension obligations, made available by the International Accounting Standards Board (IASB) in December 2004.

The revised version of IAS 19 permits actuarial gains and losses arising in conjunction with defined benefit pension obligations to be recognised completely and directly in equity. This method is described as the third option in addition to the corridor method and complete recognition in profit or loss.

Previously, the BMW Group used the corridor method for actuarial gains and losses in the Group Financial Statements in order to avoid extreme volatility in the P&L. With this method, actuarial gains and losses were recognised only when their net cumulative amount exceeded 10% of the present value of the obligations or 10% of the fair value of plan assets at the end of the preceding period. The amount exceeding the corridor was recognised as income or expense and had to be partly expensed over the average remaining working lives of the employees participating in the plans concerned.

The BMW Group now reports the complete pension obligation in the annual accounts. For comparative purposes we have also restated the year 2004 with
the respective adjustments and have explained them in detail in the annual report.

Adjustment of the comparative figures for the previous year results in a slight improvement in the profit before tax in 2004 of euro 29 million to euro 3,583 million and an increase in net profit of euro 20 million to euro 2,242 million. The previous year’s figures for the above-mentioned balance-sheet items were also adjusted.

After these preliminary remarks, let us take a closer look at the Financial Statements, starting with revenues.

**Revenues 2005 by segment**

At euro 45.9 billion, revenues in the Automobiles Segment were 7.8% higher than in the previous year.

In the Motorcycles Segment, revenues of euro 1.2 billion exceeded the figure for 2004 due to retail sales growth of 18.9%.

The lease instalments, interest income and revenues from the sale of leased vehicles, included in the revenues of the Financial Services Segment, also rose by 14.4% to euro 9.4 billion.

In the business year 2005, group revenues amounted to euro 46.7 billion and were thus 5.1% ahead of the previous year.

**Earnings performance 2005**

Let us move on to the BMW Group’s earnings performance. Despite a difficult economic environment, the BMW Group’s business has continued to develop successfully.
Although profit for 2005 was adversely affected by external factors, the BMW Group again demonstrated impressively both its operating strength and efficiency.

**Main influences on earnings 2005 Automobiles Segment**

I will now talk about the main influences on last year’s earnings in more detail, in particular with reference to the Automobiles Segment.

Mainly three adverse factors were involved.

The major burden was the change in hedging rates for currencies and here, in particular, the difference of hedging rates in the US dollar between the years 2004 and 2005. Over the course of last year we repeatedly discussed the level of the currency impact with you. The analysts estimated it at around euro 600 to 800 million for 2005. Then, in the course of the year, the currency impact amounted to euro 677 million compared with the previous year.

In addition, an effect of nearly euro 237 million, resulting from the higher prices for various raw materials and precious metals also constituted a considerable burden.

Total depreciation of the segment increased by euro 308 million compared with the previous year.

This means we were confronted with additional headwinds of more than euro one million in 2005. Group earnings would have declined significantly, if we had not taken appropriate action.

We were determined not to accept these burdens. And we succeeded.
With more than euro 772 million, the positive effect of volume, mix and market was highest. Measures to increase efficiency also made a positive contribution of more than euro 426 million. Other changes had a negative effect of euro 164 million. This amount covers a number of individual items.

In addition to the adverse factors in the Automobiles Segment which I have already mentioned, the negative development of the fair value assessment of the exchangeable bond option relating to the BMW Group’s investment in Rolls-Royce plc, London, amounting to a year on year change of euro 356 million, placed a non-operational burden on Group earnings. This effect could not be forecast as its level depends on the development of the share prices of Rolls-Royce plc.

The Company has worked hard and almost completely absorbed these effects. In addition to the positive effects from the increase in retail volume, we realised internal improvements in efficiency, which made a significant contribution to earnings.

As you know, we are constantly optimising our processes and structures. Last year we stepped up these efforts and exploited greater potentials. Profit in the Automobiles Segment is not around euro one billion below the previous year’s high level, but barely euro 200 million or 5.9% below it. This is impressive evidence of the BMW Group’s operating strength and earnings power.

I will now show you the various elements of earnings and key performance figures from the annual accounts and cash flow statements in more detail.

First of all, some key performance figures for the Group.

Despite the currency impact and increases in raw material prices just mentioned, the Group’s gross margin decreased only slightly from 23.2% in 2004 to last year’s 22.9%.
Sales and administrative costs rose by 2.5% due to the increased volume of business. However, revenues grew more strongly. As a result, sales and administrative costs only represented 10.2% of revenues, a decrease of 0.3 percentage points on the previous year.

**Research and development costs**

Let me give you some more details of the research and development costs.

In 2005, the research and development costs included in the Income Statement increased by 2.5% to around euro 2.5 billion due to new research and development projects. In accordance with International Financial Reporting Standards (IFRS), research and development costs represented 5.3% of revenues as in the previous year.

Total research and development costs amounted to euro 3.1 billion in 2005. This figure includes development costs of euro 1.4 billion which were capitalised in accordance with IFRS. Depreciation and disposals amounted to euro 745 million.

At 44.8%, the capitalisation ratio for development costs in accordance with IFRS was higher in 2005 than the previous year’s 39.8%. This was due to the larger number of projects that entered the series development phase.

**Profit before financial result**

In 2005, other operating income and expenses fell by 23.0% to euro 355 million. Other operating income sank mainly because of lower income from the reversal of write-downs attributable to the lower level of accrued interest as well as the decrease in sundry operating income.

In contrast, income from the release of provisions increased. The released provisions were connected with the Rover disengagement. This income is shown in reconciliations in the segment report.
Other operating expenses decreased by 5.8%. This is due to lower expenses for provisions and lower other operating expenses compared with the previous year.

Ladies and Gentlemen,

Profit before financial result increased slightly by 0.5% to almost euro 3.8 billion. At 8.1%, the EBIT margin, i.e. the return on sales based on profit before financial result, is only slightly below the previous year's level. This is due to the stronger increase in revenues.

Financial result and profit from ordinary activities

The financial result fell significantly from euro –191 million in the previous year to euro –506 million. This is mainly due to losses arising from the fair market assessment of the exchangeable bond option relating to the BMW Group's shares in the British engine manufacturer Rolls-Royce plc. The year on year change in this effect alone accounts for euro –308 million in other financial result in 2005; the effect for the year amounts to euro 356 million.

As already mentioned, profit before tax was only 8.3% below the previous year’s level. Thus, the pre-tax return on sales was 7.0% compared to 8.1% in 2004.

Net profit

In 2005, the Group’s net profit was almost as high as in the previous year due to a lower effective tax rate of 31.9% compared to 37.4%. The decrease in the effective tax rate in 2005 is due to lower tax rates in some countries and tax refunds for previous years.

In addition, as a result of improved impairment, deferred tax assets were applied to capital allowances in Great Britain. This relates to depreciations not previously used. In 2005, impairment of these deferred tax assets improved; consequently, previous write-downs were reversed.
Last year, the return on sales based on net profit amounted to 4.8%, which, despite the adverse factors, was still a high level compared with competitors.

**Earnings per share**

Earnings per share remained unchanged at euro 3.33 for common stock and euro 3.35 for preferred stock. In the business year 2005, the number of shares eligible for the distribution of net profit sank because of the share buy-back. By the end of 2005 we had bought back around 13.5 million shares of common stock or 2% of the share capital. The buyback had very little effect on the calculation of earnings per share as the reduction of shares was only effective in the fourth quarter.

**Segments 2005**

After looking at the Group as a whole, let us move on to the individual segments and their results.

In the Automobiles Segment, earnings before tax decreased by only 5.9% to just under euro 3 billion. Adverse external factors such as currency impact and increased raw materials prices were burdens. However, the development of automobile retail and the improvements in efficiency mentioned earlier had a positive influence.

Based on pre-tax earnings, the Automobiles Segment’s return on sales was 6.5% compared to 7.4% in the previous year.

Earnings before tax in the Motorcycles Segment rose significantly from euro 31 to 60 million. New models made business develop successfully and thus contributed to far higher earnings and an increased return on sales of 4.9% compared to 3.0%.

Let us now take a closer look at the Financial Services business.
The Financial Services business continued to develop particularly positively. Due to the expansion in customer and dealer financing earnings increased in 2005 by 17.5% to euro 605 million.

Since the introduction of segment reporting in the year 2000, earnings before tax have risen from euro 350 to more than euro 600 million, which represents an average of 9.5% a year.

At the same time, credit risk was further reduced in the Financial Services Segment, among other things, by the continued development of risk management instruments. In 2005, the bad debt ratio was 0.37% and thus 4 basis points down on the previous year. In view of our conservative refinancing policy, the interest rate risk, which we measure with the value-at-risk, also decreased compared with the previous year.

The third important factor in risk management, the residual value of the vehicles, also developed positively.

Thus, the Financial Services Segment achieved not only strong growth but also a qualitative improvement in earnings.

Let us return to earnings before tax by segment.

Reconciliations to the Group profit include consolidation between the segments and companies which are not allocated to other segments.

The net expense in reconciliations increased to euro -354 million in 2005. This was mainly due to the change in the fair value assessment of the exchangeable bond option relating to the BMW Group’s shares in Rolls-Royce plc.

**Cash flow and capital expenditure**

Let’s have a look at the cash flow.

Ladies and Gentlemen,
After substantial upfront expenditure on our product and market initiative, capital expenditure on our production network and new products was lower in 2005. The cash flow rose significantly again, as expected. But first let us take a closer look at capital expenditure.

Having already reduced capital expenditure on property, plant and equipment and on intangible assets in 2004, we decreased this expenditure by 19.5% to euro 2.6 billion in 2005 compared with the previous year.

With the new BMW plant in Leipzig, which was completed with the plant’s opening in May 2005, we now have the capacity to achieve our retail target of 1.4 million units in 2008. Therefore we were able to reduce our capital expenditure on property, plant and equipment in the last year.

Because of expansion of our development activities, capitalised development costs included in total capital expenditure rose from euro 1.1 billion in the previous year to euro 1.4 billion in 2005. The capitalisation ratio in accordance with IAS 38 increased to 44.8% due to the larger volume of series development projects last year.

We reduced total capital expenditure on intangible assets and on property, plant and equipment by 8.1% to just under euro 4 billion in 2005.

The capital expenditure ratio, i.e. the ratio of capital expenditure to revenues, decreased from its peak level of 10.2% in 2003 to 8.6% last year. Thus, the long-standing average of this ratio has been reached again.

Thus, capital expenditure is developing in the direction we described last year. The BMW Group intends, on the basis of current product planning, to invest around euro 19 billion between 2005 and 2009.

As you have seen, adverse external factors affected earnings. In contrast, cash flow shows the Company’s operating strength clearly. You can compare for
yourselves the operating cash inflow, i.e. the inflow of cash from ongoing business activities and the free cash flow. Market success is shown by the strength of the operating cash inflow. Furthermore, as I have just shown, we have reduced the level of investment because we have now completed development of our production and sales structures. Thus, the free cash flow rose from euro 2.0 to more than euro 3.7 billion as a result of increased inflows from operating activities.

**Share buy-back**

Ladies and Gentlemen,

Last September, with the authorisation of the Annual General Meeting of 12 May 2005, the Board of Management of BMW AG decided to buy back 20,232,722 common stock shares, i.e. 3% of the share capital.

The share buy-back was completed on 15 February 2006. Altogether, 20.2 million common stock shares worth almost euro 759 million were bought back at a cost of euro 37.51 per share on average. By the end of 2005 almost 13.5 million common stock shares with a volume of euro 506 million had been acquired.

All 20.2 million shares have already been withdrawn and deducted from the share capital.

The successful implementation of the share buy-back programme, amounting to 3%, prompts us to request the Annual General Meeting in May to authorise us to buy back more shares. We will decide whether or not to carry out such a buy-back programme at a later date. The Board of Management and Supervisory Board will also propose an increase in dividend for 2005 to the Annual General Meeting. The dividend is to be raised by 2 cents to euro 0.64 per share of common stock and euro 0.66 per share of preferred stock.
Outlook for 2006

Before I give you an insight into the BMW Group’s financial management system, I would like to present to you the business outlook for the current year. The external burdens will also influence this year’s earnings development. The main adverse factors include less favourable hedging rates than last year, which will mainly take effect in the first half of the year.

As the currency impact is due to deterioration in our hedging rates, which are better than the current spot rates for the US dollar, the increase in the dollar from 1.35 to 1.20 per euro has not had much effect.

As in 2005, continuing high raw material prices and a competitive economic environment will also influence earnings. The amount of the extra burdens will in all likelihood not reach previous year’s level.

We will continue the efficiency and productivity improvement measures introduced last year. And although retail growth in the Automobiles Segment is likely to be moderate compared with last year, we are expecting growth, price and mix to have a positive effect on earnings.

In the first quarter of 2006, the exchange requests received so far in connection with the BMW Group’s share in the British engine manufacturer Rolls-Royce plc will generate a non-recurring gain in earnings of euro 350 million. So far, we have exchanged around 80%, i.e. 128 million of around 159 million shares. As a result, the share has been reduced from 9.02 % to 1.8%.

Assuming no further additional negative effects from general economic development, we are aiming, in the business year 2006, to generate profit before tax of euro 4 billion in the Group, compared with euro 3.287 billion in 2005. These includes, of course, the positive effects from the Rolls-Royce exchangeable bond option, amounting to euro 350 million to date. Thus, 2006 is to be the best year in the BMW Group’s history, not only for retail sales, but also for the earnings performance at an operating level.
As I mentioned earlier, I will now explain the financial management system with which we manage and control the Company.

**Value orientation**

You are already familiar with our principle of a high hurdle rate in our Automobiles and Motorcycles Segments. This results in a net present value (NPV) for the individual product and the entire current and future product range. It is a calculation of NPV and rate of return.

We decide on new products consistently and judge all new models by our high internal hurdle rate. Thus, we only start to develop a new model when our project teams show that this target can be achieved during the course of development, marketing and sales.

Applied to all projects and discounted at a certain time, the net present value of the project programme is determined as overriding target. When the market value of the external capital is deducted, we have the value of the respective product programme and projects.

This approach enables us to analyse the effects of each project-oriented decision both on the company value, shown in the capital value of the project programme, and on the development of earnings and returns.

In the Financial Services business we focus mainly on the discounted cash flows arising from the financing and leasing portfolio.

For some time now, we have also used other key figures in the BMW Group’s performance monitoring and target-setting system in order to increase value throughout the company. They are used only for performance monitoring for specific periods. We have defined different key figures for the various segments.

The BMW Group mainly uses pre-tax earnings in accordance with IFRS and returns of the specific segments for monitoring operating performance. For
example, the return on capital employed is used to monitor the performance of the Automobiles and Motorcycles Segments.

The return on assets is used for the Financial Services Segment and the Group. The earnings target is continuous growth; the minimum interest rate for the specific business segment is decisive for the respective returns. These targets for specific periods complement the project and programme targets.

We use the return on capital employed to monitor the performance of the Automobiles and Motorcycles Segments. I will now show you the segments’ key figures.

In the Automobiles Segment in recent years, we have had high upfront expenditure and investments for our product and market initiative and have expanded our business volume significantly. That is why the capital employed for calculating the return has increased significantly.

At the same time, the success of the upfront expenditure could not be shown entirely in earnings as the positive earnings performance was outweighed by extremely high currency impacts and increases in raw material prices. At around 23%, the return on capital employed is above the capital costs and is one of the highest in the industry.

In the Motorcycles Segment, the return on capital employed improved significantly, rising to 17.8% in 2005 and thus even exceeding the level of 2003.

The return on assets is used to monitor the performance of the Financial Services Segment. In 2005, the return on assets in this segment amounted to 1.3%. Last year, therefore, despite higher refinancing rates the return on assets was only slightly below the level recorded in recent years.

In the Group the return on assets is also used to monitor performance. In view of the Automobiles Segment’s strong influence on the calculation of the return on assets for the Group, the effects mentioned for the segment’s return on capital
also apply to the Group, i.e. the investments made for the product and market initiative have also increased the capital base.

Because of the adverse external factors, earnings were unable to grow correspondingly, therefore the return on assets decreased.

This performance monitoring system, which we have used for years, has again helped the BMW Group to focus on profitable growth.

Ladies and Gentlemen,

Thank you for your attention. Together with my colleagues on the Board of Management, I am now looking forward to answering your questions.