

# Interim Report to 30 June 2004

Q2



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Rolls-Royce  
Motor Cars Limited



**BMW Group**

## The BMW Group – an Overview

<b>BMW Group in figures</b>		2nd quarter 2004	2nd quarter 2003	Change in %
<b>Vehicle production</b>				
Automobiles	units	315,998	264,348	19.5
Motorcycles	units	29,847	28,207	5.8
<b>Deliveries to customers</b>				
Automobiles	units	321,010	283,296	13.3
Motorcycles	units	30,635	30,688 <sup>1)</sup>	-0.2
<b>Workforce at end of quarter</b>		<b>105,388</b>	<b>103,335<sup>2)</sup></b>	<b>2.0</b>
<b>Cash flow</b>	euro million	<b>1,364</b>	<b>1,199</b>	<b>13.8</b>
<b>Revenues</b>	euro million	<b>11,910</b>	<b>10,266<sup>3)</sup></b>	<b>16.0</b>
<b>Profit from ordinary activities</b>	euro million	<b>1,084</b>	<b>947</b>	<b>14.5</b>
Thereof:				
Automobiles	euro million	971	768	26.4
Motorcycles	euro million	44	58	-24.1
Financial Services	euro million	136	118	15.3
Reconciliations	euro million	-67	3	-
<b>Income taxes</b>	euro million	<b>-413</b>	<b>-379</b>	<b>-9.0</b>
<b>Net profit</b>	euro million	<b>671</b>	<b>568</b>	<b>18.1</b>
<b>Earnings per share<sup>4)</sup></b>	euro	<b>0.99/1.00</b>	<b>0.84/0.85</b>	<b>17.9/17.6</b>

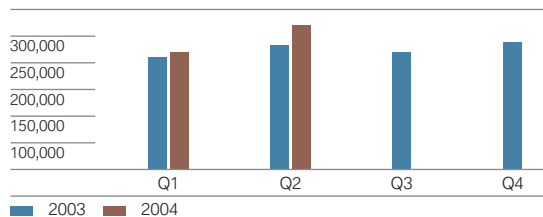
1) excluding 1,573 C1 in the 2nd quarter 2003

2) the comparable number of employees at 30 June 2003 after adjusting for disposals and transfers of group companies was 103,237

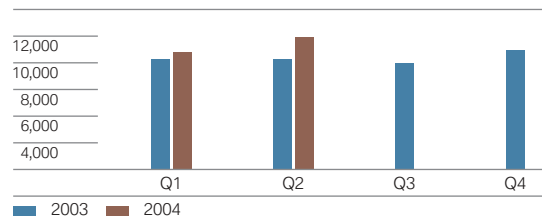
3) reclassified after harmonisation of internal and external reporting systems

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

**BMW Group Deliveries of automobiles**  
in units



**BMW Group Revenues**  
in euro million



<b>BMW Group in figures</b>		1 January to 30 June 2004	1 January to 30 June 2003	Change in %	
<b>Vehicle production</b>					
Automobiles	units	606,001	554,431	9.3	
Motorcycles	units	62,104	58,268	6.6	
<b>Deliveries to customers</b>					
Automobiles	units	590,983	544,869	8.5	
Motorcycles	units	48,570	51,589 <sup>1)</sup>	-5.9	
<b>Workforce at end of quarter</b>		<b>105,388</b>	<b>103,335<sup>2)</sup></b>	<b>2.0</b>	
<b>Cash flow</b>		euro million	<b>2,510</b>	<b>2,228</b>	<b>12.7</b>
<b>Revenues</b>		euro million	<b>22,715</b>	<b>20,563<sup>3)</sup></b>	<b>10.5</b>
<b>Profit from ordinary activities</b>		euro million	<b>1,935</b>	<b>1,777</b>	<b>8.9</b>
Thereof:					
Automobiles	euro million	1,713	1,487	15.2	
Motorcycles	euro million	72	88	-18.2	
Financial Services	euro million	268	225	19.1	
Reconciliations	euro million	-118	-23	-	
<b>Income taxes</b>		euro million	<b>-741</b>	<b>-699</b>	<b>-6.0</b>
<b>Net profit</b>		euro million	<b>1,194</b>	<b>1,078</b>	<b>10.8</b>
<b>Earnings per share<sup>4)</sup></b>		euro	<b>1.77/1.78</b>	<b>1.60/1.61</b>	<b>10.6/10.6</b>

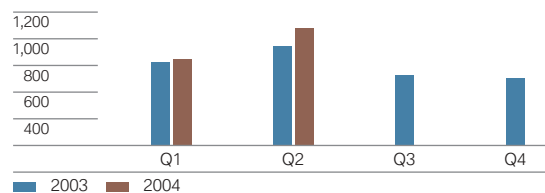
1) excluding 2,506 C1 in the 1st half of 2003

2) the comparable number of employees at 30 June 2003 after adjusting for disposals and transfers of group companies was 103,237

3) reclassified after harmonisation of internal and external reporting systems

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

#### BMW Group Profit from ordinary activities in euro million



### **Strong growth in sales volume, revenues and earnings**

The BMW Group recorded strong sales volume increases for all of its brands and thus continued on its successful course in the second quarter of 2004. New quarterly records were set for sales volumes, revenues and earnings, primarily as a result of the product and market offensive.

In total, 321,010 BMW, MINI and Rolls-Royce brand cars were handed over to customers during the second quarter 2004, 13.3% more than in the second quarter 2003. The total sales volume for the first half of 2004 was therefore 590,983 units, a growth of 8.5% compared to the equivalent period last year.

Market conditions for the motorcycle business remain difficult. 30,635 BMW motorcycles were sold during the second quarter 2004. Although this was almost on a level with the sales volume for the second quarter 2003 (–0.2%), the sales volume for the first half of 2004, at 48,570 units, was still well below the figure for the equivalent period last year (–5.9%) due to the effects of model life-cycles felt in the first quarter 2004.

The Financial Services segment remains on a growth course. 460,837 new contracts were signed during the second quarter 2004, representing a 15.4% growth in new business. 859,918 contracts were signed during the first half of 2004, thus surpassing the figure for the same period last year by 11.7%.

Group revenues for the second quarter 2004, at euro 11,910 million, were up by 16.0% compared to the second quarter 2003. Group revenues for the first half of 2004 amounted to euro 22,715 million, 10.5% ahead of the figure for the same period last year.

The profit from ordinary activities for the second quarter 2004 was euro 1,084 million, a 14.5% improvement over the second quarter 2003. The second quarter 2004 was therefore the best quarter in the BMW Group's history.

The profit from ordinary activities for the first six months of 2004 also clearly surpassed the figure for the first six months of 2003. At euro 1,935 million, the profit from ordinary activities of the BMW Group was 8.9% ahead of the corresponding period last year.

The net profit of the BMW Group for the second quarter 2004 rose to euro 671 million, an increase of 18.1% compared to the second quarter 2003, and also a new record. The net profit for the first half of 2004 thus amounted to euro 1,194 million, an improvement of 10.8%.

### **More than 1,100 new jobs created since the beginning of the year**

The BMW Group had a worldwide workforce of 105,388 employees at 30 June 2004, 2.0% more than one year earlier. Adjusted for disposals and transfers of group companies, the workforce has increased by 2.1% since the middle of 2003. The BMW Group has therefore created more than 1,100 new jobs worldwide since the beginning of 2004.

More than 1,700 new employees have been recruited so far for the new BMW plant in Leipzig. Approximately half of these are currently working in various BMW group plants in Bavaria, preparing for their future tasks in Leipzig.

### **Numerous new models**

During the first half of 2004, the BMW Group reached important milestones in terms of both expanding and renewing its vehicle range and expanding its presence on the international markets. This strategy will be pursued similarly during the second half of the year. In this context, the MINI One Convertible and the MINI Cooper Convertible have been available since the beginning of July and the MINI Cooper S Convertible will follow in August. With the launch of the new BMW 1 Series in September, the BMW Group will move into the compact vehicle category and take advantage of the increasing demand for premium cars in this segment.

**Inconsistent economic conditions**

The position on the international automobile markets remains inconsistent. The number of cars sold by all manufacturers in the main traditional automobile markets (USA, Japan and Europe) during the first half of 2004 was marginally higher than in the same period last year. The BMW Group forecasts a moderate growth for these markets during the second half of the year.

By contrast, the number of new passenger car registrations in Germany during the first half of 2004 was again below the previous year's figure. Consumer reticence continues and, at present, it is not expected that the trend will change over the remainder of the year.

Against the background of these conditions, the BMW Group has been able to demonstrate its strength during the second quarter and first half of 2004. On the back of its product offensive, the BMW Group has outperformed the overall market over the past six months in virtually all of the major international automobile markets and has also been able to buck the overall negative trend in Germany by achieving sales volume growth.

**BMW Group continues to aim for new record figures**

The product and market offensive is having a positive impact on sales volume, revenues and earnings. As a result of the positive performance in the second quarter, the BMW Group has made good progress towards achieving its targets for the full year. The BMW Group remains confident that it will be able to record further sales volume increases for all of its brands and at the same time achieve new record figures for revenues and earnings for the full year.

### Sales volume growth for all brands

The BMW Group recorded strong growth in its automobile business in the second quarter 2004. The number of BMW, MINI and Rolls-Royce brand cars sold rose to 321,010 units, an increase of 13.3% compared to the same quarter last year. The sales volume of the BMW Group during the first half of 2004, at 590,983 units, was 8.5% ahead of the figure for the corresponding period last year.

Growth of the BMW brand was generated by the existing model series as well as by new models such as the BMW X3 and the BMW 6 Series. 273,429 BMW cars were sold during the second quarter 2004, an increase of 14.3% compared to the second quarter 2003. 495,496 BMW brand cars were delivered to customers during the first six months of 2004, 8.9% more than in the first six months of 2003.

The MINI has established itself as a premium car in the small car segment. Almost 441,000 units have been sold since the MINI's launch in July 2001. The sales volume during the second quarter 2004, at 47,402 units, surpassed the figure for the same quarter last year by 7.6%. 95,168 MINI brand cars were delivered to customers during the first half of 2004, 5.9% more than during the corresponding period last year.

The Rolls-Royce Phantom sets standards at the very top end of the luxury segment. 319 Rolls-Royce motor vehicles were handed over to customers during the first six months of 2004.

### Higher sales volume in all regions

The sales volume growth of the BMW Group was achieved on the back of a good sales performance in all regions. 190,261 cars were sold in Europe during the second quarter 2004, an increase of 14.2% compared to the second quarter 2003. The BMW Group sold 356,887 cars in Europe during the first half of 2004, a growth of 8.7% compared to the corresponding period last year.

The sales volume in Germany in the second quarter 2004, at 76,498 units, was 9.5% ahead of the previous year's equivalent figure. 136,964 units were sold in Germany during the first six months of 2004, 4.4% more than during the first half of 2003.

A total of 32,395 BMW Group cars were sold in Great Britain during the second quarter 2004, 19.9% more than in the same quarter last year. For the period from January to June 2004, the BMW Group sold 69,739 units (+4.8%) in the United Kingdom.

The BMW Group was also to record sharp sales volume increases in all other European markets during the first half of 2004. The sales volumes in Italy (41,313 units), France (22,896 units) and Spain (22,527 units) grew by 16.6%, 14.7% and 14.1% respectively.

The number of cars delivered to customers in the USA in the second quarter 2004 rose to 82,502 units, 10.4% more than in the second quarter 2003. On a six-month comparable basis, the sales volume grew by 4.9% to 143,823 units.

<b>Automobiles</b>		2nd quarter 2004	2nd quarter 2003	Change in %
Production	units	315,998	264,348	19.5
Deliveries to customers	units	321,010	283,296	13.3
Revenues	euro million	11,515	9,647	19.4
Profit from ordinary activities	euro million	971	768	26.4
Workforce at end of quarter		98,553	94,885 <sup>1]</sup>	3.9

1] The comparable number of employees at 30 June 2003 after adjusting for disposals and transfers of group companies was 96,718.

62,552 BMW Group cars were delivered to customers during the first half of 2004 in the Asia/Oceania region. This represents an increase of 15.3% compared to the first half of 2003.

During the second quarter and first half of 2004, the BMW Group sold 12,996 (+16.5%) and 25,708 (+14.2%) units respectively in Japan.

During the first half of 2004, the BMW Group sold 13,437 vehicles on the Chinese markets (China, Hong Kong, Taiwan) and thus achieved a sales volume increase of 38.3%.

### Strong growth for the BMW brand

Now in its seventh year of production, the BMW 3 Series is still experiencing above-average demand. A total of 241,904 BMW 3 Series cars were delivered to customers during the first six months of 2004. This is 13.4% below the figure for the first half of 2003, with the reduction due to model life-cycle factors.

The sales volume of the BMW 3 Series Limousine during the first half of 2004 totalled 120,628 units (-16.1%). The BMW 3 Series Touring remained the second strongest selling BMW 3 Series model, with 41,241 units sold (-3.6%) during the first six months of 2004.

Sales units of the BMW 3 Series Coupé, Cabrio and Compact models also fell due to model life-cycle factors. Specifically, 32,384 BMW 3 Series Coupés (-4.7%), 25,116 BMW 3 Series Cabrios (-12.6%) and 22,535 BMW 3 Series

Compact (-25.2%) were sold during the first half of 2004.

The BMW Z4 continued to lead the worldwide premium roadster segment during the first half of 2004. In total, 23,374 BMW Z4 were sold during this period, 3.4% more than in the previous year.

The introduction of the BMW 5 Series Limousine in July 2003 brought about a strong 50.6% increase in sales volume of this series, with 113,900 units sold during the first six months of 2004. The new BMW 5 Series Touring will create additional stimulus to demand. 4,783 units of this model have already been sold in the period from market introduction in Europe in May 2004 up to the end of June. In addition, 5,463 units of the predecessor model were sold.

23,674 BMW 7 Series cars were delivered to customers during the first half of 2004, 14.2% below the level achieved during the first half of the record year 2003.

In the period from market introduction in January 2004 up to the middle of the year, 6,916 BMW 6 Series Coupés were delivered to customers. Worldwide sales units of the BMW 6 Series Cabrio, introduced in March 2004, totalled 3,659 units up to the end of June.

The BMW X3 Sports Activity Vehicle has been on the market since January 2004 and 33,275 units had been sold by the end of June. In order to meet heavy demand, the daily production volume of the BMW Group's production partner, Magna Steyr

<b>Automobiles</b>		1 January to 30 June 2004	1 January to 30 June 2003	Change in %
Production	units	606,001	554,431	9.3
Deliveries to customers	units	590,983	544,869	8.5
Revenues	euro million	21,259	19,020	11.8
Profit from ordinary activities	euro million	1,713	1,487	15.2

in Graz (Austria), has been increased from 300 to 400 units.

The revised BMW X5 model, equipped with the new four-wheel system xDrive, higher performance engines and enhanced with a striking revised design has been available since autumn 2003. The sales volume of the BMW X5 during the first half of 2004 totalled 48,377 units, an increase of 2.9% compared to the first half of 2003.

### **MINI brand continues to grow**

The total sales volume of the MINI brand in the first half of 2004 was 95,168 units, an increase of 5.9% compared to the same period in the previous year. The MINI Cooper, with 44,344 units sold (–7.1%) during the first half of 2004, remains the most popular MINI model. Together, the MINI One and the diesel-powered MINI One D recorded a sales volume of 28,012 units during the first half of 2004, an increase of 31.0% compared to the first half of 2003. Demand for the MINI Cooper S, the most powerful MINI model, rose by 8.3% compared to the previous year, with 22,461 units sold during the first half of 2004.

The success of the MINI confirms the BMW Group's conviction that a premium car does not necessarily have to be a large vehicle.

The range of MINI models will be extended further in the second half of 2004 with the introduction of the MINI Convertible. The market introduction of the MINI One Convertible and the MINI Cooper Convertible started from the beginning of July. The market introduction of the MINI Cooper S Convertible will start in August.

### **100 years of Rolls-Royce automobiles**

The year 2004 is the one hundredth anniversary of the Rolls-Royce brand. In celebration of this anniversary, a special model of the Rolls-Royce Phantom, in a limited edition of 35 vehicles, was presented in April. In total, 319 Rolls-Royce Phantoms were handed over to customers during the first six months of 2004.

### **Production reaches a new high level**

In the second quarter 2004, the BMW Group achieved a car production volume of 315,998 units, 19.5% more than in the same quarter last year. This healthy growth was mainly attributable to the introduction of the new BMW 5 Series and the BMW 6 Series Coupé and Cabrio. The production volume for the first half of the year increased by 9.3% to 606,001 units. Of this total, 512,830 units related to the BMW brand (+10.4%), 92,774 units to the MINI brand (+3.3%) and 397 units to the Rolls-Royce brand (first half-year 2003: 69 units).

In May, the BMW Group, together with its joint venture partner, Brilliance China Automotive Holdings Limited, opened the joint BMW Brilliance Automotive plant in Shenyang (China). An annual production of approximately 30,000 BMW 3 Series and 5 Series cars is planned there for the medium term.

### **Significant increase in revenues and earnings**

Revenues of the Automobiles segment for the second quarter 2004 were euro 11,515 million, surpassing the figure for the same quarter last year by 19.4%. On a six-month comparable basis, revenues of the Automobiles segment increased by 11.8% to euro 21,259 million.

The profit from ordinary activities of the Automobiles segment also increased sharply, with the result for the second quarter 2004, at euro 971 million, 26.4% ahead of the same quarter last year. The segment profit for the first half of 2004 was euro 1,713 million, surpassing the equivalent figure for 2003 by 15.2%.

At 30 June 2004, the workforce of the Automobiles segment numbered 98,553 employees, 3.9% more than one year earlier. The comparable number of employees at 30 June 2003 after adjusting for disposals and transfers within the group was 96,718, so that the increase at 30 June 2004 on a comparable basis was 1.9%.

## Motorcycles

### Motorcycles sales volume affected by model cycles

Despite continuing unfavourable market conditions, the BMW Group was able to maintain its motorcycle business in the second quarter 2004 at the previous year's level. With 30,635 units sold, the sales volume was only marginally (–0.2%) below the comparable figure for the previous year. As expected, strong demand for the new long-distance enduro, the R 1200 GS, made a strong contribution to this comparatively good performance.

On a six-month comparable basis, however, the model life-cycle induced impact of the first quarter 2004 affected the overall sales performance. In total, 48,570 BMW motorcycles were sold during the first six months of 2004, 5.9% less than in the same period last year.

The international motorcycle markets continued to be inconsistent during the second quarter 2004. Whereas moderate growth rates were achieved in a few markets in Europe and a robust growth was recorded on the American market, the Asian markets saw a sharp decline.

In Germany, the largest market for BMW motorcycles, where business had grown steadily for eleven years, the BMW Group was no longer able to avoid the effects of the difficult market conditions. 8,699 BMW motorcycles were sold during the second quarter 2004, 10.5% less than in the second quarter 2003.

The BMW Group was able to increase sales volumes in other European markets. 14,957 units

were sold on those markets, surpassing the previous year's comparable figure by 7.9%. The number of BMW motorcycles sold increased particularly sharply in Spain (+20.8%) and France (+8.4%).

The BMW Group sold 4,644 motorcycles in the Americas, an increase of 3.0%, albeit below the increase for the market as a whole.

### R 1200 GS leads the sales volume list

The R 1200 GS, which was introduced in the market in March and April, was able to take over the position as the BMW Group's best selling motor cycle with 6,147 units sold in the second quarter 2004. Sales of the predecessor model, the R 1150 GS, including the Adventure version, totalled 1,771 units in the same period.

The F 650 GS (including the Dakar version) finished second on the sales volume list, with 5,209 units sold. R 1150 RT, with 3,536 units sold, finished third.

### K 1200 S presented

The new sports motorcycle, the K 1200 S, was presented to the international press for the first time in July 2004 and has been very well received by the media. The BMW Group is confident that the introduction of the new sports motorcycle in the autumn of 2004 will generate additional sales momentum. The K 1200 S supplements the BMW Group's range of four-cylinder motorcycles with a particularly powerful model and appeals to new groups of customers.

Motorcycles		2nd quarter 2004	2nd quarter 2003	Change in %
Production	units	29,847	28,207	5.8
Deliveries to customers	units	30,635	30,688 <sup>1]</sup>	–0.2
Revenues	euro million	299	329	–9.1
Profit from ordinary activities	euro million	44	58	–24.1
Workforce at end of quarter		2,994	2,932	2.1

1] excluding 1,573 C1 in the 2nd quarter 2003

### Noticeable increase in motor cycle production

In the second quarter 2004, 29,847 BMW motorcycles were manufactured at the Berlin plant, 5.8% more than in the same quarter last year. This increase was attributable to continuing high demand for the new R 1200 GS. In addition, production of the K 1200 S was started in the second quarter to meet the initial inventory requirements of the dealers. On a six-month comparable basis, the production volume also increased noticeably; 62,104 units were manufactured during the first half of 2004, an increase of 6.6% compared to the previous year.

At 30 June 2004, the BMW Motorcycles segment had 2,994 employees, 2.1% more than one year earlier.

### Lower revenues and earnings

Revenues of the Motorcycles segment amounted to euro 299 million in the second quarter 2004, a fall of 9.1% compared to the same quarter last year. Revenues for the first half of 2004 amounted to euro 581 million. This 8.2% reduction compared to the first half of 2003 was mainly attributable to exchange rate factors.

The profit from ordinary activities of the motorcycle segment continues to be affected by up-front expenditure and market introduction costs for new models. The segment reports a profit from ordinary activities of euro 44 million for the second quarter 2004, 24.1% below the corresponding figure for the second quarter 2003. On a six-month comparable basis, the segment result fell by 18.2% to euro 72 million.

<b>Motorcycles</b>		1 January to 30 June 2004	1 January to 30 June 2003	Change in %
Production	units	62,104	58,268	6.6
Deliveries to customers	units	48,570	51,589 <sup>1)</sup>	-5.9
Revenues	euro million	581	633	-8.2
Profit from ordinary activities	euro million	72	88	-18.2

1) excluding 2,506 C1 in the 1st half of 2003

### Financial Services segment continues to grow strongly

The Financial Services segment was able to continue the positive performance achieved in the first quarter. New business, with a total of 460,837 new contracts signed, rose by 15.4% compared to the same quarter last year. On a six-month comparable basis, the number of new contracts increased by 11.7% to 859,918 contracts.

The proportion of new vehicles financed or leased by the Financial Services segment in the second quarter 2004 climbed by 0.2 percentage points to 39.6%.

### Steady regional expansion of business

The segment's geographical expansion was continued during the first half of 2004 with the operational start of cooperation arrangements in Luxembourg, Hungary, Russia and Panama. In addition, the BMW Group and its production and sales joint venture, BMW Brilliance Automotive Ltd., concluded a cooperation agreement with China Merchants Bank for retail customer and dealer financing of BMW and MINI brand cars. The BMW Group is thus supplementing its presence in China with the provision of financial services, thereby strengthening its leading position in the premium segment of the Chinese automobile market.

### Retail customer business continues to grow

In the retail customer business sector, 212,141 new contracts were signed during the second quarter 2004 (+7.4%). The total number of new retail customer contracts signed during the first half of 2004, at 390,509 contracts, is thus 8.0% ahead of the corresponding figure for the previous year. This trend is being determined by new lease business (+13.6% on a six-month comparable basis) and credit financing (+5.3% on a six-month comparable basis).

Lease contracts accounted for 34.0% of new retail customer business in the first half of 2004 compared to 32.4% in the same period last year.

As could be expected from the level of new business generated, the total portfolio of customer financing contracts also increased sharply compared to the previous year. A total of 1,564,873 contracts were in place at 30 June 2004, an increase of 12.3% compared to one year earlier. The growth was attributable to all regions. The contract portfolio in Europe, the Americas and the Asian markets increased by 14.4%, 10.1% and 9.8% respectively compared to one year earlier.

In the dealer financing sector, 469,409 new contracts were signed, 14.9% more than the equivalent figure for the first half of 2003. The average volume of the segment's portfolio of dealer financing contracts during the first six months of 2004 was euro 5,053 million, 15.8% higher than the equivalent figure for the same period last year.

Financial Services		2nd quarter 2004	2nd quarter 2003	Change in %
New contracts signed		460,837	399,295	15.4
Revenues	euro million	2,057	2,119 <sup>1)</sup>	-2.9
Profit from ordinary activities	euro million	136	118	15.3
Workforce at end of quarter		2,743	2,431	12.8

1) reclassified after harmonisation of internal and external reporting systems

### Deposit business continues to generate strong growth rates

Deposit business has continued to perform well in the year to date. The average deposit volume at 30 June 2004, at euro 4,282 million, was 22.3% higher than at 30 June 2003. An important contributing factor to this development has been the expansion of deposit business by the BMW Bank following the introduction of an online savings account and the issue of a new tranche of the investment product "Save & Invest". The number of customer accounts has increased by 22.4% since the beginning of the year and stands at 291,774 accounts at 30 June 2004.

### Continuing growth with fleet business

In the area of fleet business, Alphabet national companies, operating in the twelve main European fleet markets, continue to record strong growth. A contract portfolio covering 67,400 cars was managed during the first six months of 2004, an increase of 18.1% compared to the corresponding period last year.

### Growth in business volume and earnings

The total business volume of the Financial Services segment as disclosed in the balance sheet at 30 June 2004 amounted to euro 31,429 million, an increase of 14.3% compared to 30 June 2003 and one of 9.7% compared to 31 December 2003.

The profit from ordinary activities of the Financial Services segment for the second quarter 2004 improved by 15.3% to euro 136 million compared to the second quarter 2003. The profit from ordinary activities for the six month period improved by 19.1% to euro 268 million.

The Financial Services segment had 2,743 employees at 30 June 2004, an increase of 12.8% compared to one year earlier.

<b>Financial Services</b>		1 January to 30 June 2004	1 January to 30 June 2003	Change in %
New contracts signed		859,918	770,054	11.7
Business volume <sup>1)</sup>	euro million	31,429	27,493	14.3
Revenues	euro million	4,022	4,103 <sup>2)</sup>	-2.0
Profit from ordinary activities	euro million	268	225	19.1

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

2) reclassified after harmonisation of internal and external reporting systems

## BMW stock in the second quarter 2004

During the second quarter 2004, as in the earlier months of the year, exchange rate fluctuations and rising raw material prices were amongst the main issues influencing the stock markets. The stock prices of export-orientated enterprises came under less pressure than in the first quarter 2004 as the US dollar strengthened slightly against the euro.

The US dollar stabilised during the second quarter 2004 at rates of between US dollar 1.18 and 1.24 to one euro, whereas the first quarter had still been seeing rates of US dollar 1.28 to one euro. On 30 June 2004, the US dollar stood at US dollar 1.2185 to one euro.

By contrast, it was the increase in oil prices which caused a greater degree of uncertainty during the second quarter 2004. The price for one barrel of Brent crude rose to over US dollar 39 in May. The situation on the oil markets eased before the end of the quarter, by which stage the cost of a barrel had fallen to approximately US dollar 34.

The German stock index, the DAX, benefited in particular from the easing of tension on the currency

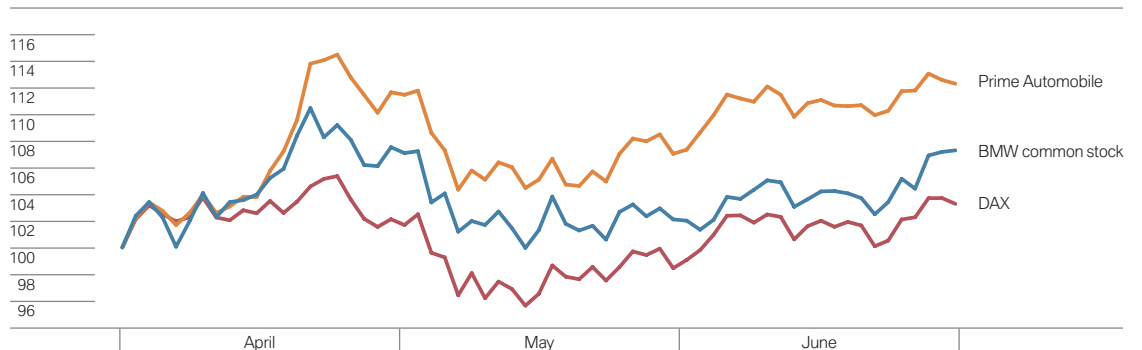
markets, but was unable to escape the effects of the above-mentioned developments completely. The DAX started the second quarter 2004 at 3,924.85 points and attained a level of 4,052.73 points on 30 June 2004. The index of German standard stocks thus recorded a gain of 5.1% compared to its level at the end of the first quarter. Compared to one year earlier, the DAX was 25.8% higher at the end of June 2004.

The slight recovery of the US dollar during the course of the second quarter 2004 allowed the sector index for German automobile stocks to stabilise. The Prime Automobile Performance Index closed at 362.14 points on 30 June 2004. This represents an increase of 14.0% during the second quarter 2004. On 30 June 2004, the index for German automobile stocks was 23.8% higher than at the end of the second quarter 2003.

BMW common stock was able to perform more favourably than the DAX during the second quarter and recorded a gain of 9.2% for the quarter. BMW common stock closed at euro 36.37 at 30 June 2004. Compared to the closing price one year earlier, the price of the stock had thus increased by 8.7%.

### Development of BMW stock compared to stock exchange indices

(Index: 1 April 2004 = 100)



### Earnings performance

The BMW Group harmonised its internal and external reporting systems in the financial year 2003 in line with international practice. This gave rise to reclassifications in the income statement for the financial year 2002 and for each of the quarters of the financial year 2003. These changes did not have any impact on the profit from ordinary activities or net profit. For comparison purposes, the analysis of the earnings performance for the second quarter 2004 and for the first half of 2004 is based on the reclassified 2003 figures. Further details regarding the reasons for and the effects of the harmonisation of the internal and external reporting systems are provided in Note [3].

### Earnings performance for the second quarter 2004

The BMW Group generated a net profit of euro 671 million for the second quarter 2004, 18.1% higher than the result for the same quarter last year. The post-tax return on sales was 5.6% (second quarter 2003: 5.5%). For the second quarter 2004, the Group generated earnings per share of common stock of euro 0.99 (second quarter 2003: euro 0.84) and per share of preferred stock of euro 1.00 (second quarter 2003: euro 0.85).

Group revenues for the second quarter 2004 rose to euro 11,910 million, 16.0% higher than in the same quarter last year. External revenues of the Automobiles segment were 22.0% ahead of the previous year. External revenues of the Motorcycles and Financial Services segments fell by 8.9% and 2.2% respectively due to exchange rate factors. Revenues from other activities of the Group amounted to euro 20 million, which now relates almost entirely to the softlab Group due to the fact that the pressings plant in Swindon has been allocated to the Automobiles segment since the beginning of 2004. The comparable figure for revenues from other activities of the Group is euro 30 million.

Cost of sales amounted to euro 9,032 million, whereby the increase was 0.6 percentage points lower than the increase in revenues. Gross profit

therefore improved by 18.1% compared to the second quarter 2003. The gross profit percentage, at 24.2%, improved by 0.5 percentage points compared to the same quarter last year. The gross profit of industrial operations was unchanged at 23.1% and that of financial operations improved by 1.6 percentage points against the comparable period.

Sales and administrative costs increased by 9.7% compared to the same quarter last year, a significantly lower percentage increase than that of revenues. They represent 10.1% (second quarter 2003: 10.8%) of revenues.

Research and development costs increased by 6.1% compared to the second quarter 2003 and represent 5.0% (second quarter 2003: 5.4%) of revenues. Research and development costs include amortisation of capitalised development costs amounting to euro 150 million (second quarter 2003: euro 143 million). Total research and development costs for the second quarter 2004 amounted to euro 638 million (second quarter 2003: euro 636 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. For the second quarter 2004, this gives a research and development expenditure ratio of 5.4% (second quarter 2003: 6.2%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 619 million (second quarter 2003: euro 568 million).

The positive net amount from other operating income and expenses fell by 54.3% against the same quarter in 2003. This was mainly a result of the lower level of income from the release of provisions and net gains on currency transactions.

The financial result for the quarter fell again compared to the same quarter of the previous year. The reduction in the net financial result was mainly attributable to the negative fair value change of the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce plc, London; this reduced the other financial result by euro 39 million. The negative fair value of the option was caused by the increase in the stock market price of

Rolls-Royce plc stock. The fair value of the investment in Rolls-Royce plc increased by euro 61 million during the second quarter 2004. This increase, however, is recognised directly in equity and does not offset the negative fair value change of the option. Also within the financial result, the result from investments fell by euro 13 million and the net interest expense increased by euro 7 million.

The profit from ordinary activities increased by 14.5% compared to the same quarter last year. Income taxes increased by 9.0%. The effective tax rate was 38.1% (second quarter 2003: 40.0%). The reduction in the effective tax rate was due, amongst other factors, to the fact that the flood solidarity surcharge levied in Germany in 2003 no longer applied.

#### **Earnings performance for the first half of 2004**

The BMW Group generated a net profit of euro 1,194 million for the first half of 2004, 10.8% above the result for the same period last year. The post-tax return on sales was 5.3% (first half-year 2003: 5.2%). For the first half of 2004, the Group generated earnings per share of common stock of euro 1.77 (first half-year 2003: euro 1.60) and per share of preferred stock of euro 1.78 (first half-year 2003: euro 1.61).

On a six-month comparable basis, group revenues rose by 10.5% to euro 22,715 million. External revenues of the Automobiles segment were 14.2% ahead of the previous year. External revenues of the Motorcycles segment fell by 8.7% due to volume and exchange rate factors. External revenues of the Financial Services segment increased by only 0.9%, due to exchange rate factors. Revenues from other activities of the Group amounted to euro 41 million and relate almost entirely to the softlab Group following the reclassification of the pressings plant in Swindon. The comparable figure for revenues from other activities of the Group is euro 61 million.

Cost of sales amounted to euro 17,341 million, whereby the increase was 1.0 percentage points lower than the increase in revenues. The gross profit improved by 13.7% compared to the first half of

2003. The gross profit percentage, at 23.7%, improved by 0.7 percentage points compared to the corresponding period last year. The gross profit of industrial operations improved by 0.1 percentage points and that of financial operations improved by 1.8 percentage points.

Sales and administrative costs increased by 5.3% compared to the same period last year, a significantly lower percentage increase than that of revenues. They represent 10.0% (first half-year 2003: 10.4%) of revenues.

Research and development costs increased by 11.9% compared to the first half of 2003. This sharp increase was attributable to the fact that research and development costs were low in the first half of 2003 due to the timing of the completion of projects. Research and development costs represent 5.0% of revenues, unchanged from the corresponding period last year. Research and development costs include amortisation of capitalised development costs amounting to euro 293 million (first half-year 2003: euro 261 million). Total research and development costs for the first half of 2004 amounted to euro 1,259 million (first half-year 2003: euro 1,187 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. For the first half of 2004, this gives a research and development expenditure ratio of 5.5% (first half-year 2003: 5.8%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 1,190 million (first half-year 2003: euro 1,054 million).

The positive net amount from other operating income and expenses fell by 61.4% against the same period in 2003. This was mainly a result of the lower level of income from the release of provisions and net gains on currency transactions.

The financial result fell again compared to the same period of the previous year. This was mainly attributable to the negative fair value change of the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce plc, London; this reduced the other financial result by euro 104 mil-

lion. The fair value of the investment in Rolls-Royce plc increased by euro 197 million during the first half of 2004. This increase, however, is recognised directly in equity and does not offset the negative fair value change of the option. Also within the financial result, the result from investments increased by euro 5 million and the net interest expense fell by euro 12 million.

The profit from ordinary activities increased by 8.9% compared to the same period last year. Income taxes increased by 6.0%. The effective tax rate was 38.3% (first half-year 2003: 39.3%). The reduction in the effective tax rate was due, amongst other factors, to the fact that the flood solidarity surcharge levied in Germany in 2003 no longer applied.

#### Earnings performance by segment

Revenues of the Automobiles segment for the second quarter 2004 increased by 19.4%. The profit from ordinary activities of the segment improved by 26.4%. Segment revenues for the first

half of 2004 rose by 11.8% and the segment profit improved by 15.2%.

Revenues of the Motorcycles segment for the second quarter 2004 fell by 9.1% due to exchange rate factors. Segment profit fell by 24.1%, mainly as a result of up-front expenditure and market introduction costs for new models. Segment revenues and segment profit for the first half of 2004 fell by 8.2% and 18.2% respectively compared to the same period last year.

Revenues of the Financial Services segment for the second quarter 2004 fell by 2.9% due to exchange rate factors. The profit from ordinary activities of the segment, however, improved by 15.3% compared to the second quarter 2003. This was attributable to the higher level of gains on business with end-of-lease vehicles. Segment revenues for the first half of 2004 fell by 2.0%, whereas segment profit improved by 19.1%.

Reconciliations to the Group profit from ordinary activities were negative in the second quarter 2004,

<b>Profit from ordinary activities by segment</b> in euro million	2nd quarter 2004	2nd quarter 2003	1 January to 30 June 2004	1 January to 30 June 2003
Automobiles	971	768	1,713	1,487
Motorcycles	44	58	72	88
Financial Services	136	118	268	225
Reconciliations	-67	3	-118	-23
<b>Profit from ordinary activities</b>	<b>1,084</b>	<b>947</b>	<b>1,935</b>	<b>1,777</b>
Income taxes	-413	-379	-741	-699
<b>Net profit</b>	<b>671</b>	<b>568</b>	<b>1,194</b>	<b>1,078</b>

with a net expense of euro 67 million which is euro 70 million lower than in the same quarter last year. This was due primarily to the negative fair value measurement of the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce plc, London and to the higher level of intra-segment profit eliminations on leased products. The net expense for the first half of 2004 increased by euro 95 million as a result of the change in the fair value of the option.

### Financial position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the first six months of the financial years 2003 and 2004, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to those disclosed in the balance sheet.

Operating activities of the BMW Group during the first half of 2004 generated a positive cash flow

Revenues by segment in the 2nd quarter in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2004	2003	2004	2003	2004	2003
Automobiles	9,863	8,082	1,652	1,565	11,515	9,647
Motorcycles	298	327	1	2	299	329
Financial Services	1,729	1,767 <sup>1)</sup>	328	352	2,057	2,119 <sup>1)</sup>
Reconciliations	20	90	-1,981	-1,919	-1,961	-1,829
<b>Group</b>	<b>11,910</b>	<b>10,266<sup>1)</sup></b>	<b>-</b>	<b>-</b>	<b>11,910</b>	<b>10,266<sup>1)</sup></b>

1) reclassified after harmonisation of internal and external reporting systems

Revenues by segment for the period from 1 January to 30 June in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2004	2003	2004	2003	2004	2003
Automobiles	18,614	16,295	2,645	2,725	21,259	19,020
Motorcycles	576	631	5	2	581	633
Financial Services	3,484	3,454 <sup>1)</sup>	538	649	4,022	4,103 <sup>1)</sup>
Reconciliations	41	183	-3,188	-3,376	-3,147	-3,193
<b>Group</b>	<b>22,715</b>	<b>20,563<sup>1)</sup></b>	<b>-</b>	<b>-</b>	<b>22,715</b>	<b>20,563<sup>1)</sup></b>

1) reclassified after harmonisation of internal and external reporting systems

of euro 5,510 million (first half-year 2003: euro 4,277 million). The increase was due to the higher volume of business.

The cash outflow for investing activities, at euro 4,997 million, was euro 113 million lower than in the same period last year. The higher cash outflow for the first half of 2003 resulted from the purchase of marketable securities as part of the liquidity reserve. Capital expenditure for intangible assets and property, plant and equipment, net of proceeds from disposals, resulted in the cash outflow for investing activities increasing by euro 333 million. Cash outflow in conjunction with the net investment in leased products and receivables from sales financing increased by euro 213 million. 110.3% (first half-year 2003: 83.7%) of the cash outflow for investing activities was covered by the cash inflow from operating activities. Coverage in the cash flow statement for industrial operations, at 278.7% (first half-year 2003: 159.5%), is even more pronounced. The cash flow statement for financial operations shows, as in the past, that cash inflow from operating activities does not cover cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing.

In conjunction with financing activities, the issue and repayment of bonds gave rise to a cash inflow of euro 2,761 million (first half-year 2003: euro 2,805 million) and a cash outflow of euro 1,619 million (first half-year 2003: euro 1,929 million) respectively. The cash outflow from financing activities for the first half of 2004 was euro 490 million lower due to the higher repayment of debt in the same period last year.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group, the various cash flows resulted in an increase in cash and cash equivalents of euro 816 million (first half-year 2003: decrease of euro 116 million).

Net interest-bearing assets relating to industrial operations have increased since 31 December 2003 by euro 576 million to euro 2,392 million.

#### **Net assets position**

The balance sheet total of the group has increased by euro 3,245 million or 5.3% compared to 31 December 2003. Excluding the effect of currency fluctuations, the increase would have been only 4.0%. The main factors behind the increase on the assets side of the balance sheet were receivables from sales financing (+9.6%), non-current assets (+6.6%), liquid funds (+21.4%) and inventories (+6.1%). By contrast, other receivables fell by 18.6% due to the lower fair values of derivative financial instruments. On the equity and liabilities side of the balance sheet, the increase was due to the increase in debt (+4.3%), provisions (+8.5%), other liabilities (+17.8%) and equity (+2.8%).

Capital expenditure on intangible assets and property, plant and equipment in the first half of 2004 amounted to euro 1,604 million (first half-year 2003: euro 1,430 million). This includes capitalised development costs of euro 410 million (first half-year 2003: euro 427 million).

Financial assets increased primarily as a result of the higher stock exchange price of Rolls-Royce plc stock. At 30 June 2004, this was again higher than the average purchase cost. The value of the investment in Rolls-Royce plc, London, increased by euro 197 million during the first six months of 2004. The increase was recognised directly in other accumulated equity.

Leased products increased by euro 669 million. Excluding the effect of currency fluctuations, the increase would have been euro 158 million lower.

Inventories increased by euro 349 million compared to 31 December 2003. New models introduced in conjunction with the product offensive led to higher inventories of finished goods.

The increase in liquid funds (+ euro 752 million) relates entirely to the higher level of cash and cash equivalents. Marketable securities went down slightly by euro 64 million.

Group equity increased primarily as a result of the net profit for the period. Within equity, other accumulated equity went down by euro 346 million. Reducing other accumulated equity, the fair values of derivative financial instruments decreased by euro 711 million, net of deferred taxes. In the opposite direction, changes in the fair value of securities and translation differences recognised directly in equity increased other accumulated equity by euro 200 million and euro 165 million respectively. Treasury shares acquired in conjunction with employee share schemes reduced equity by euro 11 million. Although equity increased by euro 445 million or 2.8% during the first half of 2004, the equity ratio fell by 0.7 percentage points to 25.6%, since the 5.3% increase in the balance sheet total was more pronounced than the increase in equity. This was attributable, amongst other factors, to the lower fair value amounts relating to financial instruments reported in equity. The equity ratio for industrial operations was 43.5% (31 December 2003: 45.4%) and that for financial operations was 9.9% (31 December 2003: 9.8%).

Provisions increased overall by euro 747 million during the first half of 2004. This was mainly due to higher personnel-related provisions and obligations for on-going operational expenses.

Within the balance sheet item debt, other debt decreased by euro 463 million mainly as a result of the lower volume of asset backed financing transactions. Overall, debt increased during the first half of the year by euro 1,186 million, primarily as a result of the increase in bonds.

Taxes payable within other liabilities increased by euro 216 million.

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

in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified
Revenues	[5]	11,910	10,266	11,836	10,067	2,126	2,155
Cost of sales	[6]	-9,032	-7,829	-9,107	-7,744	-1,856	-1,916
<b>Gross profit</b>		<b>2,878</b>	<b>2,437</b>	<b>2,729</b>	<b>2,323</b>	<b>270</b>	<b>239</b>
Sales and administrative costs	[7]	-1,211	-1,104	-1,113	-1,007	-103	-104
Research and development costs	[8]	-592	-558	-592	-558	-	-
Other operating income and expenses	[9]	64	140	53	119	3	16
<b>Profit before financial result</b>		<b>1,139</b>	<b>915</b>	<b>1,077</b>	<b>877</b>	<b>170</b>	<b>151</b>
Financial result	[10]	-55	32	-95	8	49	30
<b>Profit from ordinary activities</b>		<b>1,084</b>	<b>947</b>	<b>982</b>	<b>885</b>	<b>219</b>	<b>181</b>
Income taxes	[11]	-413	-379	-380	-355	-80	-72
Minority interest		0	0	0	0	0	0
<b>Net profit</b>		<b>671</b>	<b>568</b>	<b>602</b>	<b>530</b>	<b>139</b>	<b>109</b>
<b>Earnings per share of common stock</b> in euro	[12]	0.99	0.84				
<b>Earnings per share of preferred stock</b> <sup>2)</sup> in euro	[12]	1.00	0.85				

1) before consolidation of transactions between the sub-groups

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

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

in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified
Revenues	[5]	22,715	20,563	21,883	19,837	4,148	4,203
Cost of sales	[6]	-17,341	-15,835	-16,923	-15,361	-3,613	-3,736
<b>Gross profit</b>		<b>5,374</b>	<b>4,728</b>	<b>4,960</b>	<b>4,476</b>	<b>535</b>	<b>467</b>
Sales and administrative costs	[7]	-2,266	-2,151	-2,065	-1,959	-208	-200
Research and development costs	[8]	-1,142	-1,021	-1,142	-1,021	-	-
Other operating income and expenses	[9]	90	233	79	207	-11	12
<b>Profit before financial result</b>		<b>2,056</b>	<b>1,789</b>	<b>1,832</b>	<b>1,703</b>	<b>316</b>	<b>279</b>
Financial result	[10]	-121	-12	-160	-61	57	54
<b>Profit from ordinary activities</b>		<b>1,935</b>	<b>1,777</b>	<b>1,672</b>	<b>1,642</b>	<b>373</b>	<b>333</b>
Income taxes	[11]	-741	-699	-647	-649	-138	-129
Minority interest		0	0	0	0	0	0
<b>Net profit</b>		<b>1,194</b>	<b>1,078</b>	<b>1,025</b>	<b>993</b>	<b>235</b>	<b>204</b>
<b>Earnings per share of common stock</b> in euro	[12]	1.77	1.60				
<b>Earnings per share of preferred stock<sup>2)</sup></b> in euro	[12]	1.78	1.61				

1) before consolidation of transactions between the sub-groups

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

## BMW Group Group and sub-group Balance Sheets

Assets in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		30.6.2004	31.12.2003	30.6.2004	31.12.2003	30.6.2004	31.12.2003
Intangible assets	[13]	3,335	3,200	3,314	3,181	21	19
Property, plant and equipment	[14]	10,035	9,708	10,018	9,688	17	20
Financial assets	[15]	810	607	797	593	13	14
Leased products	[16]	7,366	6,697	230	225	9,156	8,293
<b>Non-current assets</b>		<b>21,546</b>	<b>20,212</b>	<b>14,359</b>	<b>13,687</b>	<b>9,207</b>	<b>8,346</b>
Inventories	[17]	6,042	5,693	6,034	5,686	8	7
Trade receivables	[18]	2,232	2,257	2,146	2,191	86	66
Receivables from sales financing	[18]	24,063	21,950	–	–	24,063	21,950
Other receivables	[18]	5,847	7,184	5,208	4,829	2,463	3,545
Marketable securities		1,793	1,857	1,793	1,857	0	0
Cash and cash equivalents		2,475	1,659	2,035	1,247	440	412
<b>Current assets</b>		<b>42,452</b>	<b>40,600</b>	<b>17,216</b>	<b>15,810</b>	<b>27,060</b>	<b>25,980</b>
<b>Deferred tax assets</b>		<b>241</b>	<b>175</b>	<b>106</b>	<b>120</b>	<b>–854</b>	<b>–873</b>
<b>Prepayments</b>		<b>481</b>	<b>488</b>	<b>133</b>	<b>166</b>	<b>348</b>	<b>322</b>
<b>Total assets</b>		<b>64,720</b>	<b>61,475</b>	<b>31,814</b>	<b>29,783</b>	<b>35,761</b>	<b>33,775</b>
Total assets adjusted for asset backed financing transactions		60,403	56,487	–	–	31,444	28,787

1) before consolidation of transactions between the sub-groups

<b>Equity and liabilities</b> in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		30.6.2004	31.12.2003	30.6.2004	31.12.2003	30.6.2004	31.12.2003
Subscribed capital		674	674				
Capital reserves		1,971	1,971				
Revenue reserves		13,473	12,671				
Accumulated other equity		488	834				
Treasury shares		-11	-				
<b>Equity</b>	[19]	<b>16,595</b>	<b>16,150</b>	<b>13,848</b>	<b>13,534</b>	<b>3,538</b>	<b>3,298</b>
<b>Minority interest</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Pension provisions		2,556	2,430	2,535	2,410	21	20
Other provisions		6,942	6,321	6,660	6,008	325	356
<b>Provisions</b>	[20]	<b>9,498</b>	<b>8,751</b>	<b>9,195</b>	<b>8,418</b>	<b>346</b>	<b>376</b>
Debt	[21]	28,635	27,449	1,436	1,288	27,199	26,161
Trade payables		3,319	3,143	3,064	2,740	255	403
Other liabilities	[22]	3,102	2,634	2,204	1,811	2,722	2,013
<b>Liabilities</b>		<b>35,056</b>	<b>33,226</b>	<b>6,704</b>	<b>5,839</b>	<b>30,176</b>	<b>28,577</b>
<b>Deferred tax liabilities</b>		<b>2,569</b>	<b>2,501</b>	<b>1,578</b>	<b>1,592</b>	<b>841</b>	<b>777</b>
<b>Deferred income</b>		<b>1,002</b>	<b>847</b>	<b>489</b>	<b>400</b>	<b>860</b>	<b>747</b>
<b>Total equity and liabilities</b>		<b>64,720</b>	<b>61,475</b>	<b>31,814</b>	<b>29,783</b>	<b>35,761</b>	<b>33,775</b>
Total equity and liabilities adjusted for asset backed financing transactions		60,403	56,487	-	-	31,444	28,787

1) before consolidation of transactions between the sub-groups

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

in euro million	2004	Group 2003
Net profit	1,194	1,078
Depreciation of leased products	1,345	1,465
Depreciation and amortisation of other non-current assets	1,190	1,054
Change in provisions	708	590
Change in deferred taxes	394	462
Change in net current assets and other items	679	-372
<b>Cash inflow from operating activities</b>	<b>5,510</b>	<b>4,277</b>
Investment in intangible assets and property, plant and equipment	-1,559	-1,282
Payments relating to the Rover disengagement	-	-35
Net investment in leased products and receivables from sales financing	-3,539	-3,326
Other	101	-467
<b>Cash outflow from investing activities</b>	<b>-4,997</b>	<b>-5,110</b>
<b>Cash inflow/outflow from financing activities</b>	<b>276</b>	<b>766</b>
<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>	<b>27</b>	<b>-49</b>
<b>Change in cash and cash equivalents</b>	<b>816</b>	<b>-116</b>
Cash and cash equivalents at 1 January	1,659	2,333
<b>Cash and cash equivalents at 30 June</b>	<b>2,475</b>	<b>2,217</b>

Industrial operations		Financial operations		
2004	2003	2004	2003	
1,025	993	235	204	Net profit
3	3	1,187	1,110	Depreciation of leased products
1,182	1,046	8	8	Depreciation and amortisation of other non-current assets
735	646	-27	-56	Change in provisions
445	516	-8	25	Change in deferred taxes
682	-309	43	11	Change in net current assets and other items
<b>4,072</b>	<b>2,895</b>	<b>1,438</b>	<b>1,302</b>	<b>Cash inflow from operating activities</b>
-1,551	-1,271	-8	-11	Investment in intangible assets and property, plant and equipment
-	-35	-	-	Payments relating to the Rover disengagement
-8	-31	-3,531	-3,215	Net investment in leased products and receivables from sales financing
98	-478	3	11	Other
<b>-1,461</b>	<b>-1,815</b>	<b>-3,536</b>	<b>-3,215</b>	<b>Cash outflow from investing activities</b>
<b>-1,826</b>	<b>-1,242</b>	<b>2,102</b>	<b>2,008</b>	<b>Cash inflow/outflow from financing activities</b>
<b>3</b>	<b>11</b>	<b>24</b>	<b>-60</b>	<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>
<b>788</b>	<b>-151</b>	<b>28</b>	<b>35</b>	<b>Change in cash and cash equivalents</b>
1,247	2,256	412	77	Cash and cash equivalents at 1 January
<b>2,035</b>	<b>2,105</b>	<b>440</b>	<b>112</b>	<b>Cash and cash equivalents at 30 June</b>

## BMW Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity			Treasury shares	Total
				Translation differences	Fair value measurement of marketable securities	Derivative financial instruments		
<b>31 December 2002</b>	<b>674</b>	<b>1,954</b>	<b>11,075</b>	<b>-541</b>	<b>-314</b>	<b>1,023</b>	<b>-</b>	<b>13,871</b>
Dividends paid	-	-	-351	-	-	-	-	-351
Translation differences	-	-	-	-148	-	-78	-	-226
Financial instruments	-	-	-	-	63	684	-	747
Net profit January to June 2003	-	-	1,078	-	-	-	-	1,078
<b>30 June 2003</b>	<b>674</b>	<b>1,954</b>	<b>11,802</b>	<b>-689</b>	<b>-251</b>	<b>1,629</b>	<b>-</b>	<b>15,119</b>
<b>31 December 2003</b>	<b>674</b>	<b>1,971</b>	<b>12,671</b>	<b>-720</b>	<b>-146</b>	<b>1,700</b>	<b>-</b>	<b>16,150</b>
Purchase of treasury shares	-	-	-	-	-	-	-11	-11
Dividends paid	-	-	-392	-	-	-	-	-392
Translation differences	-	-	-	122	-	43	-	165
Financial instruments	-	-	-	-	200	-711	-	-511
Net profit January to June 2004	-	-	1,194	-	-	-	-	1,194
<b>30 June 2004</b>	<b>674</b>	<b>1,971</b>	<b>13,473</b>	<b>-598</b>	<b>54</b>	<b>1,032</b>	<b>-11</b>	<b>16,595</b>

# BMW Group

## Notes to the Interim Group Financial Statements to 30 June 2004

### Accounting Principles and Policies

[1] Basis of preparation The consolidated financial statements of BMW AG at 31 December 2003 were drawn up in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, and valid at the balance sheet date. The interim Group financial statements at 30 June 2004, which have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting), have been drawn up using the same accounting methods as in the 2003 Group financial statements. International Financial Reporting Standard (IFRS) 3 (Business Combinations), in conjunction with the revised versions of IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), are applicable to all business combinations for which the agreement date is after 31 March 2004. IFRS 3 will be applied in the BMW Group financial statements for goodwill acquired in earlier business combinations as from the beginning of the financial year 2005. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are mandatory at 30 June 2004, were applied. The interim report also complies with German Accounting Standard No. 6 (GAS 6) – Interim Financial Reporting – issued by the German Accounting Standards Committee e.V. (GASC). The interim Group financial statements have neither been audited nor reviewed by the group auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

Further information about the group's accounting principles and policies is contained in the BMW Group financial statements at 31 December 2003. The group currency is the euro. All amounts are presented in millions of euro (euro million) unless otherwise stated.

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 also has an impact on the interim Group financial statements. In order to provide a better insight into the assets, liabilities, financial position and performance of the Group, additional information relating to industrial and financial operations has been presented in the interim Group financial statements, similar to that presented

in the year-end Group financial statements. Financial operations includes financial services and the activities of the Group financing companies. The operating interest income and expense of financial operations are included in revenues and cost of sales. The holding companies BMW (UK) Holdings Ltd., Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, and BMW (US) Holding Corp., Wilmington, Del., are allocated to industrial operations. The main business transactions between the industrial and financial operations, which are eliminated in the Group financial statements, are internal sales of products, the provision of funds for Group companies and the related interest. These additional disclosures allow the assets, liabilities, financial position and performance of the industrial and financial operations to be presented, in accordance with the recognition and measurement principles stipulated by IFRSs, as if they were two separate groups. This information is provided on a voluntary basis. In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing are 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. This involves 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 30 June 2004 totalled euro 4.3 billion (31 December 2003: euro 5.0 billion). For an additional understanding of the net asset and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

[2] Consolidated companies

The BMW Group financial statements for the second quarter 2004 include, besides BMW AG, 39 German and 128 foreign subsidiaries. This includes 18 special securities funds and 16 special purpose entities, almost all of which are for asset backed financing. The composition of the group reporting entity is unchanged compared to the first quarter.

Consolidated for the first time in 2004, BMW Financial Services Korea Co., Ltd., Seoul, BMW Leasing de Mexico S.A. de C.V., Mexico City, and seven special purpose entities have been included in the income statements for the second quarter 2004

and for the first half of 2004. softlab Systems, Inc., San Francisco, Col., and eight special purpose entities are no longer consolidated. Of the entities for which the equity method is applied, BMW Brilliance Automotive Ltd., Shenyang, is consolidated for the first time, whereas Rover Finance Holdings Ltd., Guildford, is no longer consolidated. BMW Belgium S.A./N.V. was renamed BMW Belgium Luxemburg S.A./N.V. The changes in the composition of the Group do not have a material impact on the earnings performance, financial position and net assets of the Group.

[3] Reclassifications in the interim Group financial statements for the financial year 2003

Following the conversion from German accounting rules to International Accounting Standards, now International Financial Reporting Standards, at 31 December 2001 for group reporting purposes, the BMW Group harmonised its internal and external financial reporting systems during the financial year 2003 in line with international practice. Information collated by the harmonised internal and external reporting systems, which is considered useful and relevant for the purposes of managing the business,

is reflected, in aggregated form, through external reporting. This permits a common language to be used within the Group and for communications with the capital markets. This harmonisation resulted in reclassifications in the income statement, which did not, however, have any impact on the profit from ordinary activities and net profit.

The harmonisation resulted in the following reclassifications in the Group income statement for the second quarter 2003:

in euro million	1.4. to 30.6.2003		1.4. to 30.6.2003		Change
		in %	reclassified	in %	
Revenues	10,241	100.0	10,266	100.0	25
Cost of sales	-7,547	73.7	-7,829	76.3	-282
<b>Gross profit</b>	<b>2,694</b>	<b>26.3</b>	<b>2,437</b>	<b>23.7</b>	<b>-257</b>
Sales and administrative costs	-1,213	11.9	-1,104	10.8	109
Research and development costs	-547	5.3	-558	5.4	-11
Other operating income and expenses	-59	0.6	140	1.4	199
<b>Profit before financial result</b>	<b>875</b>	<b>8.5</b>	<b>915</b>	<b>8.9</b>	<b>40</b>
Financial result	72	0.7	32	0.3	-40
<b>Profit from ordinary activities</b>	<b>947</b>	<b>9.2</b>	<b>947</b>	<b>9.2</b>	<b>-</b>
Income taxes	-379	3.7	-379	3.7	-
Minority interest	0	0.0	0	0.0	-
<b>Net profit</b>	<b>568</b>	<b>5.5</b>	<b>568</b>	<b>5.5</b>	<b>-</b>

in euro million	1.1. to 30.6.2003		1.1. to 30.6.2003		Change
		in %	reclassified	in %	
Revenues	20,513	100.0	20,563	100.0	50
Cost of sales	-15,208	74.2	-15,835	77.0	-627
<b>Gross profit</b>	<b>5,305</b>	<b>25.8</b>	<b>4,728</b>	<b>23.0</b>	<b>-577</b>
Sales and administrative costs	-2,447	11.9	-2,151	10.4	296
Research and development costs	-986	4.8	-1,021	5.0	-35
Other operating income and expenses	-163	0.8	233	1.1	396
<b>Profit before financial result</b>	<b>1,709</b>	<b>8.3</b>	<b>1,789</b>	<b>8.7</b>	<b>80</b>
Financial result	68	0.3	-12	-0.1	-80
<b>Profit from ordinary activities</b>	<b>1,777</b>	<b>8.6</b>	<b>1,777</b>	<b>8.6</b>	<b>-</b>
Income taxes	-699	3.4	-699	3.4	-
Minority interest	0	0.0	0	0.0	-
<b>Net profit</b>	<b>1,078</b>	<b>5.2</b>	<b>1,078</b>	<b>5.2</b>	<b>-</b>

The main reclassifications related to the following changes in presentation:

- Processing fee income generated from financial services business is now reported in revenues rather than in other operating income. Corresponding expenses are reported in cost of sales rather than in other operating expenses.
- The expense for allocations to provisions for residual value risks, allowances recognised on lease vehicles for residual value risks and allowances on receivables from sales financing are now reported in cost of sales rather than in other operating expenses.
- Expenses for freight and insurance for deliveries to dealers are now reported in cost of sales rather than in sales costs.

- Agency fee costs relating to financial services business and direct sales are now reported in cost of sales rather than in sales costs.
- A number of administrative costs have been reclassified, mainly from cost of sales and sales costs, to administrative costs.
- Expenditure for motor sport activities are now reported as research and development costs. Previously they were included in other operating expenses.
- The cost of reversing the discounting of pension provisions and the income from the expected return on pension plan assets are reported as part of the financial result. Previously these items were included in functional costs.

The quarterly income statements for the financial year 2003 after reclassifications in conjunction with harmonisation are shown as follows:

in euro million 2003	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
Revenues	10,297	10,266	9,980	10,982	41,525
Cost of sales	-8,006	-7,829	-7,628	-8,627	-32,090
<b>Gross profit</b>	<b>2,291</b>	<b>2,437</b>	<b>2,352</b>	<b>2,355</b>	<b>9,435</b>
Sales and administrative costs	-1,047	-1,104	-1,098	-1,197	-4,446
Research and development costs	-463	-558	-551	-574	-2,146
Other operating income and expenses	93	140	99	178	510
<b>Profit before financial result</b>	<b>874</b>	<b>915</b>	<b>802</b>	<b>762</b>	<b>3,353</b>
Financial result	-44	32	-78	-58	-148
<b>Profit from ordinary activities</b>	<b>830</b>	<b>947</b>	<b>724</b>	<b>704</b>	<b>3,205</b>
Income taxes	-320	-379	-279	-280	-1,258
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>510</b>	<b>568</b>	<b>445</b>	<b>424</b>	<b>1,947</b>

[4] New financial reporting rules

The International Financial Reporting Interpretations Committee (IFRIC) published Interpretation IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities) on 27 May 2004. IFRIC 1 contains guidelines for accounting for changes in decommissioning, restoration and similar liabilities, which are required to be recognised as assets in accordance with IAS 16 (Property, Plant and Equip-

ment), and which are required to be recognised as liabilities in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). The rules contained in IFRIC 1 are mandatory for the BMW Group with effect from 1 January 2005. The group has elected not to apply IFRIC 1 earlier than required.

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2004**  
**Notes to the Income Statement**

[5] Revenues Revenues by activity comprise the following:

in euro million	2nd quarter 2004	2nd quarter 2003 reclassified	1 January to 30 June 2004	1 January to 30 June 2003 reclassified
Sales of products and related goods	10,088	8,439	19,052	16,968
Income from lease instalments	614	576	1,276	1,175
Sales of products previously leased to customers	686	746	1,387	1,456
Interest income on loan financing	360	318	683	636
Other income	162	187	317	328
<b>Revenues</b>	<b>11,910</b>	<b>10,266</b>	<b>22,715</b>	<b>20,563</b>

Group revenues in the second quarter and first half-year include revenues of euro 1,729 million (second quarter 2003: euro: 1,767 million, reclassified) and euro 3,484 million (first half-year 2003: euro: 3,454 million, reclassified) respectively relating to financial services business.

An analysis of revenues by business segment is shown in the segment information provided on pages 37 to 38.

[6] Cost of sales Cost of sales in the second quarter include euro 1,511 million (second quarter 2003: euro: 1,569 million, reclassified) relating to financial services business. Cost of sales for the period from January to

June 2004 include euro 3,068 million (first half-year 2003: euro 3,098 million, reclassified) relating to financial services business.

[7] Sales and administrative costs Sales costs amounted to euro 1,015 million (second quarter 2003: euro 925 million, reclassified). Sales costs for the first half of 2004 amounted to euro 1,899 million (first half-year 2003: euro 1,817 million, reclassified). These comprise mainly costs for marketing, advertising and for sales personnel.

Administrative costs in the second quarter and first half of 2004 amounted to euro 196 million (second quarter 2003: euro 179 million, reclassified) and euro 367 million (first half-year 2003: euro 334 million, reclassified) respectively. These comprise expenses for administration which are not attributable to production or sales functions.

[8] Research and development costs Research and development costs of euro 592 million in the second quarter (second quarter 2003: euro 558 million, reclassified) comprise all research costs and development costs not recognised as assets as well as amortisation of capitalised development costs of euro 150 million (second quarter

2003: euro 143 million). Research and development costs amounted to euro 1,142 million in the first half of 2004 (first half-year 2003: euro 1,021 million, reclassified). This includes amortisation of capitalised development costs of euro 293 million (first half-year 2003: euro 261 million).

[9] Other operating income and expenses

Other operating income in the second quarter amounted to euro 195 million (second quarter 2003: euro 297 million, reclassified). For the first half of 2004, other operating income amounted to euro 389 million (first half-year 2003: euro 539 million, reclassified). Other operating expenses in the second quarter amounted to euro 131 million (second quarter

2003: euro 157 million, reclassified). For the first half of 2004, they were euro 299 million (first half-year 2003: euro 306 million, reclassified).

The reduction in other operating income resulted mainly from the lower level of exchange gains and income from the release of provisions.

[10] Financial result

in euro million	2nd quarter 2004	2nd quarter 2003 reclassified	1 January to 30 June 2004	1 January to 30 June 2003 reclassified
Result on investments	-1	12	48	43
Net interest expense	-56	-49	-120	-132
Other financial result	2	69	-49	77
<b>Financial result</b>	<b>-55</b>	<b>32</b>	<b>-121</b>	<b>-12</b>

The decrease in the financial result was attributable primarily to losses on the fair value measurement of financial instruments, in particular to the negative

fair value changes of the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce, plc, London.

[11] Income taxes

Income taxes comprise the following:

in euro million	2nd quarter 2004	2nd quarter 2003	1 January to 30 June 2004	1 January to 30 June 2003
Current tax expense	158	125	356	277
Deferred tax expense	255	254	385	422
<b>Income taxes</b>	<b>413</b>	<b>379</b>	<b>741</b>	<b>699</b>

The increase in current tax expense and the reduction in deferred tax expense in the first half of 2004 relates mainly to Germany. The reduction in the deferred tax expense is attributable to lower amount of deferred tax assets used in the period compared to the equivalent period last year. The effective tax rate for the second quarter 2004 was 38.1% (second

quarter 2003: 40.0%). The effective tax rate for the first half of 2004 was 38.3% (first half-year 2003: 39.3%).

The reduction in the effective tax rate was, amongst other factors, attributable to the fact that the flood solidarity surcharge levied in Germany in 2003 no longer applied.

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2004**  
**Notes to the Balance Sheet**

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

		2nd quarter 2004	2nd quarter 2003	1 January to 30 June 2004	1 January to 30 June 2003
Net profit	euro million	671	568	1,194	1,078
Profit attributable to common stock	euro million (rounded)	619	524	1,101	995
Profit attributable to preferred stock	euro million (rounded)	52	44	93	83
Average number of common stock shares outstanding	number	622,227,918	622,227,918	622,227,918	622,227,918
Average number of preferred stock shares outstanding	number	52,196,162	51,464,627	52,196,162	51,464,627
Earnings per share of common stock	euro	0.99	0.84	1.77	1.60
Earnings per share of preferred stock	euro	1.00	0.85	1.78	1.61

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

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

- [13] Intangible assets Intangible assets comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 30 June 2004 amounted to euro 3,128 million (31 December 2003: euro 3,011 million). Capital expenditure for development costs in the first half of 2004 was euro 410 million (first half-year 2003: euro 427 million). Amortisation amounted to euro 293 million (first half-year 2003: euro 261 million).
- [14] Property, plant and equipment Capital expenditure for property, plant and equipment in the first six months was euro 1,152 million (first half-year 2003: euro 983 million). Depreciation in the same period amounted to euro 870 million (first half-year 2003: euro 771 million).
- [15] Financial assets The increase in financial assets was mainly due to the reversal of write-downs on investments following the increase in the carrying amount of the investment in Rolls-Royce plc, London, up to its stock market value at 30 June 2004. The investment is therefore again carried at a price above the average purchase cost paid by the BMW Group. The reversal of the write-downs was recognised directly in other accumulated equity.

[16] Leased products Additions to leased products and depreciation thereon amounted to euro 2,434 million (first half-year 2003: euro 2,459 million) and euro 428 million (first half-year 2003: euro 544 million) respectively.

The increase in leased products was attributable above all to the American market.

[17] Inventories Inventories comprise the following:

in euro million	30.6.2004	31.12.2003
Raw materials and supplies	589	569
Work in progress, unbilled contracts	949	827
Finished goods	3,559	3,439
Goods for resale	945	858
<b>Inventories</b>	<b>6,042</b>	<b>5,693</b>

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

[18] Receivables and other assets

in euro million	30.6.2004	31.12.2003
Trade receivables	2,232	2,257
Receivables from sales financing	24,063	21,950
Other receivables	5,847	7,184
<b>Receivables and other assets</b>	<b>32,142</b>	<b>31,391</b>

The increase in receivables from sales financing was due to the expansion of business, in particular in Germany, the USA, the United Kingdom and Italy.

## Other receivables

in euro million	30.6.2004	31.12.2003
Receivables from subsidiaries	756	760
Receivables from associated and other companies in which an investment is held	335	311
Miscellaneous assets	4,756	6,113
<b>Other receivables</b>	<b>5,847</b>	<b>7,184</b>

The decrease in miscellaneous assets was attributable primarily to lower fair values of financial instruments.

### [19] Equity

The Group Statement of Changes in Equity is shown on page 26.

#### Repurchase of treasury shares

During the first half of 2004, the BMW Group acquired 440,000 shares of BMW stock at an average

price of euro 24.31 per share. It is intended to issue these shares to employees during the financial year 2004 at a reduced price in conjunction with an employee share scheme. The shares involved are shares of preferred stock which will be subject to a vesting period of 4 years.

### [20] Provisions

Provisions increased by euro 747 million. The increase was attributable mainly to the higher level of

personnel-related obligations and provisions for operational expenses included in other provisions.

### [21] Debt

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

in euro million	30.6.2004	31.12.2003
Bonds	12,583	11,404
Liabilities to banks	2,811	3,156
Liabilities from customer deposits (banking)	4,361	3,865
Commercial paper	3,647	3,327
Bills of exchange	1	2
Other debt	5,232	5,695
<b>Debt</b>	<b>28,635</b>	<b>27,449</b>

Other debt of euro 5,232 million (31.12.2003: euro 5,695 million) relates mainly to asset backed financing transactions and finance lease liabilities.

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

in euro million	30.6.2004	31.12.2003
Taxes payable	572	356
Social security	160	120
Employees	24	21
Advance payments from customers	260	274
Deposits received	167	163
Interest	83	96
Subsidiaries	69	55
Fair values of derivative financial instruments	383	372
Sundry other liabilities	1,384	1,177
<b>Other liabilities</b>	<b>3,102</b>	<b>2,634</b>

**BMW Group**  
**Notes to the Interim Group Financial Statements to 30 June 2004**  
**Other disclosures**

[23] Explanatory comments to segment information

The activities of the various segments are described in the Group financial statements of BMW AG at 31 December 2003. Presswerk 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 will in future manufacture primarily for the Automobiles segment. The comparative figures have not been reclassified, since they are immaterial by comparison to the individual items in the Group financial statements.

Segment information for the second quarter is as follows:

<b>Segment information by business segment</b> in euro million	Automobiles		Motorcycles		Financial Services		Reconciliations		Group		
	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	
Revenues with third parties	9,863	8,082	298	327	1,729	1,767	20	90	11,910	10,266	
Inter-segment revenues	1,652	1,565	1	2	328	352	-1,981	-1,919	-	-	
Total revenues	11,515	9,647	299	329	2,057	2,119	-1,961	-1,829	11,910	10,266	
Profit before financial result	1,032	763	45	59	123	121	-61	-28	1,139	915	
Result from equity method accounting	-2	9	-	-	-	-	-	-	-2	9	
Other net financial expenses	-59	-4	-1	-1	13	-3	-6	31	-53	23	
Profit from ordinary activities	971	768	44	58	136	118	-67	3	1,084	947	
Return on sales	%	8.4	8.0	14.7	17.6	6.6	5.6	-	-	9.1	9.2

Segment information for the first half-year is as follows:

<b>Segment information by business segment</b> in euro million	Automobiles		Motorcycles		Financial Services		Reconciliations		Group		
	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	2004	2003 reclassified	
Revenues with third parties	18,614	16,295	576	631	3,484	3,454	41	183	22,715	20,563	
Inter-segment revenues	2,645	2,725	5	2	538	649	-3,188	-3,376	-	-	
Total revenues	21,259	19,020	581	633	4,022	4,103	-3,147	-3,193	22,715	20,563	
Profit before financial result	1,769	1,558	74	90	253	223	-40	-82	2,056	1,789	
Result from equity method accounting	17	32	-	-	-	-	-	-	17	32	
Other net financial expenses	-73	-103	-2	-2	15	2	-78	59	-138	-44	
Profit from ordinary activities	1,713	1,487	72	88	268	225	-118	-23	1,935	1,777	
Return on sales	%	8.1	7.8	12.4	13.9	6.7	5.5	-	-	8.5	8.6

#### Financial calendar

Interim Report to 30 September 2004  
Annual Report 2004  
Annual General Meeting

3 November 2004  
16 March 2005  
12 May 2005

#### Contacts

Business Press

Telephone +49 (0) 89-3 82-2 33 62  
          +49 (0) 89-3 82-2 41 18  
Fax       +49 (0) 89-3 82-2 44 18  
E-mail     presse@bmwgroup.com

Investor Relations

Telephone +49 (0) 89-3 82-2 42 72  
          +49 (0) 89-3 82-2 53 87  
Fax       +49 (0) 89-3 82-2 44 18  
E-mail     ir@bmwgroup.com

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Telephone +49 (0) 89-3 82-0