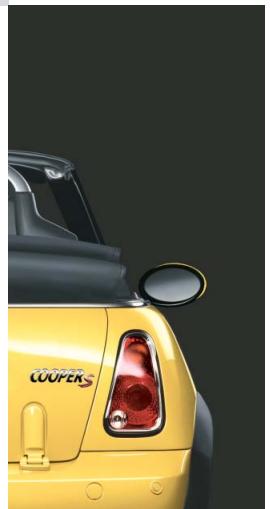


Interim Report to 30 September 2004

Q3



Rolls-Royce
Motor Cars Limited



BMW Group



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The BMW Group – an Overview

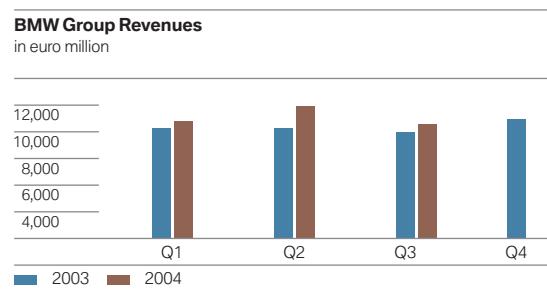
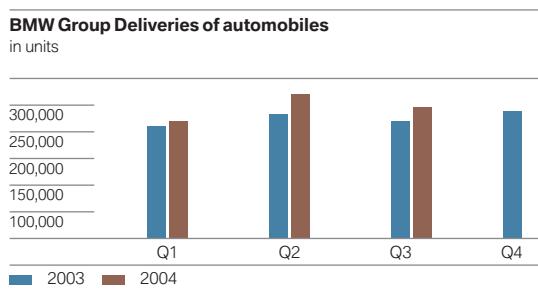
BMW Group in figures	3rd quarter 2004	3rd quarter 2003	Change in %
Vehicle production			
Automobiles	units	326,594	273,167
Motorcycles	units	17,269	14,938
Deliveries to customers			
Automobiles	units	296,310	270,439
Motorcycles	units	23,616	22,029 ¹⁾
Workforce at end of quarter		106,817	104,691²⁾
Cash flow		euro million	1,291
Revenues		euro million	10,611
Profit from ordinary activities		euro million	779
Thereof:			
Automobiles	euro million	694	570
Motorcycles	euro million	-13	-15
Financial Services	euro million	141	120
Reconciliations	euro million	-43	49
Income taxes		euro million	-300
Net profit		euro million	479
Earnings per share⁴⁾		euro	0.71/0.71
			0.66/0.66
			7.6/7.6

1) excluding 1,523 C1 in the 3rd quarter 2003

2) the comparable number of employees at 30 September 2003 after adjusting for disposals and transfers of group companies was 104,596

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 in figures		1 January to 30 September 2004	1 January to 30 September 2003	Change in %
Vehicle production				
Automobiles	units	932,595	827,598	12.7
Motorcycles	units	79,373	73,206	8.4
Deliveries to customers				
Automobiles	units	887,293	815,308	8.8
Motorcycles	units	72,186	73,618 ^{1]}	-1.9
Workforce at end of quarter		106,817	104,691^{2]}	2.0
Cash flow	euro million	3,801	3,320	14.5
Revenues	euro million	33,326	30,543^{3]}	9.1
Profit from ordinary activities	euro million	2,714	2,501	8.5
Thereof:				
Automobiles	euro million	2,407	2,057	17.0
Motorcycles	euro million	59	73	-19.2
Financial Services	euro million	409	345	18.6
Reconciliations	euro million	-161	26	-
Income taxes	euro million	-1,041	-978	-6.4
Net profit	euro million	1,673	1,523	9.8
Earnings per share^{4]}	euro	2.48/2.49	2.26/2.27	9.7/9.7

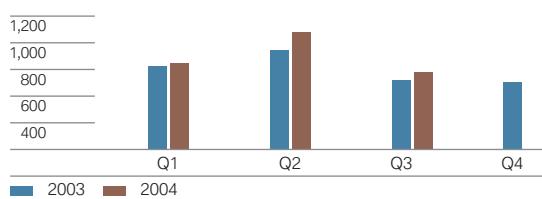
1] excluding 4,029 C1 in the first nine months of 2003

2] the comparable number of employees at 30 September 2003 after adjusting for disposals and transfers of group companies was 104,596

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



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The BMW Group – an Overview

Strong third quarter for the BMW Group

The BMW Group continued to perform positively in the third quarter 2004 on the back of robust sales volume growth. Sales volume, revenues and earnings figures were the BMW Group's highest ever for a third quarter.

Overall, 296,310 BMW, MINI and Rolls-Royce brand cars were sold during the third quarter 2004. The sales volume for the period January to September 2004 therefore totalled 887,293 cars.

The BMW Group's Motorcycles segment performed well during the third quarter 2004 in the face of a generally contracting market: 23,616 BMW motorcycles were sold in the quarter, 7.2% more than in the third quarter 2003. Motorcycles sales volume for the first nine months of 2004, at 72,186 units, was still 1.9% below the previous year's figure due to model life-cycle factors.

The Financial Services segment again put in a very positive performance. 450,990 new contracts were signed during the third quarter 2004, 6.9% more than in the same quarter last year. A total of 1,310,908 new contracts has therefore been signed during the first nine months of 2004, a 10.0% increase over the corresponding period in 2003.

Group revenues for the third quarter 2004, at euro 10,611 million, were 6.3% ahead of the third quarter 2003. The increase was even more pronounced on a nine-month basis. Group revenues for this period were euro 33,326 million, surpassing the previous year's equivalent figure by 9.1%.

The profit from ordinary activities for the third quarter 2004 was euro 779 million, an improvement of 7.6% over the same quarter last year. On a nine-months basis, the profit from ordinary activities, at euro 2,714 million, was 8.5% higher than in the previous year.

The net profit of the BMW Group for the third quarter 2004 climbed to euro 479 million, an increase of 7.6% compared to the third quarter 2003.

The net profit for the period from January to September 2004 thus amounted to euro 1,673 million, an improvement of 9.8% compared to the corresponding period last year.

Increase in number of trainee positions

The BMW Group had a worldwide workforce of 106,817 employees at 30 September 2004, 2.0% more than one year earlier. Adjusted for disposals and transfers of group companies, the workforce stood at 104,596 employees, an increase of 2.1% compared to the end of the third quarter 2003. The BMW Group has created more than 2,475 additional jobs worldwide since the beginning of 2004.

In the third quarter 2004, more than 1,200 apprentices set out on their careers with the BMW Group. Overall, the BMW Group currently has 4,466 apprentices, an increase of 126 compared to one year earlier. More than 600 new apprentice positions have been created over the past three years.

Model initiative continued

After the launch of the BMW X3, the BMW 6 Series Coupé and Cabrio and the BMW 5 Series Touring during the first half of the year, the BMW Group continued its model initiative during the third quarter 2004 and added the BMW 1 Series, the MINI Convertible and the BMW M5 (the latter presented in September) to its product range.

Inconsistent economic conditions

The international automobile markets are still performing inconsistently. The overall number of cars sold in the main traditional automobile markets (USA, Japan and Europe) has risen slightly compared to the corresponding period last year. The BMW Group anticipates that these markets will register only a low level of growth for the full year 2004.

In Germany, car registrations for the overall market continued to be weak. The number of new

passenger car registrations was lower than in the previous year. It is not possible to predict at present whether, by the year-end, consumer reluctance to buy will noticeably soften.

Sales of new vehicles in the emerging markets of Asia and in Latin America have developed positively during the year to date and are expected to remain robust.

On course for new record figures

Strengthened by the strong performance in the third quarter 2004, the BMW Group anticipates that the growth achieved during the first nine months of 2004 will be sustained in the fourth quarter. The BMW Group will thus report new high levels for sales volume, revenues and earnings for the full year 2004 and thus achieve its targets for the year.

Automobiles

Sales volume ahead of previous year for all brands

In the third quarter 2004, the number of cars sold by the BMW Group rose to 296,310 units, an increase of 9.6% compared to the third quarter 2003. The sales volume in the period from January to September 2004, at 887,293 units, represents a growth of 8.8% compared to the corresponding period last year.

The sales volume of BMW brand cars during the third quarter 2004 rose to 248,431 units, an increase of 11.3% compared to the same quarter in 2003. The increase for the first three quarters of 2004, during which 743,927 BMW brand cars were sold, was 9.7%.

Sales of MINI brand cars during the third quarter, at 47,713 units, were 1.0% ahead of the same quarter last year. During the first nine months of 2004, the BMW Group sold 142,881 MINI brand cars, an increase of 4.2% compared to the corresponding period last year.

166 Rolls-Royce motor vehicles were handed over to customers in the quarter from July to September 2004. The BMW Group has thus delivered 485 Rolls-Royce brand cars during the nine-month period from January to September 2004.

Sales volume growth worldwide

The BMW Group achieved strong sales volume growth in virtually all countries and regions. In the quarter from July to September 2004, the BMW Group sold 178,404 cars in Europe and thus

achieved a 9.8% growth in sales. On a nine-month basis, the sales volume of the BMW Group's three brands in Europe totalled 535,291 units, 9.1% more than in the previous year. The number of cars sold in Germany during the third quarter 2004 rose by 14.9% to 67,443 units. In total, 204,407 customers in Germany opted to buy a BMW Group car during the first three quarters of 2004, 7.6% more than in the first nine months of 2003. The BMW Group sold 40,928 units in Great Britain during the third quarter 2004, surpassing the volume achieved there in the third quarter 2003 by 2.8%. The sales volume during the first nine months of 2004 therefore increased by 4.0% to 110,667 units. Sales also performed very well in other European markets. Sales volumes during the first three quarters in Italy (58,248 units), France (34,090 units) and Spain (32,655 units) grew by 14.8%, 10.5% and 9.7% respectively.

73,366 cars were delivered to customers in the USA during the third quarter, an increase of 9.3% compared to the same quarter last year. The BMW Group's sales volume in the USA during the period from January to September 2004 increased to 217,189 units (+6.4%).

The BMW Group sold 29,699 units in the Asia/Oceania region during the third quarter 2004, a 5.0% increase over the same quarter last year. The increase for the first three quarters was 11.8% (92,251 units).

12,134 vehicles were sold by the BMW Group in Japan during the third quarter 2004, 7.3% more

Automobiles		3rd quarter 2004	3rd quarter 2003	Change in %
Production	units	326,594	273,167	19.6
Deliveries to customers	units	296,310	270,439	9.6
Revenues	euro million	10,317	9,069	13.8
Profit from ordinary activities	euro million	694	570	21.8
Workforce at end of quarter		99,818	96,181 ^{1]}	3.8

^{1]} The comparable number of employees at 30 September 2003 after adjusting for disposals and transfers of group companies was 98,003.

than in the same quarter last year. On a nine-month basis, the sales volume rose by 11.9% and totalled 37,842 units.

The BMW Group sold 5,361 vehicles (–7.7%) on the Chinese markets (China, Hong Kong, Taiwan) during the third quarter 2004. The decrease was attributable to economic policies aimed at cooling the market on the Chinese mainland. On a nine-month basis, however, the sales volume on these markets was 18,798 units and thus 21.1% ahead of the corresponding period last year.

A successful start for the BMW 1 Series

Sales of the new BMW 1 Series commenced in the middle of September. The BMW 1 Series is the only car in its category with rear-wheel drive and impressed with its resulting dynamic driving qualities. A total of 5,654 units of the new series had been delivered to customers by the end of the month. The BMW Group anticipates that at least 10,000 BMW 1 Series cars will be delivered each month for the remainder of the year.

The sales volume of the BMW 3 Series, now in its seventh year, remained at a high level. 349,409 BMW 3 Series cars were delivered to customers during the first nine months of 2004. This represents a reduction of 12.3% which was attributable due to model life-cycle factors. The BMW 3 Series Limousine is the most popular model of the series, with 178,663 (–12.9%) units sold during the first three quarters of 2004. 59,311 BMW 3 Series Touring cars were delivered to customers during

the same period, not far short (–1.8%) of the high level achieved in the previous year. The sales volume reduction of the BMW 3 Series Coupé (46,478 units, –7.8%), the BMW 3 Series Cabrio (33,441 units, –14.5%) and the BMW 3 Series Compact (31,516 units, –27.3%) was more pronounced for the first nine months of 2004.

32,637 Roadster BMW Z4 were sold worldwide during the first three quarters of 2004, 8.7% less than in the first three quarters of 2003.

The BMW Group sold 168,778 BMW 5 Series cars during the first nine months of 2004, 34.2% more than during the corresponding period last year. The new BMW 5 Series Limousine was delivered during this period to 141,613 customers. By the end of September, the new BMW 5 Series Touring, which had been introduced on the European markets in May 2004, had already achieved 17,717 unit sales. In addition, the BMW Group still sold 9,448 units of the BMW 5 Series predecessor models during the first three quarters of 2004.

Since the beginning of 2004, the BMW Group has been attracting a new segment of customers with the BMW 6 Series. By the end of September 2004, 15,641 BMW 6 Series cars had been sold worldwide, comprising 9,437 BMW 6 Series Coupés (available since January 2004) and 6,204 BMW 6 Series Cabrios (available since March).

With 34,648 units sold during the first three quarters of 2004, the BMW 7 Series saw a reduction of 14.7% compared to the record sales volume achieved in the corresponding period last year. The

Automobiles		1 January to 30 September 2004	1 January to 30 September 2003	Change in %
Production	units	932,595	827,598	12.7
Deliveries to customers	units	887,293	815,308	8.8
Revenues	euro million	31,576	28,089	12.4
Profit from ordinary activities	euro million	2,407	2,057	17.0

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BMW 7 Limousine has therefore been able to maintain its competitive position in the market.

The BMW X3 has also been launched in a new market segment. The BMW Group has sold 60,541 Sports Activity Vehicles of this series since the model was introduced in January 2004. The high percentage of new customers gained endorses the concept of the BMW X3. This is demonstrated, for example, by the fact that new customers account for well over 70% of customers of this model in the USA.

Demand for the BMW X5 remains at a high level. The sales volume for the first nine months of 2004 was 75,804 units, a further increase of 2.2% compared to the high sales volume achieved in the same period last year.

Strong demand for the MINI Convertible

The total sales volume of MINI brand cars during the first three quarters of 2004 was 142,881 units, 4.2% more than during the corresponding period last year. At 43.9% and with 62,777 units sold during the first nine months of 2004, the MINI Cooper accounts for the largest proportion of the model mix. This is followed by the MINI One (including the MINI One D) with 38,823 units and 27.2% of the total sales volume of the MINI brand. The MINI Cooper S, the most powerful MINI model, with 31,961 units sold, accounts for 22.4% of the total sales volume of the MINI brand.

The MINI Convertible, which was newly presented in July 2004 and which is now available with three engine versions, has been very well received by the market. 9,320 units had already been sold by the end of September.

Rolls-Royce Phantom presented at the Paris Auto Show

The Rolls-Royce Phantom was presented at the Paris Auto Show in September 2004, exactly one hundred years after the presentation of the very first Rolls-Royce motor cars at the Paris Salon in 1904. 485 Rolls-Royce motor cars were handed over to customers worldwide during the first nine months of 2004, compared to 71 units in the corresponding period last year.

Production volume at a new high level

The BMW Group manufactured 326,594 cars during the third quarter 2004, an increase of 19.6% compared to the third quarter 2003. This comprises 276,580 (+22.6%) BMW brand vehicles, 49,779 (+5.0%) MINI brand vehicles and 235 Rolls-Royce brand vehicles.

The production volume of the BMW Group for the first three quarters of 2004 therefore rose by 12.7% to 932,595 units. On a nine-month basis, the BMW brand recorded the biggest increase, with a production volume of 789,410 units (+14.4%). In addition, 142,553 MINI brand cars (+3.9%) and 632 Rolls-Royce Phantoms were manufactured.

Revenues and earnings increased again

Revenues of the Automobiles segment for the third quarter 2004 grew significantly faster than sales volume and amounted to euro 10,317 million, a 13.8% increase over the third quarter 2003. Segment revenues for the first nine months of 2004 were euro 31,576 million, 12.4% more than in the corresponding period last year.

The profit from ordinary activities of the Automobiles segment for the third quarter 2004 rose by 21.8% to euro 694 million. The increase was therefore significantly higher than the increase in sales volume and revenues. This was attributable mainly to changes in the model mix, in particular as a result of the new BMW brand models. A similar pattern emerges on a nine-month basis. The profit from ordinary activities for the nine-month period was euro 2,407 million, an improvement of 17.0% compared to the corresponding period last year.

Number of employees slightly higher

The Automobiles segment had a worldwide workforce of 99,818 employees at 30 September 2004, 3.8% more than one year earlier. The comparable number of employees at 30 September 2003, after adjusting for disposals and transfers within the group, was 98,003, so that the increase on a comparable basis was only 1.9% at 30 September 2004.

Positive development despite generally difficult market conditions

The BMW Group's motorcycles business continued to be dominated by difficult market conditions during the third quarter. Despite this situation, 23,616 BMW motorcycles were sold, an increase of 7.2% compared to the third quarter 2003. In particular, strong demand for the new long-distance enduro, the R 1200 GS, had a positive impact.

The nine-month figures have also been affected by the generally difficult market conditions and by model life-cycle related factors which took effect in the first quarter. Due to the sales volume increase in the third quarter, the shortfall against the corresponding period last year was reduced to 1.9%. A total of 72,186 BMW motorcycles was sold during the first three quarters of 2004. The strong demand for the R 1200 GS also had a positive impact on this performance. In just under seven months since the start of sales of this model, more than 14,500 units have been delivered to customers worldwide.

Although it is too soon to speak of a general turnaround on the international motorcycle markets, the third quarter 2004 did see some positive developments in a number of important European markets, from which the BMW Group was also able to benefit. For example, sales of BMW motorcycles rose sharply in Spain (+50.0%) and France (+23.8%) compared to the corresponding period last year. In Germany, the largest market for BMW motorcycles, the BMW Group sold 6,652 motorcycles, an increase of 2.9% compared to the third

quarter 2003. By contrast, the number of BMW motorcycles sold in the USA (-1.6%) and Japan (-6.9%) fell short of the levels achieved in the third quarter 2003.

R 1200 GS remains best selling BMW motorcycle

The new R 1200 GS established itself during the third quarter 2004 as the best selling BMW motorcycle, with 6,691 units delivered to customers. The F 650 GS (including the Dakar version) came second, with 3,738 units sold, followed by the R 1150 RT, with a sales volume of 3,212 units during the third quarter 2004.

Product initiative continues

Following the market launch of the R 1200 GS in March and that of the K 1200 S in September, the BMW Group is continuing with its product initiative in the Motorcycles segment. The new K 1200 R was presented to the press in mid-September at the INTERMOT trade fair in Munich, the world's largest motorcycle trade fair. This model will be launched on the market during the second half of 2005. The response to this pure roadster was extremely positive.

Motorcycle production ahead of previous year's volume

With a production volume of 17,269 units during the third quarter 2004, the previous year's comparable figure was exceeded by 15.6%, mainly as a result of strong demand for the R 1200 GS model.

Motorcycles		3rd quarter 2004	3rd quarter 2003	Change in %
Production	units	17,269	14,938	15.6
Deliveries to customers	units	23,616	22,029 ¹⁾	7.2
Revenues	euro million	256	221	15.8
Profit from ordinary activities	euro million	-13	-15	13.3
Workforce at end of quarter		2,977	2,970	0.2

1) excluding 1,523 C1 in the 3rd quarter 2003

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Production volume on a nine-month basis was 8.4% ahead of the previous year's comparable figure. In total, 79,373 BMW motorcycles were manufactured at the Berlin plant during the first nine months of 2004.

Revenues and earnings

Revenues of the Motorcycles segment for the third quarter 2004 amounted to euro 256 million, surpassing the figure for the same quarter last year by 15.8%. Revenues of the Motorcycles segment for the period from January to September 2004 amounted to euro 837 million, 2.0% lower than in the corresponding period last year.

The result from ordinary activities of the Motorcycles segment was again affected in the third quarter 2004 by the on-going product initiative. The loss of euro 13 million represented a 13.3% improvement on the result for the third quarter 2003. The segment profit for the first three quarters of 2004 amounted to euro 59 million. The 19.2% reduction was mainly attributable to market launch expenditure for new products.

Workforce virtually unchanged

At the end of the third quarter 2004, the BMW Motorcycles segment had 2,977 employees, 0.2% more than one year earlier.

Motorcycles		1 January to 30 September 2004	1 January to 30 September 2003	Change in %
Production	units	79,373	73,206	8.4
Deliveries to customers	units	72,186	73,618 ¹⁾	-1.9
Revenues	euro million	837	854	-2.0
Profit from ordinary activities	euro million	59	73	-19.2

¹⁾ excluding 4,029 C1 in the first nine months of 2003

Strong growth in the third quarter

The Financial Services segment continued on its growth course during the third quarter 2004. With 450,990 new contracts signed, total new business was 6.9% ahead of the third quarter 2003. On a nine-month basis, the number of new contracts increased by 10.0% to 1,310,908. The proportion of new vehicles financed or leased by the Financial Services segment during the period climbed from 39.2% in 2003 to 41.4% in 2004.

Broad-based growth

Retail customer business, which represents the segment's line of business with the largest volume, generated 210,142 new financing contracts during the third quarter 2004, an increase of 17.2% compared to the same quarter last year. The number of new contracts signed during the first nine months of 2004 increased to 600,651, 11.0% more than in the corresponding period in 2003.

Lease contracts have seen above-average growth in 2004, with 205,044 new lease contracts up to the end of the third quarter. This represents an increase of 21.6% compared to the corresponding period in 2003.

Credit financing grew by 6.3%, with 395,607 new financing contracts signed during the first nine months of 2004. Lease contracts accounted for

34.1% of new business compared to 31.2% in the previous year.

In line with the positive development of new business, the total portfolio of customer financing contracts rose by 12.5% to stand at 1,620,294 contracts at 30 September 2004. All regions contributed to the increase with similarly high rates of growth. The contract portfolio in Europe and the Americas increased by 13.7% and 11.6% respectively and the Asian markets also saw a double-digit increase of 10.5%.

In the dealer financing sector, the BMW Group also increased business sharply with 710,257 new contracts signed during the first nine months of 2004 (+9.1% compared to the corresponding period last year). On a nine-month basis, the average volume of the segment's portfolio of dealer financing contracts was euro 5,226 million, 19.1% higher than in the previous year.

Positive development for deposit and funds business

Deposit business is progressing extremely well. The average deposit volume was euro 4,463 million, 22.3% higher than during the same period last year. On-line deposits and, in particular, on-line savings accounts contributed to this growth. The number of customer accounts worldwide has increased by

Financial Services	3rd quarter 2004	3rd quarter 2003	Change in %
New contracts signed	450,990	421,895	6.9
Revenues	euro million	2,082	1,798 ¹⁾
Profit from ordinary activities	euro million	141	120
Workforce at end of quarter		2,846	2,474

¹⁾ reclassified after harmonisation of internal and external reporting systems

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40.2% since the end of September 2003 to stand at 351,186 accounts at 30 September 2004.

Investment funds business continued to make good progress, with a net cash inflow for all investment funds of approximately euro 30.4 million during the period from January to September 2004. By the end of September, the number of custodial deposit accounts had increased to 18,149, 43.5% more than one year earlier.

Sustained growth for fleet business

The segment was again able to expand its fleet business, which currently covers twelve markets across Europe. The managed contract portfolio at the end of the third quarter 2004 stood at 67,711 cars, an increase of 8,671 compared to one year earlier.

Positive business performance continues

The total business volume of the Financial Services segment as disclosed in the balance sheet at 30 September 2004 amounted to euro 32,194 million, an increase of 14.9% compared to 30 September 2003.

The profit from ordinary activities of the Financial Services segment for the third quarter 2004 amounted to euro 141 million, an improvement of 17.5% compared to the third quarter 2003. The profit from ordinary activities for the period from January to September 2004 amounted to euro 409 million, 18.6% ahead of the corresponding figure for the previous year.

The Financial Services segment had 2,846 employees worldwide at 30 September 2004, an increase of 15.0% compared to one year earlier.

Financial Services	1 January to 30 September 2004	1 January to 30 September 2003	Change in %
New contracts signed	1,310,908	1,191,949	10.0
Business volume ^{1]}	euro million	32,194	28,009
Revenues	euro million	6,104	5,901 ^{2]}
Profit from ordinary activities	euro million	409	345
			18.6

^{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 third quarter 2004

During the third quarter 2004, as in the first half of the year, the US dollar exchange rate and rising raw material prices were amongst the main issues influencing the stock markets.

The US dollar exchange rate stabilised during the third quarter 2004 at rates ranging between US dollar 1.22 and 1.24 to one euro, whereas the first half of the year had seen rates of over US dollar 1.28 to one euro.

The increase in the price of oil in the third quarter continued to cause uncertainty and had a particularly negative impact on automobile stocks. The price for one barrel of Brent crude rose to US dollar 47.31 at the end of the third quarter 2004. The highest previous level had been in the second quarter (US dollar 39.40). The price of one barrel of oil thus increased by 39.27% in a single quarter. At present, the financial markets do not expect the situation to ease.

The German stock index, the DAX, was unable to avoid the effects of the pressure generated by the weak US dollar and increased raw material prices.

The positive market development in evidence since the beginning of 2004 could not be sustained. The DAX started the quarter under report at 4,053 points and stood at 3,893 points on 30 September 2004, so that the price fell during the third quarter by 3.9%. On 30 September 2004, the German stock index was 1.9% below its level at the beginning of the year.

The currency situation and raw material prices had a particularly negative impact on the sector index for German automobile stocks. The Prime Automobile Performance Index closed at 327 points on 30 September 2004, 35 points below its level at the end of the second quarter 2004. This represents a fall of 9.6% during the third quarter 2004.

BMW common stock was not able to avoid the general market trend in the third quarter 2004, closing at euro 33.10 on 30 September 2004, 9.0% below its closing price at the end of the second quarter. The price of the stock has fallen by 10.8% since the beginning of the year and increased by 2.2% compared to 30 September 2003.

Development of BMW stock compared to stock exchange indices
(Index: 1 July 2004 = 100)



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Analysis of the Interim Group Financial Statements

Earnings performance

The BMW Group harmonised its internal and external reporting systems in the financial year 2003 in line with generally accepted 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 third quarter 2004 and for the first nine months 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 third quarter 2004

The BMW Group generated a net profit of euro 479 million for the third quarter 2004, 7.6% higher than the net profit for the same quarter last year. The post-tax return on sales in both quarters was 4.5%. For the third quarter 2004, the Group generated earnings per share of common stock and preferred stock of euro 0.71 (third quarter 2003: euro 0.66).

Group revenues for the third quarter 2004 rose to euro 10,611 million, an increase of 6.3% compared to the same quarter last year. Within group revenues, external revenues of the Automobiles, Motorcycles and Financial segments were 8.1%, 15.4% and 0.2% ahead of the third quarter 2003.

Revenues from other activities of the Group amounted to euro 25 million. This 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 the year. The comparable figure for revenues from other activities of the Group is euro 18 million.

Cost of sales for the third quarter amounted to euro 8,111 million and was thus 6.3% higher than in the third quarter last year. Gross profit also rose by 6.3% compared to the third quarter 2003. The gross profit percentage was unchanged at 23.6%. The gross profit of industrial operations

fell by 0.8 percentage points to 22.0% and that of financial operations fell by 0.1 percentage points to 12.8%.

Sales and administrative costs were virtually unchanged compared to the third quarter last year. They represent 10.4% (third quarter 2003: 11.0%) of revenues.

Research and development costs increased by 12.5% compared to the third quarter 2003 and represent 5.8% (third quarter 2003: 5.5%) of revenues. Research and development costs include amortisation of capitalised development costs amounting to euro 168 million (third quarter 2003: euro 156 million). Total research and development costs for the third quarter 2004 amounted to euro 732 million (third quarter 2003: euro 657 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. For the third quarter 2004, this gives a research and development expenditure ratio of 6.9% (third quarter 2003: 6.6%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 709 million (third quarter 2003: euro 574 million).

The positive net amount from other operating income and expenses fell by 60.6% against the same quarter in 2003. This was mainly a result of the higher expense for allowances on receivables, the lower level of income from the release of provisions and higher losses on currency transactions.

The financial result for the third quarter improved by 48.7% compared to the same quarter last year. The improvement in the net financial result was mainly attributable to lower interest expenses and to fair value gains on the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce plc, London.

Within the financial result, the result from investments increased by euro 3 million and the net interest expense fell by euro 19 million.

The profit from ordinary activities rose by 7.6% compared to the same quarter last year. Income taxes

increased by 7.5 % compared to the same quarter last year. The effective tax rate was unchanged at 38.5 %.

Earnings performance for the first nine months of 2004

The BMW Group generated a net profit of euro 1,673 million for the first nine months of 2004, 9.8 % above the result for the corresponding period last year. The post-tax return on sales, as in for the first nine months of the previous year, was 5.0 %. For the first nine months of 2004, the Group generated earnings per share of common stock of euro 2.48 (first nine months 2003: euro 2.26) and earnings per share of preferred stock of euro 2.49 (first nine months 2003: euro 2.27).

On a nine-month comparable basis, group revenues rose by 9.1 % to euro 33,326 million. External revenues of the Automobiles segment were 12.2 % ahead of the previous year. External revenues of the Motorcycles segment fell by 2.5 % due to volume and exchange rate factors. External revenues of the Financial Services segment increased by only 0.7 % due to exchange rate factors. Revenues from other activities of the Group amounted to euro 66 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 was euro 79 million.

Cost of sales amounted to euro 25,452 million, whereby the increase was 0.6 percentage points lower than the increase in revenues. The gross profit therefore improved by 11.2 % compared to the first nine months of 2003. The gross profit percentage, at 23.6 %, was 0.4 percentage points higher. The gross profit of industrial operations fell by 0.1 percentage points to 22.5 % and that of financial operations improved by 1.2 percentage points to 12.9 %.

Sales and administrative costs increased by 3.6 % compared to the same period last year, a significantly lower percentage increase than that of revenues. They represent 10.0 % (first nine months 2003: 10.7 %) of revenues.

Research and development costs increased by 12.1 % compared to the first nine months of 2003. They represent 5.3 % (first nine months 2003: 5.1 %) of revenues. Research and development costs include amortisation of capitalised development costs amounting to euro 461 million (first nine months 2003: euro 417 million). Total research and development costs for the first nine months of 2004 amounted to euro 1,991 million (first nine months 2003: euro 1,844 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. As in the first nine months of the previous year, this gives a research and development expenditure ratio of 6.0 %.

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 1,899 million (first nine months 2003: euro 1,628 million).

The positive net amount from other operating income and expenses fell by 61.1 % compared to the corresponding period in 2003. This was mainly a result of higher expenses for allocations to provisions, the lower level of income from the release of provisions, the higher expense for allowances on receivables and higher losses on currency transactions.

The financial result deteriorated by 78.9 % compared to the corresponding 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, which reduced the other financial result for the first nine months by euro 76 million. The fair value of the investment in Rolls-Royce plc increased by euro 186 million during the first nine months of 2004. This increase, however, is recognised directly in equity and does not offset the negative fair value change of the option. Within the financial result, the result from investments increased by euro 8 million and the net interest expense fell by euro 31 million.

The profit from ordinary activities increased by 8.5 % compared to the corresponding period last

year. Income taxes increased by 6.4 %. The effective tax rate was 38.4 % (first nine months 2003: 39.1 %). The reduction in the effective tax rate was, amongst other factors, attributable to the fact that the flood victim solidarity surcharge no longer applies.

Earnings performance by segment

Revenues of the Automobiles segment for the third quarter 2004 increased by 13.8 % and the profit from ordinary activities improved by 21.8 %. Segment revenues for the first nine months of 2004 rose by 12.4 % and the segment profit improved by 17.0 %.

Revenues of the Motorcycles segment for the third quarter 2004 rose by 15.8 % compared to the third quarter 2003. Segment result improved by 13.3 % for the same quarter. Segment revenues and segment profit for the first nine months of 2004 fell by 2.0 % and 19.2 % respectively compared to the corresponding period last year. The deterioration of the result was attributable mainly to market launch expenditure for new products.

Revenues of the Financial Services segment for the third quarter 2004 increased by 15.8 %. The profit from ordinary activities improved by 17.5 % compared to the corresponding period in 2003. This was attributable to the higher level of gains on business with end-of-lease vehicles. Segment revenues and segment profit for the first nine months of 2004 increased by 3.4 % and 18.6 % respectively.

Reconciliations to the Group profit from ordinary activities were again negative in the third quarter 2004, with a net expense of euro 43 million. This represented a deterioration of euro 92 million compared to the same quarter last year and was due primarily to the higher level of intra-segment profit eliminations on leased products.

On a nine-month basis, the negative balance increased by euro 187 million as a result of the fair value losses on the option obligation and the higher level of intra-segment profit eliminations.

Profit from ordinary activities by segment in euro million	3rd quarter 2004	3rd quarter 2003	1 January to 30 September 2004	1 January to 30 September 2003
Automobiles	694	570	2,407	2,057
Motorcycles	-13	-15	59	73
Financial Services	141	120	409	345
Reconciliations	-43	49	-161	26
Profit from ordinary activities	779	724	2,714	2,501
Income taxes	-300	-279	-1,041	-978
Net profit	479	445	1,673	1,523

Revenues by segment in the 3rd quarter in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2004	2003	2004	2003	2004	2003
Automobiles	8,601	7,958	1,716	1,111	10,317	9,069
Motorcycles	255	221	1	0	256	221
Financial Services	1,730	1,726 ^{1]}	352	72	2,082	1,798 ^{1]}
Reconciliations	25	75	-2,069	-1,183	-2,044	-1,108
Group	10,611	9,980^{1]}	-	-	10,611	9,980^{1]}

1] reclassified after harmonisation of internal and external reporting systems

Revenues by segment for the period from 1 January to 30 September in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2004	2003	2004	2003	2004	2003
Automobiles	27,215	24,253	4,361	3,836	31,576	28,089
Motorcycles	831	852	6	2	837	854
Financial Services	5,214	5,180 ^{1]}	890	721	6,104	5,901 ^{1]}
Reconciliations	66	258	-5,257	-4,559	-5,191	-4,301
Group	33,326	30,543^{1]}	-	-	33,326	30,543^{1]}

1] reclassified after harmonisation of internal and external reporting systems

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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 nine 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 nine months of 2004 generated a positive cash flow of euro 7,716 million (first nine months 2003: euro 6,274 million). The increase was due to the higher volume of business.

The cash outflow for investing activities for the nine month period, at euro 7,848 million, was euro 515 million higher than in the previous year. 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 410 million compared to the corresponding period last year. Cash outflow from the net investment in leased products and receivables from sales financing increased by euro 812 million. 98.3% (first nine months 2003: 85.6%) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The sub-group cash flow statement shows coverage of 223.1% (first nine months 2003: 147.7%) for industrial operations. The cash flow statement for financial operations shows, as expected, that the cash inflow from operating activities does not cover cash outflow for investing activities due to the high level of capital expenditure on leased products and receivables from sales financing.

Cash inflow from financing activities includes inflows of euro 3,122 million from bond issues (first nine months 2003: euro 4,206 million) and outflows for repayments of euro 2,401 million (first nine

months 2003: euro 2,212 million). The cash inflow from financing activities for the first nine months of 2004 was euro 622 million lower than in the corresponding period last year, above all due to higher repayment of debt.

After adjusting 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 916 million (first nine months 2003: euro 524 million).

Net interest-bearing assets relating to industrial operations have increased since 31 December 2003 by euro 838 million to euro 2,654 million.

Net assets position

The balance sheet total of the BMW Group has increased by euro 4,877 million or 7.9% compared to 31 December 2003. Excluding the effect of currency fluctuations, the increase would have been only 7.5%. The main factors behind the increase on the assets side of the balance sheet were receivables from sales financing (+11.9%), non-current assets (+9.3%), liquid funds (+24.3%) and inventories (+15.6%). In the opposite direction, other receivables fell by 19.2%. On the equity and liabilities side of the balance sheet, the increase was due to the increase in debt (+6.2%), provisions (+11.5%), trade payables (+25.9%) and equity (+4.3%).

Capital expenditure on intangible assets and property, plant and equipment in the first nine months of 2004 amounted to euro 2,646 million (first nine months 2003: euro 2,404 million). This includes capitalised development costs of euro 690 million (first nine months 2003: euro 689 million).

Non-current financial assets increased primarily as a result of the higher stock exchange price of Rolls-Royce plc stock. At 30 September 2004, the market price was still higher than the average pur-

chase cost paid by the BMW Group. The value of the investment in Rolls-Royce plc, London, increased by euro 186 million during the first nine months of 2004. The increase was recognised directly in other accumulated equity.

Leased products increased by euro 933 million. Excluding the effect of currency fluctuations, the increase would have been euro 70 million lower.

Inventories increased by euro 890 million compared to 31 December 2003. New models introduced in conjunction with the product offensive led to higher inventories of finished goods.

The euro 1,382 million decrease in other receivables was attributable to lower fair values of derivative financial instruments and the lower level of taxes receivable.

The increase in liquid funds (+euro 856 million) relates entirely to the higher level of cash and cash equivalents. Marketable securities went down slightly by euro 60 million.

Group equity increased primarily as a result of the net profit for the period. Within equity, revenue reserves increased by the amount of the net profit for the period (euro 1,673 million) and decreased due to dividend payments of euro 392 million. Other accumulated equity went down by euro 573 million. The fair values of derivative financial instruments decreased by euro 817 million, net of deferred taxes, thus reducing other accumulated equity. In the opposite direction, changes in the fair value of marketable securities and translation differences recognised directly in equity increased equity and other accumulated equity by euro 199 million and euro 45 million respectively. Treasury shares acquired in conjunction with employee share schemes reduced equity by euro 16 million. Although equity increased by euro 692 million or 4.3% during the first nine months of 2004, the equity ratio fell by 0.9 percent-

age points to 25.4 %, since the 7.9% increase in the balance sheet total was more pronounced than the increase in equity. The equity ratio for industrial operations was 42.8% (31 December 2003: 45.4%) and that for financial operations was unchanged at 9.8%.

Provisions increased overall by euro 1,003 million during the first nine months 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 769 million mainly as a result of the lower volume of asset backed financing transactions. Overall, debt increased during the first nine months of the year by euro 1,703 million as a result of the increase in bonds, liabilities to banks and liabilities from customer deposits (banking).

Taxes payable within other liabilities increased by euro 320 million compared to 31 December 2003.

BMW Group

Group and sub-group Income Statements for the 3rd quarter

in euro million	Notes	Group 2004	2003 reclassified	Industrial operations ¹⁾ 2004	2003 reclassified	Financial operations ¹⁾ 2004	2003 reclassified
Revenues	[5]	10,611	9,980	10,597	9,364	2,149	1,877
Cost of sales	[6]	-8,111	-7,628	-8,262	-7,232	-1,873	-1,634
Gross profit		2,500	2,352	2,335	2,132	276	243
Sales and administrative costs	[7]	-1,100	-1,098	-996	-1,006	-107	-97
Research and development costs	[8]	-620	-551	-620	-551	-	-
Other operating income and expenses	[9]	39	99	17	97	10	1
Profit before financial result		819	802	736	672	179	147
Financial result	[10]	-40	-78	-12	-62	-17	-13
Profit from ordinary activities		779	724	724	610	162	134
Income taxes	[11]	-300	-279	-277	-238	-62	-47
Minority interest		0	0	0	0	0	0
Net profit		479	445	447	372	100	87
Earnings per share of common stock in euro	[12]	0.71	0.66				
Earnings per share of preferred stock²⁾ in euro	[12]	0.71	0.66				

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 September

in euro million	Notes	Group 2004	Group 2003 reclassified	Industrial operations ¹⁾ 2004	Industrial operations ¹⁾ 2003 reclassified	Financial operations ¹⁾ 2004	Financial operations ¹⁾ 2003 reclassified
Revenues	[5]	33,326	30,543	32,480	29,201	6,297	6,080
Cost of sales	[6]	-25,452	-23,463	-25,185	-22,593	-5,486	-5,370
Gross profit		7,874	7,080	7,295	6,608	811	710
Sales and administrative costs	[7]	-3,366	-3,249	-3,061	-2,965	-315	-297
Research and development costs	[8]	-1,762	-1,572	-1,762	-1,572	-	-
Other operating income and expenses	[9]	129	332	96	304	-1	13
Profit before financial result		2,875	2,591	2,568	2,375	495	426
Financial result	[10]	-161	-90	-172	-123	40	41
Profit from ordinary activities		2,714	2,501	2,396	2,252	535	467
Income taxes	[11]	-1,041	-978	-924	-887	-200	-176
Minority interest		0	0	0	0	0	0
Net profit		1,673	1,523	1,472	1,365	335	291
Earnings per share of common stock in euro	[12]	2.48	2.26				
Earnings per share of preferred stock²⁾ in euro	[12]	2.49	2.27				

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 ¹⁾		Financial operations ¹⁾	
		30.9.2004	31.12.2003	30.9.2004	31.12.2003	30.9.2004	31.12.2003
Intangible assets	[13]	3,478	3,200	3,456	3,181	22	19
Property, plant and equipment	[14]	10,171	9,708	10,152	9,688	19	20
Financial assets	[15]	813	607	795	593	18	14
Leased products	[16]	7,630	6,697	230	225	9,571	8,293
Non-current assets		22,092	20,212	14,633	13,687	9,630	8,346
Inventories	[17]	6,583	5,693	6,575	5,686	8	7
Trade receivables	[18]	2,161	2,257	2,109	2,191	52	66
Receivables from sales financing	[18]	24,564	21,950	–	–	24,564	21,950
Other receivables	[18]	5,802	7,184	5,224	4,829	2,403	3,545
Marketable securities		1,797	1,857	1,797	1,857	0	0
Cash and cash equivalents		2,575	1,659	2,319	1,247	256	412
Current assets		43,482	40,600	18,024	15,810	27,283	25,980
Deferred tax assets		294	175	172	120	–933	–873
Prepayments		484	488	122	166	362	322
Total assets		66,352	61,475	32,951	29,783	36,342	33,775
Total assets adjusted for asset backed financing transactions		62,445	56,487	–	–	32,435	28,787

¹⁾ before consolidation of transactions between the sub-groups

Equity and liabilities in euro million	Notes	Group		Industrial operations ¹⁾		Financial operations ¹⁾	
		30.9.2004	31.12.2003	30.9.2004	31.12.2003	30.9.2004	31.12.2003
Subscribed capital		674	674				
Capital reserves		1,971	1,971				
Revenue reserves		13,952	12,671				
Accumulated other equity		261	834				
Treasury shares		-16	-				
Equity	[19]	16,842	16,150	14,118	13,534	3,559	3,298
Minority interest		0	0	0	0	0	0
Pension provisions		2,659	2,430	2,638	2,410	21	20
Other provisions		7,095	6,321	6,736	6,008	402	356
Provisions	[20]	9,754	8,751	9,374	8,418	423	376
Debt	[21]	29,152	27,449	1,462	1,288	27,690	26,161
Trade payables		3,956	3,143	3,715	2,740	241	403
Other liabilities	[22]	3,124	2,634	2,213	1,811	2,736	2,013
Liabilities		36,232	33,226	7,390	5,839	30,667	28,577
Deferred tax liabilities		2,467	2,501	1,554	1,592	736	777
Deferred income		1,057	847	515	400	957	747
Total equity and liabilities		66,352	61,475	32,951	29,783	36,342	33,775
Total equity and liabilities adjusted for asset backed financing transactions		62,445	56,487	-	-	32,435	28,787

1] before consolidation of transactions between the sub-groups

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BMW Group

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

	in euro million	Group	2004	2003
Net profit			1,673	1,523
Depreciation of leased products			2,065	2,044
Depreciation and amortisation of other non-current assets			1,899	1,628
Change in provisions			989	832
Change in deferred taxes			345	428
Change in net current assets and other items			745	-181
Cash inflow from operating activities			7,716	6,274
Investment in intangible assets and property, plant and equipment			-2,599	-2,251
Payments relating to the Rover disengagement			0	-47
Net investment in leased products and receivables from sales financing			-5,348	-4,536
Other			99	-499
Cash outflow from investing activities			-7,848	-7,333
Cash inflow/outflow from financing activities			1,035	1,657
Effect of exchange rate and changes in composition of group on cash and cash equivalents			13	-74
Change in cash and cash equivalents			916	524
Cash and cash equivalents at 1 January			1,659	2,333
Cash and cash equivalents at 30 September			2,575	2,857

Industrial operations 2004		Financial operations 2004		
	2003		2003	
1,472	1,365	335	291	Net profit
4	4	1,730	1,615	Depreciation of leased products
1,887	1,616	12	12	Depreciation and amortisation of other non-current assets
945	887	44	-55	Change in provisions
421	465	6	47	Change in deferred taxes
829	-159	31	76	Change in net current assets and other items
5,558	4,178	2,158	1,986	Cash inflow from operating activities
-2,586	-2,237	-13	-14	Investment in intangible assets and property, plant and equipment
0	-47	0	0	Payments relating to the Rover disengagement
-9	-36	-5,339	-4,390	Net investment in leased products and receivables from sales financing
104	-509	-5	10	Other
-2,491	-2,829	-5,357	-4,394	Cash outflow from investing activities
-1,996	-1,446	3,031	3,103	Cash inflow/outflow from financing activities
1	11	12	-85	Effect of exchange rate and changes in composition of group on cash and cash equivalents
1,072	-86	-156	610	Change in cash and cash equivalents
1,247	2,256	412	77	Cash and cash equivalents at 1 January
2,319	2,170	256	687	Cash and cash equivalents at 30 September

BMW Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity	Treasury shares	Total		
				Trans- lation differences	Fair value measure- ment of marketable securities	Derivative financial instru- ments		
31 December 2002	674	1,954	11,075	-541	-314	1,023	-	13,871
Purchase of treasury shares	-	-	-	-	-	-	-	-
Dividends paid	-	-	-351	-	-	-	-	-351
Translation differences	-	-	-	-122	-	-74	-	-196
Financial instruments	-	-	-	-	138	684	-	822
Net profit January to September 2003	-	-	1,523	-	-	-	-	1,523
30 September 2003	674	1,954	12,247	-663	-176	1,633	0	15,669
31 December 2003	674	1,971	12,671	-720	-146	1,700	0	16,150
Purchase of treasury shares	-	-	-	-	-	-	-16	-16
Dividends paid	-	-	-392	-	-	-	-	-392
Translation differences	-	-	-	35	-	10	-	45
Financial instruments	-	-	-	-	199	-817	-	-618
Net profit January to September 2004	-	-	1,673	-	-	-	-	1,673
30 September 2004	674	1,971	13,952	-685	53	893	-16	16,842

BMW Group
Notes to the Interim Group Financial Statements to 30 September 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 September 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), is applicable to all business combinations for which the agreement date is after 31 March 2004. In the case of goodwill acquired in earlier business combinations, IFRS 3 will be applied in the BMW Group financial statements 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 September 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 stated otherwise.

In order to support the sale of 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 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 include financial services and the activities of the Group financing companies. The operating interest income and expense of financial operations are included in revenues and cost of sales. 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, 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 customer and dealer financing is sold. Similarly rights and obligations relating to leases are sold. The sale of receivables is a well-established instrument used by industrial and financial companies. These transactions are usually in the form of so-called "asset backed financing" transactions. 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 September 2004 totalled euro 3.9 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 third quarter 2004 include, besides BMW AG, 41 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. Compared to the first half of 2004, axentiv AG, Darmstadt, and arcensis GmbH, Stuttgart, have been consolidated for the first time.

BMW Financial Services Korea Co., Ltd., Seoul, BMW Leasing de Mexico S.A. de C.V., Mexico City, axentiv AG, Darmstadt, arcensis GmbH, Stuttgart, and seven special purpose entities have been in-

cluded in the income statements for the third quarter 2004 and for the first nine months of 2004 for the first time. Softlab Systems, Inc., San Francisco, Cal., 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. 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 third quarter 2003:

in euro million	1.7. to 30.9.2003		1.7. to 30.9.2003 reclassified in %		Change
Revenues	9,945	100.0	9,980	100.0	35
Cost of sales	-7,310	73.5	-7,628	76.4	-318
Gross profit	2,635	26.5	2,352	23.6	-283
Sales and administrative costs	-1,202	12.1	-1,098	11.0	104
Research and development costs	-537	5.4	-551	5.5	-14
Other operating income and expenses	-134	1.3	99	1.0	233
Profit before financial result	762	7.7	802	8.1	40
Financial result	-38	0.4	-78	0.8	-40
Profit from ordinary activities	724	7.3	724	7.3	-
Income taxes	-279	2.8	-279	2.8	-
Minority interest	0	0.0	0	0.0	-
Net profit	445	4.5	445	4.5	-

in euro million	1.1. to 30.9.2003		1.1. to 30.9.2003 reclassified in %		Change
	in %		in %		
Revenues	30,458	100.0	30,543	100.0	85
Cost of sales	-22,518	73.9	-23,463	76.8	-945
Gross profit	7,940	26.1	7,080	23.2	-860
Sales and administrative costs	-3,649	12.0	-3,249	10.7	400
Research and development costs	-1,523	5.0	-1,572	5.1	-49
Other operating income and expenses	-297	1.0	332	1.1	629
Profit before financial result	2,471	8.1	2,591	8.5	120
Financial result	30	0.1	-90	0.3	-120
Profit from ordinary activities	2,501	8.2	2,501	8.2	-
Income taxes	-978	3.2	-978	3.2	-
Minority interest	0	0.0	0	0.0	-
Net profit	1,523	5.0	1,523	5.0	-

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.

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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
Gross profit	2,291	2,437	2,352	2,355	9,435
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
Profit before financial result	874	915	802	762	3,353
Financial result	–44	32	–78	–58	–148
Profit from ordinary activities	830	947	724	704	3,205
Income taxes	–320	–379	–279	–280	–1,258
Minority interest	0	0	0	0	0
Net profit	510	568	445	424	1,947

[4] New financial reporting rules

No new financial accounting rules were issued during the third quarter 2004. Similarly, the BMW Group

did not opt in the third quarter to apply any previously issued new financial reporting rules earlier than required.

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[5] Revenues Revenues by activity comprise the following:

in euro million	3rd quarter 2004	3rd quarter 2003 reclassified	1 January to 30 September 2004	1 January to 30 September 2003 reclassified
Sales of products and related goods	8,797	8,175	27,849	25,143
Income from lease instalments	681	679	1,957	1,854
Sales of products previously leased to customers	610	642	1,997	2,098
Interest income on loan financing	361	323	1,044	959
Other income	162	161	479	489
Revenues	10,611	9,980	33,326	30,543

Group revenues in the third quarter and first nine months include revenues of euro 1,730 million (third quarter 2003: euro 1,726 million, reclassified) and euro 5,214 million (first nine months 2003:

euro 5,180 million, reclassified) respectively relating to the financial services business.

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

[6] Cost of sales

Cost of sales in the third quarter includes euro 1,522 million (third quarter 2003: euro 1,480 million, reclassified) relating to the financial services business. Cost of sales for the first nine months of 2004

includes euro 4,590 million (first nine months 2003: euro 4,578 million, reclassified) relating to the financial services business.

[7] Sales and administrative costs

Sales costs in the third quarter amounted to euro 906 million (third quarter 2003: euro 863 million, reclassified). Sales costs for the first nine months of 2004 amounted to euro 2,805 million (first nine months 2003: euro 2,680 million, reclassified). These comprise mainly expenditure for marketing, advertising and sales personnel.

Administrative costs in the third quarter and first nine months amounted to euro 194 million (third quarter 2003: euro 235 million, reclassified) and euro 561 million (first nine months 2003: euro 569 million, reclassified). These comprise administrative expenditure which is not attributable to production or sales functions.

[8] Research and development costs

Research and development costs of euro 620 million in the third quarter (third quarter 2003: euro 551 million, reclassified) include amortisation on capitalised development costs of euro 168 million (third quarter 2003: euro 156 million). Research and development costs for the first nine months of

2004 amounted to euro 1,762 million (first nine months 2003: euro 1,572 million, reclassified). This includes amortisation on capitalised development costs of euro 461 million (first nine months 2003: euro 417 million, reclassified).

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[9] Other operating income and expenses

Other operating income in the third quarter amounted to euro 158 million (third quarter 2003: euro 152 million, reclassified). Other operating income for the first nine months of 2004 amounted to euro 547 million (first nine months 2003: euro 691 million, reclassified). The reduction was attributable above all to the lower level of income from the release of provisions and the lower level of gains on currency transactions.

Other operating expenses in the third quarter amounted to euro 119 million (third quarter 2003: euro 53 million, reclassified). For the first nine months of 2004, they amounted to euro 418 million (first nine months 2003: euro 359 million, reclassified). The increase in other operating expenses resulted mainly from the higher level of expense for write-downs and allowances on receivables and higher expenses for allocations to provisions.

[10] Financial result

in euro million	3rd quarter 2004	3rd quarter 2003 reclassified	1 January to 30 September 2004	1 January to 30 September 2003 reclassified
Result on investments	12	9	60	52
Net interest expense	-57	-76	-177	-208
Other financial result	5	-11	-44	66
Financial result	-40	-78	-161	-90

The improvement in the financial result for the third quarter 2004 compared to the equivalent period last year was mainly attributable to lower interest expense and to the positive fair value changes of the option relating to the exchangeable bond on the BMW Group investment in Rolls-Royce plc, London.

The deterioration in the financial result for the first nine months of 2004 compared to the equivalent period last year was attributable primarily to the higher level of losses on the fair value measurement of financial instruments.

[11] Income taxes

Taxes on income comprise the following:

in euro million	3rd quarter 2004	3rd quarter 2003	1 January to 30 September 2004	1 January to 30 September 2003
Current tax expense	342	283	698	560
Deferred tax income and expenses	-42	-4	343	418
Income taxes	300	279	1,041	978

The increase in current tax expense and the reduction in deferred tax expense in the first nine months of 2004 relate mainly to Germany. The reduction in the deferred tax expense is attributable to the lower amount of deferred tax assets used in the period compared to the equivalent period last year. The effective tax rate for the third quarter 2004, as in

the same period last year, was 38.5 %. The effective tax rate for the first nine months of 2004 was 38.4 % (first nine months 2003: 39.1 %).

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

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

		3rd quarter 2004	3rd quarter 2003	1 January to 30 September 2004	1 January to 30 September 2003
Net profit	euro million	479	445	1,673	1,523
Profit attributable to common stock	euro million (rounded)	442	411	1,545	1,407
Profit attributable to preferred stock	euro million (rounded)	37	34	128	116
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	51,531,162	51,467,627	51,531,162	51,467,627
Earnings per share of common stock	euro	0.71	0.66	2.48	2.26
Earnings per share of preferred stock	euro	0.71	0.66	2.49	2.27

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

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

[13] Intangible assets

Intangible assets comprise capitalised development costs for vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 30 September 2004 amounted to euro 3,240 million (31 December 2003: euro 3,011

million). Capital expenditure for development costs in the first nine months of 2004 was euro 690 million (first nine months 2003: euro 689 million). Amortisation amounted to euro 461 million (first nine months 2003: euro 417 million).

[14] Property, plant and equipment

Capital expenditure for property, plant and equipment in the first nine months was euro 1,861 million (first nine months 2003: euro 1,687 million). Depreciation in the same period amounted to euro 1,390 million (first nine months 2003: euro 1,178 million).

Disposals amounted to euro 38 million (first nine months 2003: euro 83 million). The translation of foreign currency financial statements resulted in a net translation gain of euro 30 million (first nine months 2003: net translation loss of euro 159 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, to its stock market value at 30 September 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 of euro 57 million was recognised directly in other accumulated equity.

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[16] Leased products Additions to leased products and depreciation thereon amounted to euro 3,811 million (first nine months 2003: euro 3,283 million) and euro 613 million (first nine months 2003: euro 750 million) respectively. Disposals amounted to euro 2,385 million (first nine months 2003: euro 2,163 million). Additions from the first-time consolidation of subsidiaries

amounted to euro 50 million (first nine months 2003: euro 157 million). The translation of foreign currency financial statements resulted in a net translation gain of euro 70 million (first nine months 2003: net translation loss of euro 671 million).

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

[17] Inventories Inventories comprise the following:

in euro million	30.9.2004	31.12.2003
Raw materials and supplies	618	569
Work in progress, unbilled contracts	973	827
Finished goods	3,976	3,439
Goods for resale	1,016	858
Inventories	6,583	5,693

The introduction of models in 2004 as a result of the product offensive resulted in an increase in finished goods compared to the previous year.

[18] Receivables and other assets

in euro million	30.9.2004	31.12.2003
Trade receivables	2,161	2,257
Receivables from sales financing	24,564	21,950
Other receivables	5,802	7,184
Receivables and other assets	32,527	31,391

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

Other receivables

in euro million	30.9.2004	31.12.2003
Receivables from subsidiaries	771	760
Receivables from associated and other companies in which an investment is held	358	311
Miscellaneous assets	4,673	6,113
Other receivables	5,802	7,184

The decrease in miscellaneous assets was primarily attributable 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 nine months of 2004, the BMW Group acquired 665,000 shares of BMW stock at an

average price of euro 24.30 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 1,003 million in the nine-month period to 30 September 2004. 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	30.9.2004	31.12.2003
Bonds	12,098	11,404
Liabilities to banks	3,823	3,156
Liabilities from customer deposits (banking)	4,888	3,865
Commercial paper	3,417	3,327
Bills of exchange	-	2
Other debt	4,926	5,695
Debt	29,152	27,449

Other debt of euro 4,926 million (31 December 2003: euro 5,695 million) comprises mainly asset backed financing liabilities and finance lease liabilities.

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

	in euro million	30.9.2004	31.12.2003
Taxes payable		676	356
Social security		118	120
Employees		31	21
Advance payments from customers		293	274
Deposits received		166	163
Interest		87	96
Subsidiaries		43	55
Fair values of derivative financial instruments		391	372
Sundry other liabilities		1,319	1,177
Other liabilities		3,124	2,634

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[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. 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, 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 third quarter is as follows:

Segment information by business segment 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	8,601	7,958	255	221	1,730	1,726	25	75	10,611	9,980
Inter-segment revenues	1,716	1,111	1	0	352	72	-2,069	-1,183	-	-
Total revenues	10,317	9,069	256	221	2,082	1,798	-2,044	-1,108	10,611	9,980
Profit before financial result	748	647	-11	-14	146	119	-64	50	819	802
Result from equity method accounting	0	-3	-	-	-	-	-	-	0	-3
Other net financial expenses	-54	-74	-2	-1	-5	1	21	-1	-40	-75
Profit from ordinary activities	694	570	-13	-15	141	120	-43	49	779	724
Return on sales	%	6.7	6.3	-5.1	-6.8	6.8	6.7	-	7.3	7.3

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Segment information for the first three quarters is as follows:

Segment information by business segment 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	27,215	24,253	831	852	5,214	5,180	66	258	33,326	30,543
Inter-segment revenues	4,361	3,836	6	2	890	721	-5,257	-4,559	-	-
Total revenues	31,576	28,089	837	854	6,104	5,901	-5,191	-4,301	33,326	30,543
Profit before financial result	2,517	2,205	63	76	399	342	-104	-32	2,875	2,591
Result from equity method accounting	17	29	-	-	-	-	-	-	17	29
Other net financial expenses	-127	-177	-4	-3	10	3	-57	58	-178	-119
Profit from ordinary activities	2,407	2,057	59	73	409	345	-161	26	2,714	2,501
Return on sales	%	7.6	7.3	7.0	8.5	6.7	5.8	-	8.1	8.2

Financial calendar	
Annual Report 2004	16 March 2005
Interim Report to 31 March 2005	3 May 2005
Annual General Meeting	12 May 2005
Interim Report to 30 June 2005	3 August 2005
Interim Report to 30 September 2005	3 November 2005

Contacts

Business Press

Telephone +49 (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

The BMW Group on the Internet

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Bayerische Motoren Werke
Aktiengesellschaft
Petuelring 130
D-80788 Munich
Telephone +49 (0) 89-3 82-0