

Letter to shareholders for the financial year 2003

BMW Group

Rolls-Royce
Motor Cars Limited



Dear Shareholders,

The BMW Group continued to perform successfully in 2003 in line with earlier announcements. We achieved record sales volumes for all brands and thus for the Group as a whole. On a worldwide basis, we sold 1,104,916 cars, surpassing the previous year's level by 4.5 %. The BMW Motorcycles segment held its own despite difficult market conditions and, for the eleventh year in succession, recorded an increase in the number of units sold. The Financial Services segment also continued to make good progress, with the number of new contracts reaching a new record level.

In the light of these factors, we can confirm the forecast which we have maintained from the outset of 2003, namely that current year earnings will match those of the previous year at a group level. During a phase of significant expenditure for the Group's product and market offensive, this is clear evidence of the underlying strength of the BMW Group.

In 2003, economic conditions prevailing on some of the world's automobile markets were difficult. The year 2003 for the BMW Group was shaped in particular by product life-cycles and model activities. Throughout the history of the Group, there have never been as many new products presented in one year as in 2003. This abundance of new products emanates from our determination to carry through our premium brand strategy which, we believe, will propel the Group into a new dimension. In the meantime, we have radically expanded the Group's range of products, which now comprises three car brands and nine model ranges. The progress made to date is an incentive for the BMW Group to deliver performances at the highest level in the years ahead.

The BMW Group stands for strong brands, captivating cars and an uncompromising aspiration for premium quality. Ultimately, the success of the Group is derived from the motivation of its employees. Our employees share a determination to achieve the best, allowing the Group to achieve outstanding results time after time. The BMW Group aspires to be the most successful manufacturer of premium vehicles. We have made good progress in 2003, presenting new models and expanding our activities in the new markets of the future. We will continue along this path in 2004.

Yours sincerely,



Dr. Helmut Panke
Chairman of the Board of Management
Bayerische Motoren Werke Aktiengesellschaft

Munich, January 2004

Information about the financial year 2003

Good progress made in 2003

The BMW Group has been able in the financial year 2003 to continue the good progress made in previous years. With 1,104,916 cars sold, the Group again achieved a new sales volume record, beating the previous year level by 4.5 %. The Motorcycles segment achieved sales volume growth for the eleventh time in succession, despite difficult market conditions. 92,962 BMW motorcycles were sold during the year, 0.4 % more than in 2002.

The Financial Services segment expanded its activities in 2003 and remains on growth course. More than 710,000 new contracts were signed, an increase of 10.7 % compared to the previous year.

Encouraged by the overall positive trend, the BMW Group will report earnings for the financial year 2003 at a similar level to the previous year.

Revenues down due to exchange rate factors

The lower US dollar exchange rate has affected the level of reported revenues of the BMW Group for the financial year 2003. Group revenues fell by 2.1 % to euro 41,525 million. Excluding the effect of exchange rate changes, revenues grew by more than 4 %.

Revenues by segment	2003	2002	2002 (re-stated*)	Change in %
in euro million				
Automobiles	38,285	38,179	38,179	0.3
Motorcycles	1,087	1,130	1,130	-3.8
Financial Services	7,582	8,342	8,213	-9.1
Reconciliations	-5,429	-5,240	-5,240	-3.6
BMW Group	41,525	42,411	42,282	-2.1

* Following the adoption of International Accounting Standards (IAS) for the group financial statements at 31 December 2001, the BMW Group has harmonised internal and external reporting in 2003. This gives rise to several adjustments in the income statement for 2002, which do not, however, have any impact on the profit from ordinary activities or net profit for that year. A detailed analysis of the adjustments can be found in the Internet under www.bmwgroup.com/ir.

More than 3,000 new jobs created

At end of 2003, the BMW Group had a worldwide workforce of 104,342 employees, 2.9 % more than one year ago. After adjusting for disposals and

transfers of group companies, the Group has created 3,131 new jobs, of which approximately 80 % are in Germany.

The number of apprentices working for the BMW Group rose again. 4,306 young people are currently learning a profession throughout the Group, 2.5 % more than at the previous year-end.

BMW Group workforce at the year-end	2003	2002	Change in %
BMW Group	104,342	101,395	2.9
After adjusting for disposals and transfers	104,342	101,211	3.1

Important milestones reached

The continued implementation of the product and market offensive has been a determining factor in the development of BMW Group's business in 2003. After the launch of the Rolls-Royce Phantom in January, the same month also saw the introduction of the BMW 760i/Li, the new top model of the BMW 7 Series. Revised versions of the BMW 3 Series Cabrio, Coupé and Compact models were presented in February, and became available for sale in March. Sales of the BMW 730i/Li also began in March. Customers were able to take delivery of the BMW Z4 throughout Europe at the same time. The high-performance model, BMW M3 CSL, came onto the market in May. The MINI One D was launched in June and the new BMW 5 Series Limousine was available from July onwards. The revised BMW X5 model came onto the market in October. The BMW X3 and BMW 6 Series Coupé were presented in October and November and came onto the market at the beginning of 2004.

All brands achieve new record sales volume levels

The world automobile market contracted overall in 2003, with the economic revival predicted for the second half of the year only partially taking effect. Back at the start of 2003, the BMW Group stated that it would strive to achieve unit sales increases for all brands. Due to product life-cycles, the pattern of unit sales of BMW brand cars in 2003 did not

reflect a typical year, so that, as expected, planned volume increases did not occur until the second half of 2003. The launch of the new BMW 5 Series Limousine was the determining factor. This model became available in July 2003 and by the year-end, a total of 70,522 units had been sold.

Overall, 928,151 BMW cars were sold in the past year, 1.6% more than in the previous year.

The BMW 3 Series, now in its sixth year of production and with 528,358 units sold in 2003, was only 5.9% below the record year 2002.

The total sales volume of the BMW 5 Series, at 185,481 units, was 7.6% ahead of the previous year.

The BMW 7 Series achieved a sales volume of 57,899 units in 2003 and hence a new record for the model. Unit sales were up 8.2% compared to the previous year. Unit sales of the 7 Series since coming onto the market are therefore some 15% higher than those achieved by the predecessor model in the equivalent period.

The success of the BMW X5 continued unabated in its fourth year after the start of production. 105,554 units were delivered to customers in 2003, 4.6% more than in the previous year.

Within the Roadster segment, the BMW Group more than doubled sales compared to the previous year. The new BMW Z4 achieved a sales volume of 47,049 units, and thus leads the competition with approximately 40% of the relevant market. 2,957 units of the BMW Z3 were sold in 2003; production of this model was discontinued according to plan during the year.

The success of the MINI brand continued in 2003 and contributed substantially to the sales volume growth of the BMW Group. With a total of 176,465 MINI brand cars sold, unit sales were up by 22.4% compared to the previous year. The success of the MINI brand shows that, even in the small car sector, customers are interested in high-value vehicles and that "premium" is not a question of size but one of concept. Bolstered by the introduction of the new MINI Cabrio, the MINI brand will continue its success story in 2004.

With the Rolls-Royce brand, the BMW Group has expanded its range of products at the very top end of the luxury segment. By the end of 2003, 300 Rolls-Royce vehicles had been handed over to their new owners. After the initial start-up phase

in 2003, production at the Goodwood plant has now reached its planned capacity level within the scheduled timeframe. At present, five vehicles are being manufactured per day. 481 Rolls-Royce Phantom were manufactured in 2003. The BMW Group expects to sell approximately 1,000 Rolls-Royce motor vehicles in 2004.

USA takes over as strongest market for the first time

In 2003, for the first time ever, the USA became the Group's strongest market with 277,037 (+8.0%) units sold. Germany followed with 255,821 (-0.9%) units.

The BMW Group achieved sales volume increases in most of its other European markets, with particularly strong growth in Finland (+15.9%), the United Kingdom (+10.1%), Spain (+6.5%) and Italy (+6.4%).

Asian and Pacific region markets continued to grow dynamically in 2003, a trend from which the BMW Group was also able to profit. Growth in China was particularly strong. 27,084 units were sold on the Chinese markets, 75.0% more than in the previous year.

In Japan, the BMW Group grew significantly faster than the market as a whole. 48,683 units were sold in 2003, 7.5% more than in 2002.

Motorcycle unit sales again above previous year's level

In 2003, the motorcycle business as a whole was affected by adverse economic conditions on the international motorcycle markets. The Motorcycles segment performed well within this difficult environment. With 92,962 units sold, the previous year's record level was again surpassed. Sharp increases were recorded in Switzerland (+26.3%), the USA (+13.3%) and the United Kingdom (+6.5%). In Germany, unit sales of BMW motorcycles rose by 3.2% within a market that otherwise suffered a sharp decline.

The best-selling model in 2003 was, once again, the BMW R 1150 GS with sales of 17,136 units (including the Adventure version).

The Motorcycles segment incurred substantial upfront expenditure during the financial year 2003 for new models which will be launched in 2004.

The newly developed long-distance R 1200 GS was presented to the public in January 2004 and becomes available on 13 March. The one-cylinder version of this model and the luxury tourer K 1200 LT, both updated with new technical features, were presented in December 2003.

As a consequence of the preparations for new products, motorcycle production at the Berlin plant, at 89,745 units, was 3.5 % below the previous year's level.

Strong growth in the Financial Services segment

The BMW Group expanded its financial services activities in 2003 and thus remained on growth course in this area. The volume of new customer financing contracts reached a new high level of over 710,000 contracts, whereby the number of customer loan financing transactions increased at the fastest rate. This can be attributed largely to the favourable trend with used cars and new business with MINI brand cars.

The proportion of new BMW and MINI brand cars financed by the Financial Services segment increased in 2003 to 38.3 %.

The USA again reported the highest proportion of new car sales financed (48.1 %), followed by South East Asia (40.0 %) and Europe (33.7 %).

Production capacities still fully utilised

The BMW Group's production network again proved its underlying strength in 2003. In line with the growth of sales units, the BMW Group also achieved new record car production volumes. A total of 1,118,919 BMW, MINI and Rolls-Royce brand cars was manufactured, 2.6 % more than in the previous year.

Production of BMW cars was affected to an exceptional extent in 2003 by the product offensive. The Group was able to carry out its ambitious program with the aid of flexible work-time arrangements and ongoing process optimisation.

Production of BMW cars began in Shenyang, China, in autumn 2003, in conjunction with the joint venture with the Chinese partner, Brilliance China Automotive Holdings. Annual production capacity will be increased to approximately 30,000 units in the next few years.

Construction of the new BMW plant in Leipzig is progressing according to plan. "Pilot" production of the first vehicles will commence in mid-2004, and series production will start in 2005. In the autumn 2003, contract production of the BMW X3 commenced at Magna Steyr Fahrzeugtechnik.

Capital expenditure increases again

The BMW Group is laying the foundation for continued expansion in the coming years with high levels of capital expenditure. In 2003, the Group invested euro 3,255 million in intangible assets and property, plant and equipment. On top of that came development costs of euro 996 million which are required to be recognised as assets in accordance with IAS. Capital expenditure in 2003 therefore totalled euro 4,251 million. This represents an increase of 5.2 %.

A significant part of this expenditure related to the continued expansion of the production network. Most notably, the new BMW plant in Leipzig will generate a sharp increase in production capacity from the next year onwards. By 2005, the BMW Group will have invested some euro 1.3 billion in the Leipzig production plant site.

Group capital expenditure (including development costs in accordance with IAS) in euro million	2003	2002	Change in %
Automobiles and motorcycles segments	4,222	3,981	6.1
Financial Services	21	24	-12.5
Reconciliations	8	37	-78.4
BMW Group	4,251	4,042	5.2

Automobile sector expected to revive in 2004

Prospects for the world economy for the year 2004 have improved during the past few months. On the basis of strong growth trends in the USA and Asia, the BMW Group anticipates that global economic recovery will continue and gain in strength as the year progresses. As far as the euro region is concerned, however, it is doubtful whether the gradual recovery seen in this region will provide the necessary momentum to bring about robust economic growth.

Against this background, the BMW Group anticipates a modest revival in worldwide car sales. The main impulse should come from the US car market, whereas it is predicted that markets in Europe and Japan will only see small increases in car registrations. The car markets in East Europe, South East Asia, and in particular China, should continue to develop dynamically in 2004.

Positive outlook for 2004

The BMW Group will continue to carry through its product and market offensive in 2004. With the introduction of the BMW 6 Series Coupé and Cabrio, the BMW X3, the BMW 5 Series Touring, the BMW 1 Series and the MINI Cabrio, the BMW Group will be taking further important steps to expand its product range.

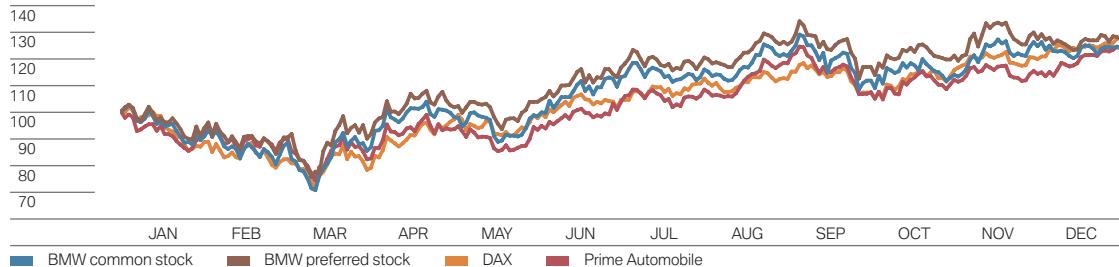
The BMW Group anticipates that it will again be able to achieve sales volume growth in 2004; record levels are expected for all three brands. The Group will continue on its successful course and demonstrate its underlying strength once again in 2004.

The BMW Group in figures		2003	2002	Change in %
Vehicle production				
Automobiles	units	1,118,919	1,090,258	2.6
Motorcycles ¹	units	89,745	93,010	-3.5
Deliveries to customers				
Automobiles	units	1,104,916	1,057,344	4.5
Motorcycles ²	units	92,962	92,599	0.4
Workforce at year-end³				
		104,342	101,395	2.9
Revenues⁴				
	euro million	41,525	42,411	-2.1
Capital expenditure				
	euro million	4,251	4,042	5.2

1] excluding 4,543 BMW C1 in 2002 2] excluding 10,421 BMW C1 in 2002 3] The comparable number of employees at 31 December 2002 after adjusting for disposals and transfers of group companies was 101,211. 4] Before harmonisation of internal and external financial reporting, group revenues in 2002 were euro 42,282 million.

Change in value of BMW stock versus stock indices

(Index: 2 January 2003 = 100)



Summary of market prices

2003 2002

BMW common stock

Year-end closing price	in euro	36.95	28.95
High	in euro	38.40	47.50
Low	in euro	21.00	28.00

BMW preferred stock

Year-end closing price	in euro	24.75	19.00
High	in euro	26.10	31.95
Low	in euro	14.71	18.50

DAX

Year-end closing price	in euro	3,965.16	2,892.63
High	in euro	3,965.13	5,462.55
Low	in euro	2,202.96	2,597.88

Prime Automobile

Year-end closing price	in euro	350.96	262.89
High	in euro	353.27	448.52
Low	in euro	210.42	255.36

Source: German Stock Exchange

Annual General Meeting

The 84th Annual General Meeting of BMW AG will be held on Thursday, 13 May 2004 at 10:00 a.m. at the Olympiahalle in the Olympiapark in Munich.

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The BMW Group in the Internet

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