

# Interim Report to 31 March 2003

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Rolls-Royce  
Motor Cars Limited



**BMW Group**



## The BMW Group – an Overview

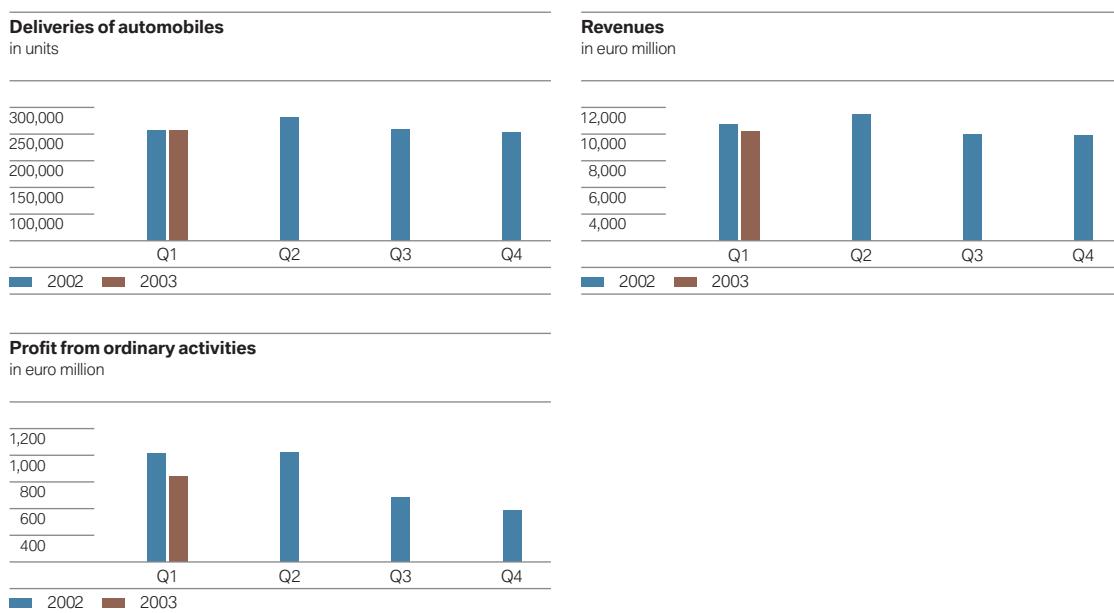
BMW Group in figures	1st quarter 2003	1st quarter 2002	Change in %
<b>Vehicle production</b>			
Automobiles	units	290,083	274,705
Motorcycles <sup>1)</sup>	units	30,061	29,107
<b>Deliveries to customers</b>			
Automobiles	units	261,573	260,462
Motorcycles <sup>2)</sup>	units	20,901	21,736
<b>Workforce at the end of the quarter<sup>3)</sup></b>		<b>102,637</b>	<b>98,128</b>
<b>Cash flow</b>		euro million	<b>1,029</b>
<b>Revenues</b>		euro million	<b>10,272</b>
<b>Profit from ordinary activities</b>		euro million	<b>830</b>
Thereof:			
Automobiles	euro million	719	914
Motorcycles	euro million	30	30
Financial Services	euro million	107	80
Reconciliations	euro million	-26	-13
<b>Income taxes</b>		euro million	<b>-320</b>
<b>Net profit</b>		euro million	<b>510</b>
<b>Earnings per share<sup>4)</sup></b>		euro	<b>0.76/0.76</b>
			<b>0.94/0.94</b>
			<b>-19.1/-19.1</b>

1) excluding 1,260 C1 in the 1st quarter 2002

2) excluding 933 C1 in the 1st quarter 2003 (1,515 C1 in the 1st quarter 2002)

3) The comparable number of employees at 31 March 2002 after adjusting for disposals and transfers of group companies was 97,905.

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 remains on course**

The BMW Group continued its development during the first quarter 2003 amidst a difficult global economic and political climate. The focal point was the implementation of the product and market offensive which significantly affects the earnings of the Automobiles segment.

The sales performance in the first quarter 2003 was marked by the effects of the product cycle of a number of BMW brand models. A total of 261,573 BMW, MINI and Rolls-Royce brand cars were sold during the quarter, 0.4% more than in the first quarter 2002.

Sales of BMW motorcycles fell slightly reflecting the general international trend. 20,901 BMW motorcycles were delivered to customers during the first quarter 2003, 3.8% less than in the first quarter 2002.

The Financial Services segment had a successful start in 2003 with new contracts up by 8.9% on a comparable basis.

Total group revenues for the first quarter 2003 amounted to euro 10,272 million, 4.6% below the record revenues recorded in the first quarter of the previous year.

The profit from ordinary activities for the first quarter 2003 fell by 17.9% to euro 830 million in line with expectations of the BMW Group. The decrease was attributable mainly to the continued high level of expenditure for the product and market offensive and to the lower sales volume due to the current status of the product cycle of certain BMW models. The net profit of the BMW Group for the first quarter 2003 decreased by 19.3% to euro 510 million.

In conjunction with the implementation of the product and market offensive and as the basis for the continued expansion of the BMW Group, a total of 1,242 new employees were recruited during the first three months of 2003, mainly in development and production, including staff for the new BMW plant in Leipzig.

The workforce increased to 102,637 employees at 31 March 2003, 4.6% more than at the end of the first quarter 2002. The comparable number of employees at the end of the first quarter 2002 after adjusting for disposals and transfers of group companies was 97,905, so that the increase at 31 March 2003 on a comparable basis was 4.8%. The BMW Group has thus created 4,732 new jobs in the twelve months to 31 March 2003.

### **Several new products in 2003**

The BMW Group's product offensive will result in several new products in 2003. The revised versions of the BMW 3 Series Coupé, Cabrio und Compact have been on sale since the end of March and the new BMW Z4 Roadster is now also available in Europe. The new BMW 5 Series will be launched mid-year and the BMW 6 Series and the BMW X3 will be presented at the end of 2003. A diesel version of the MINI, the MINI One D, will be launched in Europe at the end of May.

These new models will make a significant contribution to ensuring that the volume reduction due to the product cycle of certain BMW models will be more than compensated over the course of the full year. The BMW Group still plans to achieve sales volume growth for all brands in 2003. The planning is based on the assumptions that the global political and economic situation will continue to stabilise and, particularly in Germany, progress in economic and social reforms can be made.

### **Internationalisation process continued**

As well as expanding its product range, the BMW Group is also continuing to expand its international presence. Another important milestone was achieved during the first quarter 2003 in the signing of contracts for the manufacturing and sales joint venture with the Chinese partner Brilliance China Automotive Holding Limited at the end of March 2003 in Peking. Start of production in Shenyang, Northern China, is planned for the end of 2003. In the medium-term, an estimated 30,000 BMW 3 Series and 5 Series cars will be manufactured annually.

### **BMW Group still aiming for earnings at the previous year's level**

Despite the exceptionally high level of expenditure in conjunction with the product and market offensive, which will mainly impact the results of the Automobiles segment in 2003, the BMW Group is still aiming, on a full year basis, to match previous year's earnings.

## Automobiles

### Automobiles segment affected by product and market offensive

The BMW Group sold 261,573 vehicles during the first quarter 2003, slightly higher (+0.4%) than the volume sold in the equivalent period last year. Whilst the number of BMW brand cars sold during the first quarter 2003 fell by 7.3% to 215,767 units as a result of the product life cycle of certain BMW models, the MINI brand again reported strong growth. 45,805 MINI brand cars were delivered to customers during the first three months of 2003, 65.4% more than in the first quarter 2002.

### USA achieves largest volume within BMW Group for the first time

The number of vehicles sold in the USA rose by 14.7% to 62,382. For the first time therefore, on a quarterly basis and in volume terms, this market was the largest market for the BMW Group, followed by Germany with 61,317 units (-7.7%).

The sales volume in the United Kingdom during the first three months of 2003 increased to 39,522 units, 8.4% more than in the first quarter 2002. The MINI brand contributed strongly to this performance, with 12,347 vehicles sold in the MINI's "home country" during the first quarter 2003.

A number of European markets saw a reduction in sales volumes compared to the first quarter 2002. The number of cars sold in France fell by 15.1% to 9,140 vehicles, in Belgium by 22.2% to 4,916 vehicles and in the Netherlands by 11.4% to 4,257 vehicles. By contrast, the BMW Group was able to increase sales volumes in

Italy (17,411 vehicles, +8.7%) and Spain (9,357 vehicles, +10.5%).

Sales in the Asian markets continue to grow strongly. Japan remains the largest market for the BMW Group in this region. During the first quarter 2003, a total of 11,366 vehicles was delivered to customers in Japan, an increase of 18.8% compared to the first quarter 2002. The largest growth in percentage terms during the first three months of 2003 was recorded in South Korea where sales of 1,451 units were 75.9% higher than in the same period last year.

### Sales volume of BMW brand lower due to model cycles

As forecast, the number of BMW brand cars sold to March 2003 fell by 7.3% to 215,767 units (first quarter 2002: 232,771 units). This was mainly attributable to the forthcoming BMW 5 series model change and model revisions of some BMW 3 Series versions. These changes resulted, as expected, in a volume decrease in advance of the new launches. Based on forecasts, the fall in sales volume during the first quarter will be more than compensated during the remainder of the year as a result of the launch of the new models.

139,053 BMW 3 Series vehicles were delivered to customers during the first quarter 2003, 5.0% less than in the equivalent period last year. The BMW 3 Series Limousine (73,936 units, +1.6%) and the BMW 3 Series Touring (21,538 units, +1.3%) both recorded slight growth. Sales of the BMW 3 Series Compact (-18.9%), the BMW 3 Series Coupé (-18.0%) and the BMW 3 Series

Automobiles		1st quarter 2003	1st quarter 2002	Change in %
Production	units	290,083	274,705	5.6
Deliveries to customers	units	261,573	260,462	0.4
Revenues	euro million	9,373	9,485	-1.2
Profit from ordinary activities	euro million	719	914	-21.3
Workforce at the end of the quarter*		94,231	90,115	4.6

\* The comparable number of employees at 31 March 2002 after adjusting for disposals of group companies and transfers within the group was 89,775.

Cabrio (−12.8%), however, all fell by comparison to the first quarter 2002. This development, in advance of the European launch of the revised versions in March 2003, was in line with forecasts.

Sales of the BMW Z4, introduced in North America in autumn 2002, continued to perform well. During the first three months of 2003, a total of 6,331 Z4 Roadsters were sold. The BMW Z4 has also been available in Europe since the end of March 2003.

The current BMW 5 Series is nearing the end of its product cycle. During the first three months of 2003, a total of 34,476 BMW 5 Series cars were delivered to customers, 25.1% less than in the same period last year and due to the product cycle of this model. The new 5 Series Limousine will be launched in July 2003 in line with plan.

Sales of the BMW 7 Series also performed very well. The sales volume during the first quarter 2003 was 12,695 units, an increase of 10.8% compared to the same period in 2002.

Sales of the BMW X5 during the first quarter 2003 fell slightly. 21,857 vehicles were sold, 4.7% lower than the high volume recorded in the first quarter 2002. Since sales of this model were above expectations towards the end of 2002, the number of vehicles in inventories and transit fell sharply. Normal levels have now been built up again during the first quarter 2003.

Production of the exclusive BMW Z8 will cease in June 2003. A total of 205 BMW Z8 Roadsters were delivered to customers during the first quarter 2003.

#### **MINI continues successful performance**

The MINI brand continued its success story during the first quarter of 2003 with a sales volume of 45,805 units and growth of 65.4% compared to the first quarter 2002. In the period since the initial launch of this premium car in the small car segment, the two hundred thousandth MINI was already sold at the start of March 2003.

The MINI Cooper remains the strongest selling model with sales of 25,041 units (+43.7%) during the first quarter 2003. This is followed by the MINI One with 10,670 units sold during the first quarter 2003, an increase of 7.1%. A total of 10,094 MINI Cooper S cars, the top model of the range, were sold during the quarter. Overall, the MINI Cooper and MINI Cooper S accounted for almost 77% of sales, underlining the continuing trend to higher-value models.

#### **Rolls-Royce Phantom presented**

Preparations for the sale of the new Rolls-Royce Phantom are progressing in line with plan. In the three month period after presentation of the new Rolls-Royce Phantom and the start of Rolls-Royce Motor Cars Limited's business operations at Goodwood on 1 January 2003, the focus has been on manufacturing the initial volume of vehicles required by dealers and for presentation to the media. All of the Phantoms manufactured during the first quarter have been used for demonstration and display purposes. The first deliveries to dealers and customers started in April.

In addition, the autonomous Rolls-Royce sales network was further expanded on a worldwide basis during the first quarter 2003. This network currently comprises 60 dealers in Europe, the USA, the Middle and Far East (including the People's Republic of China) and Australia. A further ten dealers will be added during this year.

#### **Production volume higher than in the previous year**

During the first three months of 2003, the BMW Group manufactured a total of 290,083 vehicles, comprising 243,350 BMW brand cars, 46,699 MINI brand cars and 34 Rolls-Royces motor cars. The production volume of the BMW Group thus increased by 5.6% compared to the first quarter 2002.

#### **Revenues and earnings below the previous year's high level**

Revenues of the Automobiles segment fell marginally during the first quarter 2003 to euro 9,373 million, 1.2% lower than in the same period last year.

The profit from ordinary activities for the first quarter 2003 was affected by the exceptionally high level of expenditure in conjunction with the product and market offensive. The profit from ordinary activities for the first quarter 2003 amounted to euro 719 million, a decrease of 21.3% compared to the first quarter 2002.

At 31 March 2003, the workforce of the Automobiles segment was 94,231 employees, 4.6% more than at the end of the first quarter 2002. The comparable number of employees at the end of the first quarter 2002 after adjusting for disposals and transfers within the group was 89,775, so that the increase at 31 March 2003 on a comparable basis was 5.0%.

## Motorcycles

### Motorcycles segment on course despite difficult market conditions

During the first three months of 2003, the international motorcycle markets saw a trend towards declining volumes. The Motorcycles segment was thus unable to repeat the high sales volume achieved in the equivalent quarter in 2002. The segment sold 20,901 motorcycles (–3.8%) and 933 BMW C1 (–38.4%) and thus fell short of the record numbers sold in the previous year.

Whilst sales of BMW motorcycles in most of the European markets fell, the segment was able to defy the trend in the USA and the United Kingdom by increasing sales to 4,011 units (+64.5%) and 1,033 units (+25.5%) respectively.

Near the top of the list of the best-selling BMW motorcycles during the first quarter 2003 were the three versions of the R Series, of which 14,035 units were sold. The best-selling model remains the R 1150 GS of which (including the Adventure model) 4,107 units were sold, followed by the R 1150 RT with 3,310 units and the R 1150 R with 2,713 units (including the Rockster model).

### Motorcycle production volume again increased

A total of 30,061 BMW motorcycles were manufactured at the Berlin plant during the first quarter 2003, an increase of 3.3% compared to the same quarter last year. The production volume increase was attributable mainly to the initial requirements of dealers for new models at the start of the season.

During the past year, the BMW Group has invested on an on-going basis to modernise and expand plant and equipment for motorcycle production at the Berlin plant. A new motorcycle assembly factory building was presented to the public on 20 February 2003. The new production building will also incorporate an ecologically compatible paint-shop which is currently being constructed and which will start operations in 2003. The overall production system has been designed for maximum flexibility to enable a fast response to customer wishes and market trends.

### Earnings are stable at a high level

Revenues of the Motorcycles segment for the first quarter 2003 amounted to euro 304 million, an increase of 0.7%. The profit from ordinary activities for the period amounted to euro 30 million, similar to the level recorded in the same period last year. This was achieved despite the small decrease in sales volume, due to an improved sales mix from the strong demand for the R and K Series models and bolstered by the market launch of the two new models, R 1150 R Rockster and K 1200 GT, in December 2002.

At 31 March 2003, the BMW Motorcycles segment had 2,911 employees, 4.5% more than at the end of the first quarter 2002.

Motorcycles		1st quarter 2003	1st quarter 2002	Change in %
Production <sup>1]</sup>	units	30,061	29,107	3.3
Deliveries to customers <sup>2]</sup>	units	20,901	21,736	–3.8
Revenues	euro million	304	302	0.7
Profit from ordinary activities	euro million	30	30	0
Workforce at the end of the quarter		2,911	2,785	4.5

1] excluding 1,260 C1 in the first quarter 2002

2] excluding 933 C1 in the first quarter 2003 (1,515 C1 in the first quarter 2002)

## Financial Services

### Financial Services segment continues to grow

The Financial Services segment continued to perform well during the first quarter 2003, thanks to unabated growth in the number of financing contracts for BMW and MINI brand cars.

A total of 164,217 new financing contracts were signed with customers on a worldwide basis during the first quarter 2003, an increase of 14.7 % compared to the first quarter 2002. Lease contracts accounted for 31.8% of new contracts with customers (1st quarter 2002: 35.4 %), whereas the proportion of customer loan financing rose to 68.2 % (1st quarter 2002: 64.6 %). The total portfolio of customer financing contracts at the end of the first quarter 2003 was 1,339,302 contracts, an increase of 11.0 % compared to 31 March 2002.

During the first quarter 2003, the average volume of dealer financing contracts totalled euro 4,372 million, an increase of 17.0 % compared to the first quarter 2002.

The total business volume of the Financial Services segment as disclosed in the balance sheet amounted to euro 27,061 million, an increase of 2.6 % compared to 31 March 2002. Compared to 31 December 2002 (euro 26,505 million), total business volume increased by 2.1 %.

The profit from ordinary activities of the Financial Services segment for the first quarter 2003 rose by 33.8 % to euro 107 million. This above average increase was due mainly to lower interest rates and the fact that losses on the fair value measurement of financial instruments which had affected the result for the first quarter 2002 were not repeated during the first quarter 2003.

The Financial Services segment had 2,377 employees at 31 March 2003, an increase of 12.4 % compared to the end of the first quarter 2002. After adjustment for transfers within the group, the comparable number of employees at 31 March 2002 was 2,231, so that the increase on a comparable basis was 6.5 %.

Financial Services	1st quarter 2003	1st quarter 2002	Change in %
New contracts signed	370,759	340,353	8.9
Business volume <sup>1]</sup>	euro million	27,061	26,368
Revenues	euro million	1,959	2,128
Profit from ordinary activities	euro million	107	80
Workforce at the end of the quarter <sup>2]</sup>		2,377	12.4

<sup>1]</sup> Leased products plus receivables from sales financing (per group balance sheet)

<sup>2]</sup> The comparable number of employees at 31 March 2002 after adjusting for transfers within the group was 2,231.

## BMW stock

### BMW stock during the first quarter 2003

International stock markets continued to be affected during the first quarter 2003 by the on-going uncertainty relating to the global economic and political situation.

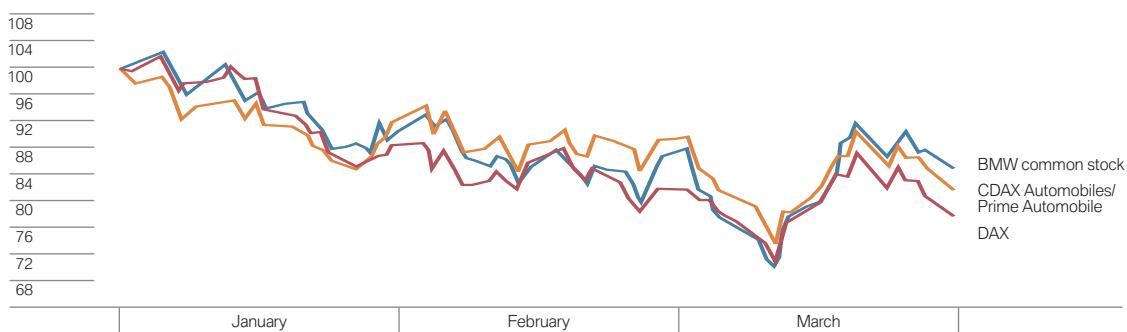
During the first two weeks of the year, the DAX closed at values just above 3,000 points. After it proved impossible to stay above this psychologically important level, the index fell continuously and reached a new seven-year low of 2,202.96 points in the middle of March. The DAX closed at 2,423.87 points on 31 March 2003, 16.2% below its closing level at the end of 2002 and 55.1% below its closing level at the end of the first quarter 2002.

As a result of the increasingly dampened prospects for the US market and the development of the US dollar, the CDAX Automobiles stock index performed weaker than the stock markets at the beginning of the year. After a brief recovery at the beginning of February, the sector index then moved largely in line with the DAX.

With effect from 24 March 2003, the BMW Group has started to use the Prime Automobile Performance Index for reporting purposes rather than the CDAX Automobiles stock index, in line with a new classification of market segments introduced by the German Stock Exchange. At 31 March 2003, the new index stood at 233 points.

The market price of BMW common stock during the first quarter 2003 reflected the uncertainty of investors about the effect of the political situation on the automobile markets. The share price fell largely in line with the sector index and reached a new five-year low of euro 21.00 on 12 March. After publication of the key figures for the financial year 2002 on the following day and the Annual Accounts Press Conference in the following week, the stock recovered by some 30% to euro 27.40. After some profit-taking, the stock closed at euro 25.40 on 31 March 2003. Compared to the closing price at the end of 2002 and at the end of the first quarter 2002, the price fell by 12.3% and 44.4% respectively.

**Development of BMW stock compared to stock exchange indices**  
(Index: 2 January 2003 = 100)



As a result of a new classification of market segments by the German Stock Exchange, the BMW Group uses the Prime Automobile Performance Index instead of the CDAX Automobiles Stock Index with effect from 24 March 2003.

# BMW Group

## Notes to the Interim Financial Statements for the 1st quarter 2003

### Accounting principles and policies

The BMW Group financial statements at 31 December 2002 were drawn up in accordance with the standards, valid on the balance sheet date, issued by the International Accounting Standards Board (IASB), London. The interim financial statements at 31 March 2003 were drawn up using the same accounting methods as in the 2002 annual financial statements. The interim report has been prepared in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which were mandatory at 31 March 2003 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).

Further information about the group's accounting principles and policies is contained in the BMW Group financial statements at 31 December 2002.

### Consolidated companies

The BMW Group financial statements for the first quarter 2003 include, besides BMW AG, 39 German and 128 foreign subsidiaries. This includes 18 special securities funds and 17 trusts for asset backed financing transactions. One German and five foreign subsidiaries ceased to be consolidated companies. The following companies were consolidated for the first time in the first quarter 2003: Alphabet Fuhrparkmanagement GmbH, Frankfurt, BMW Anlagen Verwaltungs GmbH, Munich, BMW Vertriebszentren Verwaltungs GmbH, Munich, Bürohaus Petuelring GmbH, Hannover, Bürohaus Petuelring GmbH & Co. Vermietungs KG, Hanover, Rolls-Royce Motor Cars GmbH, Munich, Rolls-Royce Motor Cars NA, LLC, Wilmington, Del., BMW Russland Trading OOO, Moscow, Alphabet Belgium N.V., Bornem, Alphabet France SAS, Guyancourt, Alphabet Italia S.p.A., Milan, Alphabet B.V., Rijswijk, Alphabet Fuhrparkmanagement (Schweiz) AG, Otelfingen and Alphabet Fleet Services Espana S.L., Madrid. BMW Maschinenfabrik Spandau GmbH & Co. Anlagen und Betriebs oHG, Berlin is no longer consolidated. Hireus Ltd., Bracknell, changed its name to Rolls-Royce Motor Cars Limited, Bracknell. Compared to the interim financial statements for the first quarter 2002, an additional 11 German and 21 foreign companies were consolidated for the first time. These changes did not have a material influence on the assets, liabilities, financial position and earnings of the BMW Group.

## BMW Group

### Group and sub-group Income Statements for the 1st quarter

in euro million	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
	2003	2002	2003	2002	2003	2002
Revenues	10,272	10,768	9,770	9,906	2,023	2,188
Cost of sales	–7,661	–8,065	–7,394	–7,471	–1,630	–1,824
<b>Gross profit</b>	<b>2,611</b>	<b>2,703</b>	<b>2,376</b>	<b>2,435</b>	<b>393</b>	<b>364</b>
Sales and administrative costs	–1,234	–1,199	–1,170	–1,098	–133	–129
Research and development costs	–439	–348	–439	–348	–	–
Other operating income and expenses	–104	–131	19	–30	–132	–115
<b>Profit before financial result</b>	<b>834</b>	<b>1,025</b>	<b>786</b>	<b>959</b>	<b>128</b>	<b>120</b>
Financial result	–4	–14	–29	1	24	–13
<b>Profit from ordinary activities</b>	<b>830</b>	<b>1,011</b>	<b>757</b>	<b>960</b>	<b>152</b>	<b>107</b>
Income taxes	–320	–379	–294	–362	–57	–40
Minority interest	0	0	–	–	0	0
<b>Net profit</b>	<b>510</b>	<b>632</b>	<b>463</b>	<b>598</b>	<b>95</b>	<b>67</b>
 <b>Earnings per share of common stock</b> in euro	0.76	0.94				
 <b>Earnings per share of preferred stock<sup>2)</sup></b> in euro	0.76	0.94				

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.

### **Lower refinancing expenses reduce impact of product and market offensive**

Group revenues for the first quarter 2003 amounted to euro 10,272 million, 4.6% lower than in the first quarter 2002. Revenues of the Automobiles segment and the Financial Services segment with third parties fell by 1.3% and 17.9% respectively. Revenues of the Motorcycles segment with third parties increased by 0.7%. Revenues of other group companies fell by 22.5%.

Cost of sales went down by 5.0% to euro 7,661 million, marginally more pronounced than the decrease in revenues. This was attributable to the lower level of refinancing expenses for financial services activities. In addition, the depreciation expense included in cost of sales was lower than in the first quarter 2002. As new products are taken into production, however, the depreciation expense is likely to rise again. Overall, the gross profit amounted to euro 2,611 million, 3.4% lower than in the equivalent period last year. In absolute terms, the gross profit fell by euro 92 million. The gross profit percentage improved by 0.3 percentage points to 25.4%. The gross profit percentage of industrial operations fell by 0.3 percentage points to 24.3% as a result of the higher level of structure-related expenditure.

Sales and administrative costs amounted to euro 1,234 million, an increase of 2.9% compared to the first quarter 2002. The increase was attributable to general business expansion and the launch of the BMW Z4 in Europe.

Research and development costs again increased as a result of the on-going product offensive and amounted to euro 439 million (first quarter 2002: euro 348 million), an increase of 26.1%. Research and development costs comprise research costs, development costs not recognised as assets and amortisation and disposals of capitalised development costs. Amortisation and disposals of capitalised development costs amounted to euro 118 million (first quarter 2002: euro 128 million). Research and development costs as a percentage of revenues were 4.3% (first quarter 2002: 3.2%). Of the total development costs incurred during the first quarter 2003, euro 206 million (first quarter 2002: euro 185 million) were recognised as assets. Total research and development

costs amounted to euro 527 million (first quarter 2002: euro 405 million). This figure comprises amounts recognised as assets, other research and development costs incurred, less amortisation and disposals of amounts recognised as assets.

Other operating income and expenses during the first quarter 2003 gave rise to net expenses of euro 104 million (first quarter 2002: euro 131 million). Whereas the expense for write-downs on leased products increased compared to the same period last year, the other operating expenses fell sharply.

The financial result improved by euro 10 million as a result of the higher net income from investments.

The profit from ordinary activities amounted to euro 830 million, euro 181 million or 17.9% lower than the result for the first quarter 2002.

The effective tax rate increased by 1.1 percentage points to 38.6% as a result of the utilisation of deferred tax assets in conjunction with tax loss carryforwards in BMW AG. The tax effects of the planned tax reform in Germany have not been taken into account.

After an income tax expense of euro 320 million (first quarter 2002: euro 379 million), the net profit for the first quarter 2003 amounted to euro 510 million (first quarter 2002: euro 632 million). This represents a decrease of 19.3% compared to the first quarter 2002.

### **Automobiles segment result impacted by product and market offensive**

The profit from ordinary activities of the Automobiles segment for the first quarter 2003 amounted to euro 719 million, 21.3% below the high result of euro 914 million recorded in the first quarter of the previous year. This is due primarily to research and development costs in the first quarter 2003, which have increased by euro 91 million or 26.1% to euro 439 million. In addition, there are effects due to the product cycle of certain BMW brand models as well as a significant increase in the costs of the product and market offensive compared to the prior year quarter.

### **Motorcycles segment maintains results at high level**

The Motorcycles segment generates the bulk of its sales in the first half of the year. Profits are therefore also generated mainly during this period, while losses are incurred generally in the fourth quarter due to lower volumes. The success of the major R and K Series during the first quarter 2003 meant that the segment was again able to match the profit from ordinary activities of euro 30 million recorded in the first quarter 2002 euro despite the small decrease in sales volumes.

<b>Revenues by segment in the 1st quarter</b> in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2003	2002	2003	2002	2003	2002
Automobiles	8,213	8,321	1,160	1,164	9,373	9,485
Motorcycles	304	302	0	0	304	302
Financial Services	1,662	2,025	297	103	1,959	2,128
Reconciliations	93	120	-1,457	-1,267	-1,364	-1,147
<b>BMW Group</b>	<b>10,272</b>	<b>10,768</b>	–	–	<b>10,272</b>	<b>10,768</b>

### **Profit from ordinary activities by segment**

1st quarter 2003 1st quarter 2002

Automobiles	719	914
Motorcycles	30	30
Financial Services	107	80
Reconciliations	-26	-13
<b>Profit from ordinary activities</b>	<b>830</b>	<b>1,011</b>
Income taxes	-320	-379
<b>Net profit</b>	<b>510</b>	<b>632</b>

### **Result of Financial Services segment significantly above prior year quarter**

The profit from ordinary activities of the Financial Services segment for the first quarter 2003 amounted to Euro 107 million, an increase of euro 27 million or 33.8% against the same period last year. This improvement was attributable mainly to the lower level of refinancing expenses compared to the previous year. In addition, unlike the first quarter 2002, the first quarter 2003 does not contain any losses on the fair value measurement of financial instruments.

### **Higher inter-group profit elimination due to growth in leasing business**

Reconciliations to the Group profit from ordinary activities include the results of group companies not allocated to one of the other segments as well as the net effect of consolidations. In the first quarter, growth in the leasing business within the Financial Services segment has led to a negative result in the inter-group profit elimination. The net expense for Reconciliations has increased by euro 13 million to euro 26 million compared to the previous year.

### **Product and market offensive reduces earnings per share**

Earnings per share of common stock and preferred stock are euro 0.76 (first quarter 2002: euro 0.94). 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. The computation of earnings per share is based on the following figures:

		1st quarter 2003	1st quarter 2002
Net profit	euro million	510	632
Profit attributable to common stock	euro million	470.8	583.5
Profit attributable to preferred stock	euro million	39.2	48.5
Average number of outstanding shares of common stock	number	622,227,918	622,227,918
Average number of outstanding shares of preferred stock	number	51,464,627	50,638,232

## BMW Group Group and sub-group Balance Sheets

<b>Assets</b> in euro million	Group		Industrial operations*		Financial operations*	
	31.3.2003	31.12.2002	31.3.2003	31.12.2002	31.3.2003	31.12.2002
Intangible assets	2,824	2,741	2,811	2,730	13	11
Property, plant and equipment	8,531	8,578	8,497	8,544	34	34
Financial assets	373	498	357	463	16	35
Leased products	6,942	7,012	220	188	8,499	8,559
<b>Non-current assets</b>	<b>18,670</b>	<b>18,829</b>	<b>11,885</b>	<b>11,925</b>	<b>8,562</b>	<b>8,639</b>
Inventories	5,782	5,197	5,769	5,191	13	6
Trade receivables	2,315	1,818	2,184	1,678	131	140
Receivables from sales financing	20,119	19,493	–	–	20,119	19,493
Other receivables	6,038	6,056	4,481	4,570	3,480	3,761
Marketable securities	1,111	1,105	1,055	1,105	56	0
Cash and cash equivalents	2,722	2,333	2,667	2,256	55	77
<b>Current assets</b>	<b>38,087</b>	<b>36,002</b>	<b>16,156</b>	<b>14,800</b>	<b>23,854</b>	<b>23,477</b>
<b>Deferred tax assets</b>	<b>196</b>	<b>192</b>	<b>158</b>	<b>249</b>	<b>– 793</b>	<b>– 852</b>
<b>Prepayments</b>	<b>525</b>	<b>488</b>	<b>135</b>	<b>143</b>	<b>390</b>	<b>345</b>
<b>Total assets</b>	<b>57,478</b>	<b>55,511</b>	<b>28,334</b>	<b>27,117</b>	<b>32,013</b>	<b>31,609</b>
Total assets adjusted for asset backed financing transactions	53,921	51,002	–	–	28,456	27,100

\*before consolidation of transactions between the sub-groups

<b>Equity and liabilities</b> in euro million	Group		Industrial operations*		Financial operations*	
	31.3.2003	31.12.2002	31.3.2003	31.12.2002	31.3.2003	31.12.2002
Subscribed capital	674	674				
Capital reserve	1,954	1,954				
Revenue reserves	11,585	11,075				
Accumulated other equity	336	168				
<b>Equity</b>	<b>14,549</b>	<b>13,871</b>	<b>12,301</b>	<b>11,694</b>	<b>3,012</b>	<b>2,957</b>
<b>Minority interest</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>
Pension provisions	2,290	2,257	2,274	2,242	16	15
Other provisions	5,678	5,409	5,379	5,095	342	355
<b>Provisions</b>	<b>7,968</b>	<b>7,666</b>	<b>7,653</b>	<b>7,337</b>	<b>358</b>	<b>370</b>
Debt	26,304	26,262	1,502	1,681	24,802	24,581
Trade payables	3,430	3,069	3,079	2,740	351	329
Other liabilities	2,592	2,487	2,665	2,970	1,850	1,792
<b>Liabilities</b>	<b>32,326</b>	<b>31,818</b>	<b>7,246</b>	<b>7,391</b>	<b>27,003</b>	<b>26,702</b>
<b>Deferred tax liabilities</b>	<b>1,825</b>	<b>1,492</b>	<b>807</b>	<b>477</b>	<b>913</b>	<b>915</b>
<b>Deferred income</b>	<b>810</b>	<b>664</b>	<b>327</b>	<b>218</b>	<b>727</b>	<b>665</b>
<b>Total equity and liabilities</b>	<b>57,478</b>	<b>55,511</b>	<b>28,334</b>	<b>27,117</b>	<b>32,013</b>	<b>31,609</b>
Total equity and liabilities adjusted for asset backed financing transactions	53,921	51,002	-	-	28,456	27,100

\*before consolidation of transactions between the sub-groups

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### **Group balance sheet affected by currency**

The balance sheet total (total assets or total equity and liabilities) increased by only euro 1,967 million or 3.5% compared to 31 December 2002 because of the effect of currency changes. Excluding the impact of exchange rate changes, the balance sheet total would have increased by 5.2%. The increase on the assets side of the balance sheet relates primarily to inventories (+ 11.3%), trade receivables (+ 27.3%), receivables from sales financing (+3.2%) and interest-bearing assets (+ 11.5%). The increase in total equity and liabilities reflects the higher level of equity (+ 4.9%), provisions (+ 3.9%), liabilities (+ 1.6%) and deferred taxes (+ 22.3%).

Financial assets decreased mainly as a result of the reduction of the carrying amount of the investment in Rolls-Royce plc, London, to the market price at 31 March 2003. The write-down recorded in the first quarter 2003 amounted to euro 98 million. This write-down was recognised directly in accumulated other equity. A review had already been carried out as at 31 December 2002 to determine if the investment was impaired, in which case the loss would be recognised in the income statement. On the basis of external analyses, it was concluded that an impairment loss had not occurred. The continued fall in the market price of the stock is related to global political and economic uncertainties and not to a loss in the underlying substance of the stock. Write-downs on the investment in Rolls-Royce plc, London, which have been recognised directly in equity amount to euro 367 million at 31 March 2003.

Leased products disclosed in the balance sheet fell compared to 31 December 2002 as a result of currency changes. Excluding the effect of currency changes, they would have increased by 1.9%.

The increase in inventories is seasonal, but was more pronounced than usual as a result of the launch of the BMW Z4 in Europe, the forthcoming model change of the BMW 5 Series Limousine and the necessary increase in inventory levels of the BMW X5.

Trade receivables increased mainly as a result of the delivery of the revised models of the BMW 3 Series and the BMW Z4 to the dealer network.

Group equity increased due to the net profit of euro 678 million. The equity ratio improved by 0.3 percentage points to 25.3% compared to 31 December 2002. The equity ratio of industrial operations stood at 43.4% (31 December 2002: 43.1%) and that of financial operations stood at 9.4%, unchanged from 31 December 2002. Within equity, accumulated other equity increased by euro 168 million. This includes the increase of the fair values of derivative financial instruments of euro 420 million after tax. In the opposite direction, currency changes and the fair value measurement of securities reduced accumulated other equity by euro 144 million and euro 108 million respectively.

Provisions increased by euro 302 million, mainly as a result of higher allocations to provisions for personnel obligations and due to the higher volume of business.

Bonds increased only by euro 34 million because of the offsetting effect of currency changes. Excluding the impact of exchange rate changes, bonds would have increased by euro 278 million. The Benchmark Bond 2003 issued for euro 750 million during the first quarter 2003 was used mainly to repay maturing bonds. Within debt, asset backed security transactions included in other debt decreased, whereas miscellaneous other debt increased.

The favourable development of the fair values of derivative financial instruments was the main reason for the increase in the deferred tax liability.

**BMW Group**  
**Statement of Changes in Equity**

in euro million	Subscribed capital	Capital reserve	Revenue reserves	Accumulated other equity	Total
<b>Balance at 31 December 2001</b>	<b>673</b>	<b>1,937</b>	<b>9,405</b>	<b>-1,245</b>	<b>10,770</b>
Translation differences	-	-	-	39	39
Financial instruments	-	-	-	34	34
Net profit 1st quarter 2002	-	-	632	-	632
<b>Balance at 31 March 2002</b>	<b>673</b>	<b>1,937</b>	<b>10,037</b>	<b>-1,172</b>	<b>11,475</b>
<b>Balance at 31 December 2002</b>	<b>674</b>	<b>1,954</b>	<b>11,075</b>	<b>168</b>	<b>13,871</b>
Translation differences	-	-	-	-144	-144
Financial instruments	-	-	-	312	312
Net profit 1st quarter 2003	-	-	510	-	510
<b>Balance at 31 March 2003</b>	<b>674</b>	<b>1,954</b>	<b>11,585</b>	<b>336</b>	<b>14,549</b>

## BMW Group

### Group and sub-group Cash Flow Statements for the 1st quarter

	in euro million	Group	2003	2002
Net profit			510	632
Depreciation of leased products			704	569
Depreciation and amortisation of other non-current assets			486	514
Change in provisions			320	240
Change in deferred taxes			187	236
Change in net current assets and other items			-335	8
<b>Cash inflow from operating activities</b>			<b>1,872</b>	<b>2,199</b>
Investment in intangible assets and property, plant and equipment			-537	-632
Payments relating to the Rover disengagement			-23	-45
Net investment in leased products and receivables from sales financing			-1,511	-1,224
Other			43	-10
<b>Cash outflow from investing activities</b>			<b>-2,028</b>	<b>-1,911</b>
<b>Cash inflow/outflow from financing activities</b>			<b>568</b>	<b>477</b>
<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>			<b>-23</b>	<b>19</b>
<b>Change in cash and cash equivalents</b>			<b>389</b>	<b>784</b>
Cash and cash equivalents at 1 January			2,333	2,437
<b>Cash and cash equivalents at 31 March</b>			<b>2,722</b>	<b>3,221</b>

#### Working capital requirements reduce cash flow from operating activities

The cash flow from operating activities fell by euro 327 million to euro 1,872 million compared to the first quarter 2002 mainly as a result of the working capital requirement for inventories.

The cash outflow from investing activities increased by euro 117 million as a result of the higher level of receiv-

ables from sales financing. The reduction in the cash outflow from investment in intangible assets and property, plant and equipment results from the offset of subsidies received for the Leipzig plant.

The cash inflow from operating activities does not cover the cash outflow from investing activities by euro 156 million. Within industrial operations, however, there was a significant surplus. Within financing activities, the

Industrial operations 2003	2002	Financial operations 2003	2002	
463	598	95	67	Net profit
1	1	570	487	Depreciation of leased products
482	503	4	11	Depreciation and amortisation of other non-current assets
337	230	-15	10	Change in provisions
214	230	4	31	Change in deferred taxes
-304	14	-7	-12	Change in net current assets and other items
<b>1,193</b>	<b>1,576</b>	<b>651</b>	<b>594</b>	<b>Cash inflow from operating activities</b>
-534	-629	-3	-3	Investment in intangible assets and property, plant and equipment
-23	-45	0	0	Payments relating to the Rover disengagement
-33	-27	-1,450	-1,168	Net investment in leased products and receivables from sales financing
92	-12	-49	2	Other
<b>-498</b>	<b>-713</b>	<b>-1,502</b>	<b>-1,169</b>	<b>Cash outflow from investing activities</b>
<b>-296</b>	<b>-767</b>	<b>864</b>	<b>1,244</b>	<b>Cash inflow/outflow from financing activities</b>
<b>12</b>	<b>11</b>	<b>-35</b>	<b>8</b>	<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>
<b>411</b>	<b>107</b>	<b>-22</b>	<b>677</b>	<b>Change in cash and cash equivalents</b>
2,256	2,373	77	64	Cash and cash equivalents at 1 January
<b>2,667</b>	<b>2,480</b>	<b>55</b>	<b>741</b>	<b>Cash and cash equivalents at 31 March</b>

cash inflow from the issue of bonds amounted to euro 1,771 million (first quarter 2002: euro 1,324 million) and the cash outflow for the repayment of bonds amounted to euro 1,477 million (first quarter 2002: euro 895 million).

After adjustment for the effects of exchange rate fluctuations and changes in the composition of the group, the various cash flows resulted in an increase in cash and cash equivalents of euro 389 million (first quarter 2002: euro 784 million).

Net interest-bearing financial assets (cash and cash equivalents and marketable securities less debt) in industrial operations increased by euro 540 million to euro 2,220 million during the first quarter 2003.

# Q1

## Financial calendar

Annual General Meeting	15 May 2003
Interim Report to 30 June 2003	7 August 2003
Interim Report to 30 September 2003	6 November 2003
Letter to Shareholders	January 2004

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