

Interim Report to 30 June 2003

Q2



Rolls-Royce
Motor Cars Limited



BMW Group

The BMW Group – an Overview

BMW Group in figures		2nd quarter 2003	2nd quarter 2002	Change in %
Vehicle production				
Automobiles	units	264,348	274,554	–3.7
Motorcycles ¹⁾	units	28,207	28,351	–0.5
Deliveries to customers				
Automobiles	units	283,296	283,280	0.0
Motorcycles ²⁾	units	30,688	31,450	–2.4
Workforce at the end of the quarter³⁾		103,335	99,464	3.9
Cash flow		euro million		
		1,199	1,185	1.2
Revenues		euro million		
		10,241	11,599	–11.7
Profit from ordinary activities		euro million		
		947	1,020	–7.2
Thereof:				
Automobiles	euro million	768	958	–19.8
Motorcycles	euro million	58	59	–1.7
Financial Services	euro million	118	98	20.4
Reconciliations	euro million	3	–95	–
Income taxes		euro million		
		–379	–391	–3.1
Net profit		euro million		
		568	629	–9.7
Earnings per share⁴⁾		euro		
		0.84/0.85	0.93/0.94	–9.7/–9.6

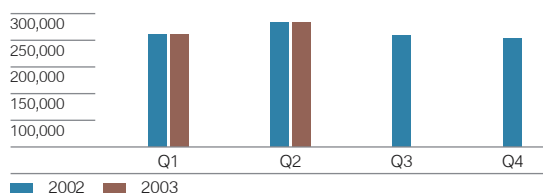
1) excluding 1,855 C1 in the 2nd quarter 2002

2) excluding 1,573 C1 in the 2nd quarter 2003 (3,731 C1 in the 2nd quarter 2002)

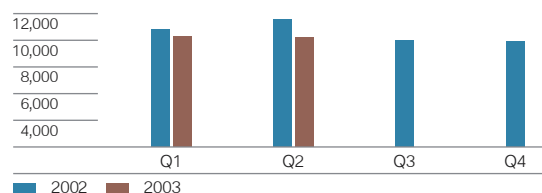
3) The comparable number of employees at 30 June 2002 after adjusting for disposals and transfers of group companies was 99,241.

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.

Deliveries of automobiles
in units



Revenues
in euro million



BMW Group in figures		1 January to 30 June 2003	1 January to 30 June 2002	Change in %
Vehicle production				
Automobiles	units	554,431	549,259	0.9
Motorcycles ¹⁾	units	58,268	57,458	1.4
Deliveries to customers				
Automobiles	units	544,869	543,742	0.2
Motorcycles ²⁾	units	51,589	53,186	-3.0
Workforce at the end of the quarter ³⁾		103,335	99,464	3.9
Cash flow	euro million	2,228	2,378	-6.3
Revenues	euro million	20,513	22,367	-8.3
Profit from ordinary activities	euro million	1,777	2,031	-12.5
Thereof:				
Automobiles	euro million	1,487	1,872	-20.6
Motorcycles	euro million	88	89	-1.1
Financial Services	euro million	225	178	26.4
Reconciliations	euro million	-23	-108	-78.7
Income taxes	euro million	-699	-770	-9.2
Net profit	euro million	1,078	1,261	-14.5
Earnings per share ⁴⁾	euro	1.60/1.61	1.87/1.88	-14.4/-14.4

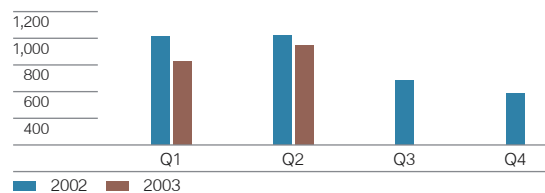
1) excluding 3,115 C1 in the 1st half of 2002

2) excluding 2,506 C1 in the 1st half of 2003 (5,246 C1 in the 1st half of 2002)

3) The comparable number of employees at 30 June 2002 after adjusting for disposals and transfers of group companies was 99,241.

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.

Profit from ordinary activities in euro million



The BMW Group pushes ahead with product and market offensive

The BMW Group continued to push ahead consistently with its product and market offensive during the second quarter of 2003. As well as preparing for the production and worldwide launch of the new BMW 5 Series Limousine, the BMW Group focused on further expanding its product range and extending its presence on the international markets. All of these factors led, as expected, to high levels of expenditure for the Automobiles segment.

Despite the predominantly product-cycle induced reduction in the sales volume of a number of BMW brand models, the BMW Group delivered 283,296 units to customers during the second quarter 2003. This was almost exactly in line with the sales volume achieved in the same quarter 2002. On a half-year basis, a total of 544,869 BMW, MINI and Rolls-Royce brand cars was sold, 0.2% more than in the first half of 2002.

Sales of BMW motorcycles are still being affected by the general downward international trend. 30,688 BMW motorcycles were sold during the second quarter 2003, 2.4% fewer than in the same quarter last year. With 51,589 motorcycles sold, the sales volume in the first half of 2003 was down by 3.0% against the corresponding period last year.

The Financial Services segment remained on growth course in the second quarter 2003 and succeeded in expanding its business activities. On a worldwide basis, the number of new contracts increased by 5.8% compared to the second quarter 2002 and 7.3% compared to the first half of 2002 respectively.

Total group revenues for the second quarter 2003 fell by 11.7% to euro 10,241 million mainly as a result of currency effects. In addition, the lower volume of business with ex-lease contract vehicles also affected revenues. Overall, the BMW Group generated revenues of euro 20,513 million in the first half of 2003, 8.3% less than in the first half of 2002.

The profit from ordinary activities for the second quarter 2003 fell by 7.2% to euro 947 million. The Group's performance benefited from the positive

effects of the measurement of financial instruments, included in reconciliations to the group result. The profit from ordinary activities for the first half of 2003, at euro 1,777 million, was 12.5% below that for the corresponding period in 2002.

The net profit of the BMW Group for the second quarter 2003 fell by 9.7% to euro 568 million. The net profit for the first half of 2003 fell by 14.5% to euro 1,078 million.

More than 4,000 new jobs created

At 30 June 2003, the BMW Group had a workforce of 103,335 employees, 3.9% more than at 30 June 2002. The comparable number of employees at 30 June 2002 after adjusting for disposals and transfers of group companies was 99,241, so that the increase on a comparable basis was 4.1%. The BMW Group thus created 4,094 new jobs over this period, including more than 3,300 in Germany.

So far, more than 1,000 new employees have been recruited for the new BMW plant in Leipzig. Most of these are currently working in the various BMW group plants in Bavaria, preparing for their future tasks in Leipzig. By the year-end, the workforce for the new plant will increase to approximately 1,300 employees.

Further milestones of the product and market offensive achieved

In 2003, the activities of the BMW Group are being dominated by the implementation of the product and market offensive. The Group continues to expand its product range, aiming to meet all of the needs of the various relevant segments of the premium car market.

Following the launch of the MINI One D in May 2003, the Group began delivering the new BMW 5 Limousine to dealers and customers from the middle of the year. After an extremely short introductory phase, the new model will be available on all markets by the end of September. Other important milestones, such as the presentation of the BMW 6 Series Coupé and the new BMW X3, will follow in the course of 2003.

Encouraged by the excellent start made by the new models, the BMW Group is still predicting that the product-cycle induced reduction in sales of BMW brand cars in the first half of 2003 will be made good over the full year and that the Group will achieve volume growth for all brands compared to the previous year.

Economic conditions remain difficult

Economic conditions for the world's automobile markets remain difficult. The weak momentum of the automobile markets already observed during the previous year continued into the first half of 2003. The mood is still subdued and customers are still reticent to buy. The only region which recorded an increase in car sales was Asia, sustained above all by a very buoyant Chinese market.

International presence expanded

The BMW Group also completed a number of important measures during the second quarter 2003 aimed at increasing its international presence. The group's market offensive is being targeted primarily at the growth markets in Asia as well as the main traditional regional markets of the group (USA, Europe and Japan).

The BMW Group plans to almost double car sales to Asia by the year 2008 to an annual volume of 150,000 units. The production and sales joint venture with the Chinese partner, Brilliance China Automotive Holdings will play a key role in achieving this target. Production of BMW 3 Series vehicles will commence before the end of 2003 in Shenyang, northern China. The production capacity of the venture is based on an annual volume of approximately 30,000 vehicles.

In addition, a group sales subsidiary has been set up in Malaysia with a local partner and selling activities will commence with effect from 1 August 2003.

Besides these activities in Asia, the BMW Group also intends to continue to grow in its traditional markets. The US market will remain one of the pillars of the Group's business: in the first half of 2003, the

BMW Group became, with the BMW brand, the market leader in the premium sector.

The BMW Group also extended its network of subsidiaries in Western Europe. In view of the market position that has been reached and the potential available, this step seems reasonable for the group. Changes to the Block Exemption Regulations are also bringing about closer relationships with local dealers. For this reason, with effect from 1 October 2003, the BMW Group will be taking over direct market responsibility in Greece, Ireland, Denmark and Luxembourg. These markets were previously served through importers.

Profit forecast remains unchanged

The performance so far in 2003 is in line with the expectations of the BMW Group. Despite the expenditure incurred in conjunction with the product and market offensive, which mainly impacts the results of the Automobiles segment, the BMW Group is still aiming, on a full year basis, to match previous year's earnings.

Sales volume stable at a high level

The BMW Group sold 283,296 vehicles during the second quarter 2003, almost exactly the same number as in the second quarter 2002 (283,280 units). During the first half of 2003, the BMW Group delivered 544,869 vehicles to customers, 0.2% more than in the corresponding period last year.

The sales volume of BMW brand cars was again affected in the second quarter 2003 by the product life-cycle of certain BMW models. A total of 239,205 BMW brand cars was sold in the quarter, 3.8% fewer than in the second quarter 2002. For the six month period, the sales volume of BMW brand cars totalled 454,972 units and was therefore 5.5% below the figure for the first half of 2002.

Demand for the MINI continued to develop strongly and the sales volume in the second quarter 2003 climbed to 44,073 units, an increase of 26.9% compared to the same quarter last year. On a six month basis, sales of MINI brand cars, at 89,878 units, were up 44.0% compared to the first half of 2002.

Following initial deliveries to dealers in the first quarter, the second quarter 2003 saw delivery of the first Rolls-Royce Phantom limousines to their new owners.

USA remains strongest volume market

The BMW Group again achieved growth in the second quarter 2003 in the USA, with the number of vehicles sold up to 74,727 units, a 6.6% increase compared to the second quarter 2002. The USA therefore continues to be the BMW Group's

strongest market in volume terms. 137,109 vehicles were sold in the USA during the first half of 2003, representing growth of 10.1% compared to the corresponding period in 2002.

With 69,848 vehicles delivered to customers in the second quarter 2003 in Germany, the sales volume of the BMW Group in this market was 3.5% lower than in the second quarter 2002. On a six month basis, the sales volume in Germany fell by 5.5% to 131,170 units.

In the United Kingdom, the largest European market for the BMW Group after Germany, the sales volume rose to 66,550, a 7.8% increase over the first half of 2002. In the same period, the number of vehicles sold in Italy, Spain and Finland increased by 6.9%, 5.3% and 15.7% respectively.

By contrast, a number of European markets recorded a reduction in sales volumes compared to the first half of 2002. The number of cars sold in France, Belgium/Luxembourg and Switzerland fell by 13.5%, 12.5% and 22.6% respectively.

The BMW Group continued to generate strong growth in Asia and increased the sales volume in this region in the first half of 2003 by 10.3% to 40,382 units.

The number of cars sold in Japan rose in the first half of 2003 to 22,519 units, an increase of 5.5% compared to the first half of 2002.

The BMW Group sold 9,718 vehicles in the Chinese markets in the first six months of 2003, equivalent to a growth of 39.7% over the corresponding period last year.

Automobiles		2nd quarter 2003	2nd quarter 2002	Change in %
Production	units	264,348	274,554	-3.7
Deliveries to customers	units	283,296	283,280	0.0
Revenues	euro million	9,647	9,978	-3.3
Profit from ordinary activities	euro million	768	958	-19.8
Workforce at the end of the quarter*		94,885	91,187	4.1

* The comparable number of employees at 30 June 2002 after adjusting for disposals of group companies and transfers within the group was 90,839.

Reduction in BMW brand sales volume due to model cycles

A total 279,445 BMW 3 Series vehicles was sold in the first half of 2003, 6.7% fewer than in the first half of 2002. This was mainly due to model life-cycle factors, which gave rise to small volume declines in the first quarter 2003 in particular for the Coupé, Cabrio and Compact versions.

Although 5.6% fewer BMW 3 Series Limousines were sold in the first half of 2003 compared to the same period in 2002, this version, with 143,841 units sold in the first half of 2003, remained the best-selling car of the range.

By contrast, demand for the BMW 3 Series Touring was strong in the first half of 2003. This model achieved a sales volume of 42,761 units and growth of 3.0%.

Sales of the BMW Z4, launched in North America in 2002 and in Europe in March 2003, also continued to perform well. In the first half of 2003, 22,593 Roadsters were sold.

Deliveries to customers of the new BMW 5 Series Limousine started at the beginning of July. By the end of September, the new model will be available worldwide. As expected, sales of the previous model fell in the second quarter 2003 in advance of the launch of the new BMW 5 Series Limousine. 75,628 units were sold during the first half of 2003, 18.3% fewer than in the corresponding period in 2002.

Sales of the BMW 7 Series continued to climb in the first half of 2003. 27,594 units were sold in

this period, 7.0% more than in the first half of 2002. Deliveries to customers of the BMW X5 Sports Activity Vehicle fell by 4.7% in the first half of 2003 compared to the first half of 2002. At 47,028 units, however, sales remain at a very high level.

Production of the BMW Z8, previously manufactured only in small numbers, was discontinued in June 2003. 498 units of this model were delivered to customers during the first six months of 2003.

MINI brand remains strong

Demand for the MINI brand has further increased. 44,073 units were sold during the second quarter 2003, an increase of 26.9% compared to the second quarter 2002. The trend to higher-value models and the more powerful engine versions was maintained.

The MINI Cooper remains the most successful MINI model, with 47,757 units sold during the first half of 2003, a volume growth of 23.0% compared to the first half of 2002. The most powerful model, the MINI Cooper S, launched in March 2002, also enjoyed strong demand. 20,743 units of this model were sold during the first half of 2003.

The MINI One recorded a sales volume of 20,089 units in the first half of 2003, almost exactly the level achieved in the first half of 2002. Almost 1,300 MINI One D cars have already been delivered in the first few weeks following the launch of the model in mid-June.

Automobiles		1 January to 30 June 2003	1 January to 30 June 2002	Change in %
Production	units	554,431	549,259	0.9
Deliveries to customers	units	544,869	543,742	0.2
Revenues	euro million	19,020	19,463	-2.3
Profit from ordinary activities	euro million	1,487	1,872	-20.6

Rolls-Royce off to a good start in Goodwood

Whereas the first Rolls-Royce Phantoms manufactured in Goodwood, England, were for demonstration and display purposes, the second quarter 2003 saw the first deliveries to dealers and customers. The receipt of several hundred orders for delivery in the current year underpins the high level of interest generated by the Rolls-Royce Phantom. Later, the installed capacity will permit annual sales of approximately 1,000 Rolls-Royce Phantoms.

Production below prior year levels in advance of the 5 Series model change

At 264,348 vehicles, the production volume for the BMW, MINI and Rolls-Royce brands in the second quarter 2003 fell slightly (down 3.7%) below the production volume in the equivalent period last year. The BMW Group manufactured 554,431 cars in the first half of 2003, 0.9% more than in the first half of the previous year. This comprised 464,564 BMW brand cars (down 2.2%), 89,798 MINI brand cars (up 21.3%) and 69 Rolls-Royce Phantoms.

As a result of the strike in the tariff area Berlin/Brandenburg, the BMW Group was forced to halt production towards the end of June in the Munich and Regensburg plants, causing a loss in production of some 10,700 BMW 3 Series vehicles. The BMW Group is now working closely with suppliers to seek ways to make up for the loss in production.

Performance in line with expectations

Revenues of the Automobiles segment for the second quarter 2003 amounted to euro 9,647 million and were thus 3.3% below the second quarter 2002. On a half-yearly basis, revenues fell by 2.3% to euro 19,020 million. Above all, the weakness of the US dollar against the euro had a negative impact on revenues.

The profit from ordinary activities of the Automobiles segment was again affected significantly in the second quarter 2003 by the implementation of the product and market offensive and the related high level of expenditure. The profit from ordinary activities for the second quarter 2003 decreased by

19.8% to euro 768 million. For the first half of 2003, the BMW Group reports a profit from ordinary activities of euro 1,487 million, down 20.6% compared to the same period last year.

The workforce of the Automobiles segment stood at 94,885 employees at 30 June 2003, an increase of 4.1% compared to 30 June 2002. The comparable number of employees at 30 June 2002 after adjusting for disposals and transfers within the group was 90,839, so that the increase at 30 June 2003 on a comparable basis was 4.5%.

Motorcycles segment holds its own despite difficult market conditions

Most of the international motorcycle markets continued to be affected by downward trends in the second quarter 2003 and the sales volume of the Motorcycles segment thus fell 2.4% below the record level achieved in the second quarter 2002. On a half-year basis, the decrease was 3.0%.

As in the first three months of the year, the uncertain economic situation resulted in sharp market decreases in the second quarter 2003 in most European markets, also affecting the number of BMW motorcycles sold. Contrary to this trend, the Motorcycles segment was able to achieve a 17.4% increase in the United Kingdom in the first half of 2003, a significant rise compared to the corresponding period last year. At 11.8% and 12.9%, good growth rates were also achieved in Spain and Switzerland.

In the USA, the largest market for BMW motorcycles after Germany, 7,800 motorcycles were sold in the first half of 2003, an increase of 18.9% compared to the same period last year.

The list of best-selling BMW motorcycles was headed by the R Series both in the second quarter 2003 and in the first half-year 2003. The best-selling model was the large long-distance enduro R 1150 GS, of which 6,022 units were sold in the second quarter (including the Adventure model).

Overall, 34,241 R Series Boxers were delivered to customers in the first half of 2003.

Motorcycle production still at a high level

Motorcycle production volume in the Berlin plant was adjusted during the second quarter 2003 in line with demand. 28,207 BMW motorcycles were manufactured in the quarter, 0.5% less than in the second quarter 2002. On a half-year basis, however, production volume, at 58,268 units, was 1.4% higher than in the corresponding period last year.

Revenues down due to volume and currency effects

Revenues of the Motorcycles segment in the second quarter 2003 amounted to euro 329 million, 6.3% below the figure for the second quarter 2002. As well as a lower sales volume, the strength of the euro against the US dollar also had a negative impact. Revenues in the first half of 2003 fell by 3.1% to euro 633 million.

The profit from ordinary activities of the Motorcycles segment for the second quarter 2003 amounted to euro 58 million, 1.7% below the figure for the second quarter 2002. The profit from ordinary activities for the first half of 2003, at euro 88 million, fell just short (–1.1%) of the result in the equivalent period in 2002.

At 30 June 2003, the BMW Motorcycles segment had 2,932 employees, 2.7% more than at 30 June 2002.

Motorcycles		2nd quarter 2003	2nd quarter 2002	Change in %
Production ¹⁾	units	28,207	28,351	–0.5
Deliveries to customers ²⁾	units	30,688	31,450	–2.4
Revenues	euro million	329	351	–6.3
Profit from ordinary activities	euro million	58	59	–1.7
Workforce at the end of the quarter		2,932	2,855	2.7
		1 January to 30 June 2003	1 January to 30 June 2002	Change in %
Production ³⁾	units	58,268	57,458	1.4
Deliveries to customers ⁴⁾	units	51,589	53,186	–3.0
Revenues	euro million	633	653	–3.1
Profit from ordinary activities	euro million	88	89	–1.1

1) excluding 1,855 C1 in the 2nd quarter 2002 2) excluding 1,573 C1 in the 2nd quarter 2003 (3,731 C1 in the 2nd quarter 2002)

3) excluding 3,115 C1 in the first half of 2002 4) excluding 2,506 C1 in the first half of 2003 (5,246 C1 in the first half of 2002)

Financial Services segment still on growth course

The Financial Services segment remained on growth course during the first half of 2003. On a worldwide basis, the proportion of new BMW and MINI brand cars financed or leased via the Financial Services segment increased in the first half of 2003 to 39.4% (first half-year 2002: 35.1%).

Service business expanded

The Financial Services segment is continuing to develop its range of services, in order both to win new, as well as to retain existing customers. This includes, for example, the continued expansion of services for fleet customers, broadening the range of vehicle-related insurance products and expanding banking activities.

Steady growth in customer business

The volume of customer financing business continued to grow in the first six months of 2003. 361,650 new financing contracts were signed with customers during this period, including 197,433 in the second quarter. This represented an increase of 14.3% compared to the first half of 2002 and a 14.0% increase compared to the second quarter 2002.

Whereas the proportion of lease contracts increased in the USA, Europe saw stronger growth in loan financing compared to the same quarter last year, mainly as a result of the increasingly positive development in used car sales and new business for MINI brand cars.

More than two thirds (67.6%) of new contracts with customers related to loan financing contracts, slightly higher than in the first half of 2003. Lease contracts in the first half of 2003 and in the second quarter 2003 accounted for 32.4% and 32.8% of new customer business, both slightly lower than in the equivalent periods last year (first half-year 2002: 34.1%, second quarter 2002: 33.1%).

Growth in new business achieved in all markets

206,305 new contracts were signed in Europe, 10.1% more than in the equivalent six month period in 2002. In the American region, the number of new financing contracts signed in the first half of 2003 rose by 20.4% to 119,293. Growth was also achieved in all of the Asian markets. Overall the number of new contracts in Asia increased by 20.6% to 36,052 new contracts.

The portfolio of customer financing contracts continued to grow in the second quarter 2003 and stood at 1,393,292 contracts at 30 June 2003, 12.7% more than at 30 June 2002.

The average value of dealer financing contracts managed by the segment during the second quarter 2003 was euro 4,364 million, an increase of 25.0% compared to the same quarter last year.

Broader customer base for fleet business

In the area of fleet financing, the Financial Services segment operates in the twelve main markets in Europe using the brand-name "Alphabet". Close cooperation with the sales companies in each country has enabled Alphabet to establish a strong

Financial Services		2nd quarter 2003	2nd quarter 2002	Change in %
New contracts signed		399,295	377,410	5.8
Revenues	euro million	2,094	2,420	-13.5
Profit from ordinary activities	euro million	118	98	20.4
Workforce at the end of the quarter*		2,431	2,171	12.0

* The comparable number of employees at 30 June 2002 after adjusting for transfers within the group was 2,296.

position as a European fleet provider and to expand its customer base. 12,115 new contracts were signed during the first half of 2003, an increase of 19.2% compared to the same period last year.

transfers within the group, the comparable number of employees at 30 June 2002 was 2,296, so that the increase on a comparable basis was 5.9%.

Growth in deposit business

Deposit business continued to progress well in the first half of 2003. The average volume of deposits amounted to euro 3,502 million. This 45.8% increase was primarily attributable to the success of online short-term deposit accounts. The number of customer accounts has increased since the beginning of the year to more than 238,400 at 30 June 2003.

Segment continues to perform well

The total business volume of the Financial Services segment as disclosed in the balance sheet amounted to euro 27,493 million at 30 June 2003, an increase of 8.4% compared to 30 June 2002.

The profit from ordinary activities of the Financial Services segment in the first half of 2003 improved by 26.4% to euro 225 million. The profit from ordinary activities for the second quarter was euro 118 million, a 20.4% improvement over the same quarter last year.

Geographical coverage was expanded further during the first half of 2003 as a result of the start of operations with partner firms in Poland, the Czech Republic, Croatia and Bahrain.

The Financial Services segment had 2,431 employees at 30 June 2003, an increase of 12.0% compared to 30 June 2002. After adjustment for

Financial Services		1 January to 30 June 2003	1 January to 30 June 2002	Change in %
New contracts signed		770,054	717,763	7.3
Business volume*	euro million	27,493	25,356	8.4
Revenues	euro million	4,053	4,548	-10.9
Profit from ordinary activities	euro million	225	178	26.4

* Leased products plus receivables from sales financing (per group balance sheet)

BMW stock in the second quarter 2003

Following the end of the Iraq war and the dissipation of various unfavourable oil price scenarios, the stock market entered a phase of recovery during the second quarter 2003, interrupted only by a short consolidation phase in May.

During the second quarter 2003, the DAX was able to move well away from the low levels seen at the beginning of the year. However, as a result of the sharp devaluation of the US dollar, the SARS crisis and new fears of deflation, the consolidation in May saw the DAX fall below the 3,000 mark for a few weeks, before the index eventually reached a year-high on 18 June of 3,304.15 points.

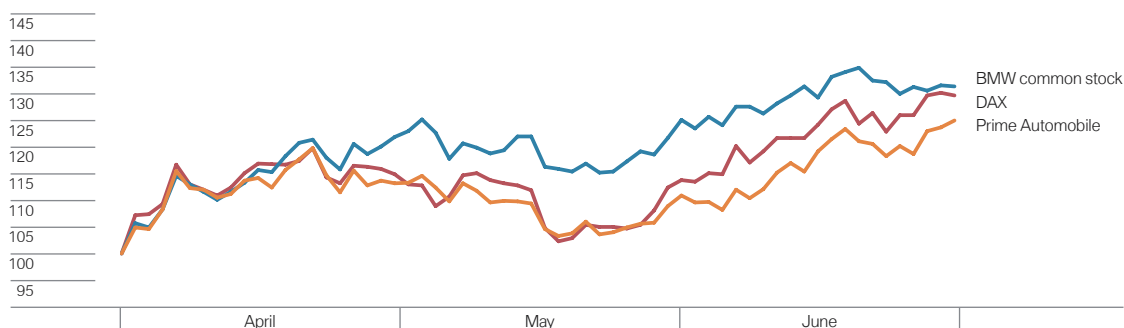
The DAX closed on 30 June 2003 at 3,220.58 points, 32.9% higher than at the end of the first quarter 2003 and 11.3% higher than its closing level at 31 December 2002. At 30 June 2003, the DAX was 26.5% below its level at 30 June 2002.

The Prime Automobile Performance Index mirrored to a large extent the positive performance of the overall market and closed at 30 June 2003 at 292.51 points, 25.5% above its level at the end of the first quarter 2003. The result was that the index for German automobile stocks was able to reverse the losses of the first quarter and, at 30 June 2003, was 11.3% above its level at the end of 2002.

BMW common stock performed significantly better than the overall market, especially in June 2003 and closed at the end of the second quarter at euro 33.45, 31.7% above its closing level at 31 March 2003. This sharp rise more than compensated the fall in value in the first quarter: at 30 June 2003, the price of BMW common stock was 15.5% above its level at 31 December 2002. Compared to 30 June 2002, however, the price of BMW common stock at 30 June 2003 had still fallen by 19.9%.

Development of BMW stock compared to stock exchange indices

(Index: 2 April 2003 = 100)



Principles

The BMW Group Annual 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 30 June 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 30 June 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 second 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. The group reporting entity is unchanged from the first quarter 2003.

The following companies have been consolidated for the first time with effect from 1 January 2003: Alphabet Fuhrparkmanagement GmbH, Munich, 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 España S.L., Madrid as well as five special securities funds and four trusts. BMW Maschinenfabrik Spandau GmbH & Co. Anlagen und Betriebs oHG, Berlin, softlab S.A., Madrid, softlab Japan Corp., Tokyo, and two trusts are no longer consolidated. BMW Servizi Logistici s.r.l., Milan, was merged with BMW Italia S.p.A., Milan. Hireus Ltd., Bracknell, changed its name to Rolls-Royce Motor Cars Limited, Bracknell. Compared to the interim financial statements for the same periods in 2002 therefore, an additional 11 German and 21 foreign companies were consolidated for the first time. One German and 5 foreign companies are no longer consolidated. 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 2nd quarter

in euro million	Group		Industrial operations ¹⁾		Financial operations ¹⁾	
	2003	2002	2003	2002	2003	2002
Revenues	10,241	11,599	10,067	10,417	2,130	2,498
Cost of sales	-7,547	-8,742	-7,537	-7,795	-1,738	-2,160
Gross profit	2,694	2,857	2,530	2,622	392	338
Sales and administrative costs	-1,213	-1,201	-1,178	-1,119	-145	-133
Research and development costs	-547	-460	-547	-460	-	-
Other operating income and expenses	-59	-132	33	-54	-97	-82
Profit before financial result	875	1,064	838	989	150	123
Financial result	72	-44	47	20	31	-66
Profit from ordinary activities	947	1,020	885	1,009	181	57
Income taxes	-379	-391	-355	-406	-72	-25
Minority interest	0	0	0	-	0	0
Net profit	568	629	530	603	109	32
Earnings per share of common stock in euro	0.84	0.93				
Earnings per share of preferred stock²⁾ in euro	0.85	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.

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

in euro million	Group		Industrial operations ¹⁾		Financial operations ¹⁾	
	2003	2002	2003	2002	2003	2002
Revenues	20,513	22,367	19,837	20,323	4,153	4,686
Cost of sales	-15,208	-16,807	-14,931	-15,266	-3,368	-3,984
Gross profit	5,305	5,560	4,906	5,057	785	702
Sales and administrative costs	-2,447	-2,400	-2,348	-2,217	-278	-262
Research and development costs	-986	-808	-986	-808	-	-
Other operating income and expenses	-163	-263	52	-84	-229	-197
Profit before financial result	1,709	2,089	1,624	1,948	278	243
Financial result	68	-58	18	21	55	-79
Profit from ordinary activities	1,777	2,031	1,642	1,969	333	164
Income taxes	-699	-770	-649	-768	-129	-65
Minority interest	0	0	0	-	0	0
Net profit	1,078	1,261	993	1,201	204	99
Earnings per share of common stock in euro	1.60	1.87				
Earnings per share of preferred stock²⁾ in euro	1.61	1.88				

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.

Improved financial result reduces impact of expenditure for product and market offensive

Group revenues in the second quarter fell by 11.7% to euro 10,241 million mainly as a result of currency effects. External revenues of the Automobiles, Motorcycles and Financial Services segments fell by 8.2%, 6.6% and 26.0% respectively. The reduction in revenues of the Financial Services segment was also partially attributable to the lower volume of business with ex-lease contract vehicles. External revenues of other group companies were at the previous year's level.

Cost of sales in the second quarter 2003 fell by 13.7% to euro 7,547 million, a higher decrease than in revenues. This was mainly attributable to the lower level of refinancing expenses for financial services activities. The gross profit fell to euro 2,694 million, a decrease of only 5.7% compared to the same period last year. In absolute terms, the gross profit was down by euro 163 million. The gross profit percentage improved by 1.7 percentage points to 26.3%. The gross profit of industrial operations fell marginally by 0.1 percentage points as a result of the increased level of structure-related expenditure.

Sales and administrative costs in the second quarter 2003 increased to euro 1,213 million, just above the previous year's level (+1.0%).

Research and development costs increased as a result of the on-going product offensive and amounted to euro 547 million (second quarter 2002:

euro 460 million), an increase of 18.9% compared to the second quarter 2002.

Other operating income and expenses during the second quarter 2003 gave rise to net expenses of euro 59 million (second quarter 2002: euro 132 million). This was due mainly to the lower expense for allocations to provisions.

The financial result in the second quarter 2003 improved by euro 116 million, mainly as a result of gains on the fair value measurement of financial instruments and the higher level of income from investments.

At euro 947 million, the group profit from ordinary activities for the second quarter 2003 fell by euro 73 million or 7.2% compared to the second quarter 2002.

The effective tax rate increased by 1.7 percentage points to 40.0%. This results from the fact that the effects of changes in German tax legislation are being spread over the year.

After an income tax expense of euro 379 million (second quarter 2002: euro 391 million), the net profit for the second quarter 2003 amounted to euro 568 million (second quarter 2002: euro 629 million). This represents a decrease of 9.7% compared to the second quarter 2002.

Profit from ordinary activities by segment in euro million	2nd quarter 2003	2nd quarter 2002
Automobiles	768	958
Motorcycles	58	59
Financial Services	118	98
Reconciliations	3	-95
Profit from ordinary activities	947	1,020
Income taxes	-379	-391
Net profit	568	629

Group revenues for the first half of 2003 fell by 8.3% compared to the same period last year and gross profit fell by 4.6%. The gross profit percentage was 25.9% (first half-year 2002: 24.9%).

Sales and administrative costs increased by 2.0% in the first half of 2003. This increase was mainly attributable to the model launches of the BMW Z4 in Europe, the launch of the MINI One D as well as the BMW 5 Series model change.

Research and development costs in the first half of 2003 rose by 22.0% compared to the corresponding period last year as a consequence of the on-going product offensive. Research and development costs include amortisation of capitalised development costs amounting to euro 261 million (first half-year 2002: euro 264 million). Of the total development costs incurred during the first half of 2003, euro 427 million (first half-year 2002: euro 386 million) were recognised as assets.

Other operating income and expenses during the first half of 2003 gave rise to net expenses of euro 163 million (first half-year 2002: euro 263 million), a 38.0% decrease compared to the corresponding period last year. This was due to the lower expense for allocations to provisions.

During the first half of 2003, the Group recorded a net financial income of euro 68 million, compared to a net financial expense of euro 58 million in the previous year. This was mainly attributable to gains on the fair value measurement of financial instru-

ments and the higher level of income from investments.

The group profit from ordinary activities for the first half-year, at euro 1,777 million (first half-year 2002: euro 2,031 million), was 12.5% lower than the comparable result for the same period last year.

After an income tax expense of euro 699 million (first-half year 2002: euro 770 million), the net profit for the first half of 2003 amounted to euro 1,078 million (first-half year 2002: euro 1,261 million). This represents a decrease of 14.5% compared to the first half of 2002.

Earnings of the Automobiles segment affected by product and market offensive

The profit from ordinary activities of the Automobiles segment for the second quarter 2003 amounted to euro 768 million (second quarter 2002: euro 958 million) and was thus 19.8% lower than the result in the second quarter 2002. This was above all attributable to the increase in expenditure for the product and market offensive. Research and development costs in the second quarter increased by euro 87 million to euro 547 million, an increase of 18.9% compared to the previous year.

The profit from ordinary activities of the Automobiles segment for the first half of 2003 amounted to euro 1,487 million and was thus 20.6% down on the equivalent period last year.

Profit from ordinary activities by segment in euro million	1 January to 30 June 2003	1 January to 30 June 2002
Automobiles	1,487	1,872
Motorcycles	88	89
Financial Services	225	178
Reconciliations	-23	-108
Profit from ordinary activities	1,777	2,031
Income taxes	-699	-770
Net profit	1,078	1,261

Lower sales volume for the Motorcycles segment

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 low volumes. The profit from ordinary activities for the second quarter 2003, at euro 58 million, was only euro 1 million or 1.7% lower than the result in the same quarter last year despite continuing difficult market conditions and a decrease in the sales volume.

The profit from ordinary activities for the first half of 2003, at euro 88 million (first-half 2002: euro 89 million), was in line with the result in the corresponding period last year.

Earnings of the Financial Services segment well above the previous year

The profit from ordinary activities of the Financial Services segment for the second quarter 2003, at euro 118 million, was euro 20 million or 20.4% ahead of the result achieved in the second quarter 2002. This improvement mainly reflected improved refinancing conditions. In addition, the result also improved because losses on the fair value measurement of financial instruments, which had negatively impacted the segment's result in the second quarter 2002, were not incurred in the second quarter 2003.

The profit from ordinary activities for the first half of 2003 amounted to euro 225 million, a 26.4% improvement over the corresponding period last year. Adequate provisions have been recognised to

Revenues by segment in the 2nd quarter in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2003	2002	2003	2002	2003	2002
Automobiles	8,082	8,807	1,565	1,171	9,647	9,978
Motorcycles	327	350	2	1	329	351
Financial Services	1,742	2,355	352	65	2,094	2,420
Reconciliations	90	87	-1,919	-1,237	-1,829	-1,150
BMW Group	10,241	11,599	-	-	10,241	11,599

Revenues by segment for the period from 1 January 2003 to 30 June 2003 in euro million	Revenues with third parties		Revenues with other segments		Total revenues	
	2003	2002	2003	2002	2003	2002
Automobiles	16,295	17,128	2,725	2,335	19,020	19,463
Motorcycles	631	652	2	1	633	653
Financial Services	3,404	4,380	649	168	4,053	4,548
Reconciliations	183	207	-3,376	-2,504	-3,193	-2,297
BMW Group	20,513	22,367	-	-	20,513	22,367

take account of all identifiable risks relating to lease vehicles and financing business.

Higher level of profit elimination due to growth in lease business

Reconciliations to the Group profit from ordinary activities includes the results of group companies not allocated to one of the other segments as well as the net effect of consolidations. In the second quarter 2003, the increase in inter-segment deliveries again led to a higher level of profit elimination for the Automobiles segment's deliveries to the Financial Services segment. The negative impact on earnings of these eliminations was more than offset by gains from the fair value measurement of financial instruments at the level of the group's financing companies. The net income of euro 3 million in the second quarter 2003 represents an improvement of euro 98 million compared to the second quarter 2002.

In the first half of 2003, the above mentioned gains from the fair value measurement of financial

instruments contributed towards reducing the net expense for reconciliations by euro 85 million (-78.7%). Net expenses for the first half of 2003 amounted accordingly to euro 23 million.

Earnings per share affected by product and market offensive

Earnings per share of common stock for the second quarter 2003 were euro 0.84 (second quarter 2002: euro 0.93) and earnings per share of preferred stock were euro 0.85 (second quarter 2002: euro 0.94). For the first half of 2003, earnings per share of common stock were euro 1.60 (first half-year 2002: euro 1.87) and earnings per share of preferred stock were euro 1.61 (first half-year 2002: euro 1.88). 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 full financial year. The computation of earnings per share is based on the following figures:

		2nd quarter 2003	2nd quarter 2002	1 January to 30 June 2003	1 January to 30 June 2002
Net profit	euro million	568	629	1,078	1,261
Profit attributable to common stock	euro million	524.4	581.4	995.2	1,165.6
Profit attributable to preferred stock	euro million	43.6	47.6	82.8	95.4
Average number of outstanding shares of common stock	number	622,227,918	622,227,918	622,227,918	622,227,918
Average number of outstanding shares of preferred stock	number	51,464,627	50,638,232	51,464,627	50,638,232
Earnings per share of common stock	euro	0.84	0.93	1.60	1.87
Earnings per share of preferred stock	euro	0.85	0.94	1.61	1.88

BMW Group Group and sub-group Balance Sheets

Assets in euro million	Group		Industrial operations*		Financial operations*	
	30.6.2003	31.12.2002	30.6.2003	31.12.2002	30.6.2003	31.12.2002
Intangible assets	2,900	2,741	2,888	2,730	12	11
Property, plant and equipment	8,573	8,578	8,541	8,544	32	34
Financial assets	516	498	501	463	15	35
Leased products	6,817	7,012	217	188	8,469	8,559
Non-current assets	18,806	18,829	12,147	11,925	8,528	8,639
Inventories	5,569	5,197	5,552	5,191	17	6
Trade receivables	2,241	1,818	2,128	1,678	113	140
Receivables from sales financing	20,676	19,493	–	–	20,676	19,493
Other receivables	6,390	6,056	4,566	4,570	3,175	3,761
Marketable securities	1,674	1,105	1,674	1,105	0	0
Cash and cash equivalents	2,217	2,333	2,105	2,256	112	77
Current assets	38,767	36,002	16,025	14,800	24,093	23,477
Deferred tax assets	198	192	149	249	–853	–852
Prepayments	497	488	117	143	380	345
Total assets	58,268	55,511	28,438	27,117	32,148	31,609
Total assets adjusted for asset backed financing transactions	54,760	51,002	–	–	28,640	27,100

* before consolidation of transactions between the sub-groups

Equity and liabilities in euro million	Group		Industrial operations*		Financial operations*	
	30.6.2003	31.12.2002	30.6.2003	31.12.2002	30.6.2003	31.12.2002
Subscribed capital	674	674				
Capital reserve	1,954	1,954				
Revenue reserves	11,802	11,075				
Accumulated other equity	689	168				
Equity	15,119	13,871	12,799	11,694	3,083	2,957
Minority interest	0	0	0	–	0	0
Pension provisions	2,353	2,257	2,337	2,242	16	15
Other provisions	5,860	5,409	5,607	5,095	294	355
Provisions	8,213	7,666	7,944	7,337	310	370
Debt	26,277	26,262	1,518	1,681	24,759	24,581
Trade payables	3,100	3,069	2,801	2,740	299	329
Other liabilities	2,563	2,487	1,795	2,970	2,119	1,792
Liabilities	31,940	31,818	6,114	7,391	27,177	26,702
Deferred tax liabilities	2,159	1,492	1,235	477	796	915
Deferred income	837	664	346	218	782	665
Total equity and liabilities	58,268	55,511	28,438	27,117	32,148	31,609
Total equity and liabilities adjusted for asset backed financing transactions	54,760	51,002	–	–	28,640	27,100

* before consolidation of transactions between the sub-groups

Group balance sheet still influenced by currency effects

As a result of the effect of changes in exchange rates, the balance sheet total (total assets/total equity and liabilities) increased by only euro 2,757 million or 5.0% compared to 31 December 2002. Without the impact of exchange rate changes, the balance sheet total would have increased by 8.3%. The increase on the assets side of the balance sheet relates primarily to trade receivables (+23.3%), receivables from sales financing (+6.1%) and interest-bearing assets (+13.2%). The increase on the liabilities side reflects the higher level of equity (+9.0%), provisions (+7.1%) and deferred tax liabilities (+44.7%).

Financial assets at 30 June 2003 returned approximately to their level of 31 December 2002, after the market price of the investment in Rolls-Royce plc, London, increased by euro 131 million during the second quarter 2003. This increase in value was recognised directly in accumulated other equity. Accumulated write-downs on the investment in Rolls-Royce plc, London, which have been recognised directly in other accumulated equity, still amount to euro 236 million at 30 June 2003. A review had already been carried out as at 31 December 2002 to determine if the investment was impaired, in which case it would have been necessary to recognise losses in the income statement. The review, which also took account of external analyses, came to the conclusion that the investment was not impaired. There was, similarly, no reason to recognise an impairment loss in the income statement at 30 June 2003, since the market price of Rolls-Royce plc stock rose sharply during the second quarter 2003, also by comparison with the performance of the main index of the London Stock Exchange (FTSE).

Leased products disclosed in the balance sheet fell compared to 31 December 2002 as a result of currency changes. Without the effect of currency changes, they would have increased by 4.1%.

Inventories rose by 7.2% compared to 31 December 2002, but decreased compared to 31 March 2003 as a result of the impact of the strike.

Trade receivables increased mainly as a result of deliveries of the new models of the BMW 5 Series to the dealer network and the higher level of deliveries to Asia.

Group equity increased by euro 1,248 million to euro 15,119 million. The increase was mainly attributable to the group profit for the period of euro 1,078 million and higher market values of derivative financial instruments (+ euro 747 million). The payment of the dividend and the effect of exchange rate changes reduced group equity by euro 577 million. The equity ratio improved by 1.0 percentage points to 26.0% compared to 31 December 2002. The equity ratio of industrial operations stood at 45.0% (31 December 2002: 43.1%) and that of financial operations improved by 0.2 percentage points to 9.6%.

Provisions increased by euro 547 million, mainly as a result of higher personnel-related and operational obligations.

Debt was at a similar level to the end of 2002.

Deferred tax liabilities increased primarily as a result of the positive market value changes of derivative financial instruments.

BMW Group **Statement of Changes in Equity**

in euro million	Subscribed capital	Capital reserve	Revenue reserves	Accumulated other equity	Total
Balance at 31 December 2001	673	1,937	9,405	-1,245	10,770
Dividend payments	-	-	-350	-	-350
Translation differences	-	-	-	-27	-27
Financial instruments	-	-	-	1,094	1,094
Net profit 2nd quarter 2002	-	-	1,261	-	1,261
Balance at 30 June 2002	673	1,937	10,316	-178	12,748
Balance at 31 December 2002	674	1,954	11,075	168	13,871
Dividend payments	-	-	-351	-	-351
Translation differences	-	-	-	-226	-226
Financial instruments	-	-	-	747	747
Net profit 2nd quarter 2003	-	-	1,078	-	1,078
Balance at 30 June 2003	674	1,954	11,802	689	15,119

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

in euro million	Group	
	1 January to 30 June 2003	1 January to 30 June 2002
Net profit	1,078	1,261
Depreciation of leased products	1,465	1,159
Depreciation and amortisation of other non-current assets	1,054	1,029
Change in provisions	590	469
Change in deferred taxes	462	528
Change in net current assets and other items	–372	–296
Cash inflow from operating activities	4,277	4,150
Investment in intangible assets and property, plant and equipment	–1,282	–1,384
Payments relating to the Rover disengagement	–35	–146
Net investment in leased products and receivables from sales financing	–3,326	–2,633
Other	–467	36
Cash outflow from investing activities	–5,110	–4,127
Cash inflow/outflow from financing activities	766	1,120
Effect of exchange rates and changes in composition of group on cash and cash equivalents	–49	–147
Change in cash and cash equivalents	–116	996
Cash and cash equivalents at 1 January	2,333	2,437
Cash and cash equivalents at 30 June	2,217	3,433

	Industrial operations		Financial operations		
	1 January to 30 June 2003	1 January to 30 June 2002	1 January to 30 June 2003	1 January to 30 June 2002	
	993	1,201	204	99	Net profit
	3	2	1,110	1,001	Depreciation of leased products
	1,046	1,016	8	13	Depreciation and amortisation of other non-current assets
	646	419	-56	49	Change in provisions
	516	587	25	3	Change in deferred taxes
	-309	-119	11	-174	Change in net current assets and other items
	2,895	3,106	1,302	991	Cash inflow from operating activities
	-1,271	-1,377	-11	-7	Investment in intangible assets and property, plant and equipment
	-35	-146	0	0	Payments relating to the Rover disengagement
	-31	-66	-3,215	-2,514	Net investment in leased products and receivables from sales financing
	-478	32	11	4	Other
	-1,815	-1,557	-3,215	-2,517	Cash outflow from investing activities
	-1,242	-1,392	2,008	2,512	Cash inflow/outflow from financing activities
	11	-4	-60	-143	Effect of exchange rates and changes in composition of group on cash and cash equivalents
	-151	153	35	843	Change in cash and cash equivalents
	2,256	2,373	77	64	Cash and cash equivalents at 1 January
	2,105	2,526	112	907	Cash and cash equivalents at 30 June

Cash inflow from operating activities increased again

The cash inflow from operating activities in the first half of 2003 amounted to euro 4,277 million and was thus euro 127 million higher than in the corresponding period last year. This was due to the overall increase in business and lower refinancing costs for financial services activities. The lower net profit was mainly attributable to the increase in the depreciation expense on leased products and to higher allocations to provisions.

The cash outflow from investing activities increased by euro 983 million compared to the first half year of 2002. This was mainly attributable to the increase in receivables from sales financing and the purchase of marketable securities as part of the liquidity reserve for special securities funds. The decrease in capital expenditure on property, plant and property and intangible assets was due to the offset of government grants.

The cash outflow from investing activities was not covered fully by the cash inflow from operating activities, by an amount of euro 833 million. This shortfall was financed by the cash inflow from financing activities amounting to euro 766 million. Within financing activities, the cash inflow from the issue of bonds amounted to euro 2,805 million (first half-year 2002: euro 1,898 million) and the cash outflow for the repayment of bonds amounted to euro 1,929 million (first half-year 2002: euro 1,949 million).

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of

the group, the various cash flows resulted in a decrease in cash and cash equivalents of euro 116 million.

Net interest-bearing financial assets (cash and cash equivalents plus marketable securities less debt) in the industrial operations increased by euro 581 million to euro 2,261 million during the first half of 2003.

Financial calendar

Interim Report to 30 September 2003

Letter to Shareholders

Annual Report 2003

Annual Accounts Press Conference

Annual General Meeting

6 November 2003

January 2004

17 March 2004

17 March 2004

13 May 2004, Olympiahalle Munich

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