Annual Report 2003
Developing power.

Rolls-Royce
Motor Cars Limited

BMW Group

Facts and figures

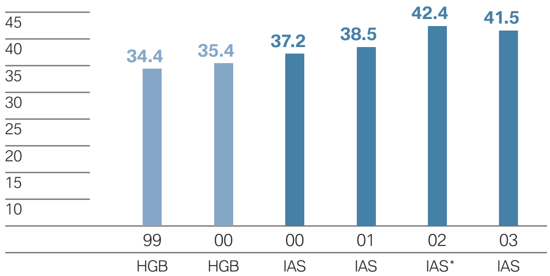
BMW Group in figures

	1999	2000	2001	2002	2003	Change in %
Vehicle production						
BMW	755,547	834,519	904,335	930,221	944,072	1.5
MINI	–	–	42,395	160,037	174,366	9.0
Rolls-Royce	–	–	–	–	502	–
Motorcycles[1]	69,157	74,397	90,478	93,010	89,745	–3.5
Deliveries to customers						
BMW	751,272	822,181	880,677	913,225	928,151	1.6
MINI	–	–	24,980	144,119	176,465	22.4
Rolls-Royce	–	–	–	–	300	–
Motorcycles[2]	65,168	74,614	84,713	92,599	92,962	0.4
Workforce at end of year[3]	114,952	93,624	97,275	101,395[4]	104,342	2.9

in euro million	1999 HGB	2000 HGB	2000 IAS	2001 IAS	2002 IAS	2003 IAS	Change in %
Revenues	34,402	35,356	37,226	38,463	42,411[5]	41,525	–2.1
Capital expenditure	2,155	2,138	2,781	3,516	4,042	4,245	5.0
Depreciation and amortisation	2,042	2,322	2,435	2,159	2,143	2,370	10.6
Cash flow	2,807	3,198	3,779	4,202	4,374	4,490	2.7
Profit from ordinary activities	1,111	1,663	2,032	3,242	3,297	3,205	–2.8
Net profit, – loss for the year	–2,487[6]	1,026	1,209	1,866	2,020	1,947	–3.6

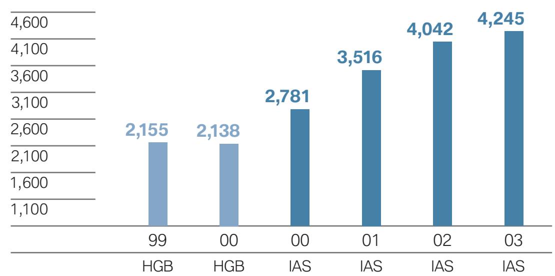
1] including BMW F650 assembly at Aprilia S.p.A. up to 1999/excluding C1 production at Bertone, production volume of C1 up to 2002: 33,489 units
2] excluding C1, sales volume up to 2003: 32,859 units
3] from 1998 figures exclude suspended contracts of employment, employees in the vacation phase of pre-retirement, low-income earners
4] after adjusting for disposals and transfers of group companies, the number of employees at 31.12.2002 was 101,211
5] reclassified after harmonisation of internal and external reporting systems
6] net profit of euro 663 million before extraordinary result

BMW Group Revenues
in euro billion

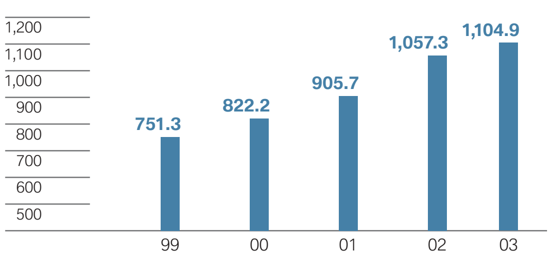


* reclassified after harmonisation of internal and external reporting systems

BMW Group Capital expenditure
in euro million

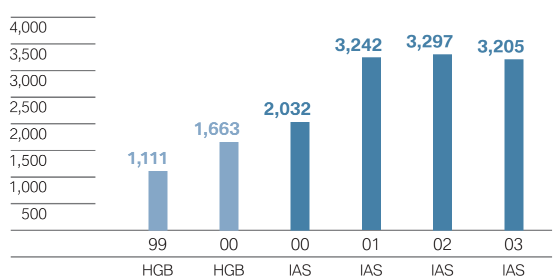


BMW Group Deliveries of automobiles*
in thousand



* adjusted for Rover/Land Rover

BMW Group Profit from ordinary activities
in euro million



Contents

Volker Doppelfeld
Chairman of the
Supervisory Board

Throughout the financial year 2003, which again progressed very successfully for the BMW Group, the Supervisory Board monitored the Board of Management's governance of the business and stood by in an advisory capacity.

The Board of Management kept the Supervisory Board informed on a regular, timely and comprehensive basis. The Supervisory Board scrutinised with the Board of Management all decisions of fundamental importance to the enterprise. In four joint meetings with the Board of Management and on the basis of written and oral reports provided by the Board of Management, the Supervisory Board has thoroughly appraised the financial situation of the Company performance and business policy as well as the risk situation and risk management.

In addition to the meetings, the Chairman of the Supervisory Board also maintained regular contact with the Chairman of the Board of Management, discussing important corporate and strategic matters.

The Supervisory Board has, in addition during the financial year 2003, paid particular attention to the BMW Group's premium brand strategy; the Supervisory Board encouraged the Board of Management to focus on the premium segment as the basis for continued profitable growth.

The consistent implementation of the BMW Group's product and market offensive was another important subject of the discussions with the Board of Management. The Supervisory Board fully supports the measures taken to expand the enterprise and broaden its range of products, which, for example, in 2003 led to the presentation of the BMW X3 and the 6 Series Coupé. The new sales volume record achieved in 2003 bears out this policy; it is further evidence of the underlying strength of the Group.

The Supervisory Board closely followed the progress of start-up activities for the new Rolls-Royce Phantom. With the Rolls-Royce brand, the BMW Group now has a portfolio of three strong premium brands. The Group's range of products thus extends to all relevant premium segments of the international automobile markets.

The Supervisory Board carefully reviewed the sales strategy of the BMW Group and the structural and competitive challenges it faces from new legislation relating to the sale of cars in Europe. Following a transitional period, the new rules have been in force since 1 October 2003.

The Board of Management also kept the Supervisory Board regularly informed on the status and progress of on-going cooperation projects. The Supervisory Board devoted particular attention to the BMW Group's activities in the Asian region, especially the start-up of the joint venture in Shenyang, China.

The Supervisory Board reassured itself that construction of the BMW plant in Leipzig continued to progress in line with plan.

The Board of Management regularly reported to the Supervisory Board about the continued positive development of the Group's motorcycle business.

The encouraging and continuing progress made by the Financial Services segment was also discussed in detail by the Supervisory Board.

One of the main topics of the joint consultations of the Board of Management and the Supervisory Board was the long-term business development of the Group and its business segments.

This was also one of the main areas of discussion covered at the meetings of the Presiding Board of the Supervisory Board, which convened six times in this capacity.

In addition, the Presiding Board held three meetings in its function as “Audit Committee” (Bilanzausschuss) and two meetings in its function as Personnel Committee. The statutory Mediation Committee (§27 (3) of the Law on Worker Participation) did not need to convene during the financial year 2003.

At the meetings held in July and December 2003, the Supervisory Board and Board of Management discussed the current issues relating to corporate governance. On 2 December 2003, the Boards issued a compliance declaration pursuant to §161 of the German Stock Corporation Act (AktG) relating to the new version of the German Corporate Governance Code which took effect on 4 July 2003. The recommendations of the German Corporate Governance Code are fulfilled with the exception of a few very minor divergences (see page 53). The BMW Group Corporate Governance Code, revised accordingly, summarises the good corporate governance principles as practised by the BMW Group.

The financial statements of Bayerische Motoren Werke Aktiengesellschaft, the Group financial statements for the year ended 31 December 2003 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified audit opinion. The Audit Committee reviewed the financial statements of BMW AG and the Group financial statements in detail on 27 February 2004. The Supervisory Board also examined the documents submitted by the Board of Management and discussed them with the Board of Management. The long-form audit reports of KPMG were made available to all members of the Supervisory Board.

The independent auditors attended the meetings of the Audit Committee and of the Supervisory Board held on 11 March 2004, at which the financial statements were examined, and reported on the main results of their audit. The Supervisory Board agrees with the results of the audit.

The Supervisory Board approves the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2003 prepared by the Board of Management. The Company financial statements are therefore adopted.

The Board of Management's proposal to use the unappropriated profit available for distribution was reviewed by the Supervisory Board. The Supervisory Board agrees with the proposal submitted by the Board of Management. After the final result of the review by the Supervisory Board, no objections were made.

The Supervisory Board expressed its particular thanks to the Board of Management and to the employees of the BMW Group for another year of exceptional performance in 2003.

Following registration of the appointment with the District Court of Munich, Franz Oberländer joined the Supervisory Board as the successor to Gerhard Gutsmiedl with effect from 1 April 2003.

Munich, 11 March 2004
The Supervisory Board

Volker Doppelfeld
Chairman

Members of the Supervisory Board

Volker Doppelfeld
Chairman
Former Member of the Board of Management of BMW AG

Mandates**
Bayerische Hypo- und Vereinsbank AG
D. A. S. Deutsche Automobilschutz Allgem. Rechtsschutz-Versicherungs AG
IWKA AG

Bizerba GmbH & Co. KG

Manfred Schoch*
Deputy Chairman
Chairman of the Central Works Council

Dr. Hans-Dietrich Winkhaus
Deputy Chairman
Former Chairman of the Board of Henkel KGaA

Mandates**
Degussa-Hüls AG
Deutsche Lufthansa AG
ERGO Versicherungsgruppe AG
Schwarz-Pharma AG (Chairman)

Henkel KGaA

Ernst Rehmeier*
Deputy Chairman
Chairman of the Works Council, Dingolfing

Stefan Quandt
Deputy Chairman
Industrial Engineer

Mandates**
CEAG AG
DELTON AG (Chairman)
Dresdner Bank AG
Gerling-Konzern Allgemeine Versicherungs-AG

DataCard Corp.

* Employee representative
** Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad

Dr. phil. Karin Benz-Overhage*
Former Executive Member of the
Executive Board of IG Metall

Mandates**
Thyssen Krupp Steel AG (Deputy Chairman)

Ulrich Eckelmann*
Head of the Industry, Technology and
Environment section of IG Metall

Mandates**
Thyssen Krupp Automotive AG

Prof. Dr. Bernd Fahrholz
Former Deputy Chairman of the Board of
Management of Allianz AG and
Former Chairman of the Board of
Management of Dresdner Bank AG

Mandates**
Fresenius Medical Care AG
HeidelbergCement AG

Hans Glas*
Director of the Dingolfing plant

Konrad Gottinger*
Member of the Works Council, Dingolfing

Gerhard Gutsmiedl*
(until 31.01.2003)
Deputy Chairman of the Works Council, Munich

Arthur L. Kelly
Managing Partner of
KEL Enterprises L.P.

Mandates**
BASF AG

DataCard Corp.
Deere & Company
HSBC Trinkaus & Burkhardt KGaA
Northern Trust Corp.
Snap-on Inc.

Susanne Klatten
BSc., MBA

Mandates**
ALTANA AG (Deputy Chairman)
ALTANA Pharma AG

UnternehmerTUM GmbH

Willibald Löw*
Chairman of the Works Council, Landshut

Prof. Dr. rer. nat. Dr. h.c. mult. Hubert Markl
Professor of Biology (retired)

Mandates**
Aventis S.A.
Münchener Rückversicherungs-Gesellschaft AG
Royal Dutch Petroleum Company/Shell

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg
Former Chairman of the Board of Management of BMW AG

Mandates**
Allianz Versicherungs-AG
FESTO AG
Deere & Company
MAN AG

Werner Neugebauer*
Regional Executive Officer of IG Metall Bavaria

Mandates**
FAG Kugelfischer Georg Schäfer AG (Deputy Chairman)

Franz Oberländer*
Member of the Works Council, Munich (from 1.04.2003)

Dr.-Ing. Dieter Soltmann
Former general partner of Spaten-Franziskaner-Bräu KGaA

Mandates**
Bankhaus BethmannMaffei OHG
Deutsche Postbank AG
Löwenbräu AG (Chairman)
Müller-Brot AG
Münchener Tierpark Hellabrunn AG

Bayerische Rundfunkwerbung GmbH

Prof. Dr. Jürgen Strube
Chairman of the Board of Management of BASF AG

Mandates**
Allianz Lebensversicherungs-AG
Bertelsmann AG
Commerzbank AG
Fuchs Petrolub AG (Chairman)
Hapag-Lloyd AG
Linde AG

Werner Zierer*
Chairman of the Works Council, Regensburg

* Employee representative
** Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad

Members of the Board of Management

Dr. Helmut Panke
Chairman

Mandates**
Microsoft Corp.

Ernst Baumann

Mandates**
Krones AG

Dr. Michael Ganal

Mandates**
BMW Brilliance Automotive Ltd.

Prof. Dr.-Ing. Burkhard Göschel

Stefan Krause

Mandates**
BMW Brilliance Automotive Ltd. (Deputy Chairman)

Dr.-Ing. Norbert Reithofer

Mandates**
BMW Brilliance Automotive Ltd.
BMW Motoren GmbH (Chairman)
BMW Österreich Holding GmbH (Chairman)
BMW (South Africa) (Pty) Ltd. (Chairman)

Executive Director:
Dr. Hagen Lüderitz

General Counsel:
Dr. Dieter Löchelt

Group Management Report. The BMW Group continued on its successful course in 2003, pushing ahead with its product and market offensive. There have never been as many new models presented in one year as in 2003. At the same time the BMW Group set its sights on new sales markets and target groups as part of its expansion strategy.

The financial year in brief: BMW Group continues on successful course
In the financial year 2003, the BMW Group was able to maintain the good progress made in previous years. In spite of the fact that economic conditions prevailing on some of the world's automobile markets were difficult, the Group again sold a record number of cars and motorcycles. In the area of financial services, the BMW Group also remained on a growth course, with the number of new contracts reaching a new record level.

Against the background of an on-going high level of expenditure for the product and market offensive, the BMW Group has been able to maintain earnings at the previous year's high level. At euro 3,205 million, the group profit from ordinary activities was just 2.8% below the previous year's level.

The reported results of the Automobiles segment are still being affected by the high level of expenditure for the Group's product and market offensive. Despite this up-front expenditure, the Automobiles segment was nevertheless able to record a profit from ordinary activities of euro 2,761 million, 4.2% lower than in the previous year.

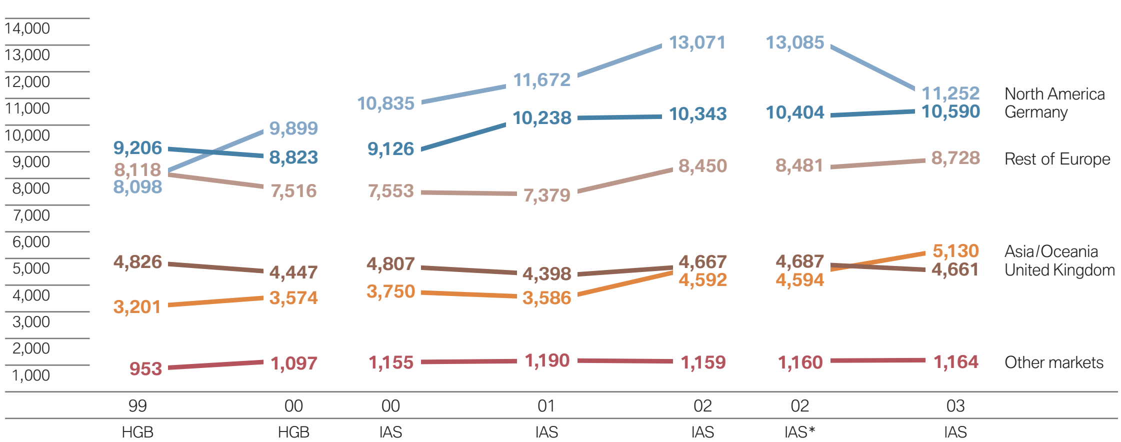
A substantial level of up-front expenditure for new models also affected the development of earnings of the Motorcycles segment. At euro 50 million, the profit from ordinary activities of this segment was euro 10 million or 16.7% down on the previous year.

The Financial Services segment once more achieved a record profit in 2003. At euro 452 million, the profit from ordinary activities surpassed the previous year by 7.1%.

The BMW Group's net profit for the year 2003 amounts to euro 1,947 million, 3.6% below the previous year's level.

Proposed dividend increase
The Board of Management and the Supervisory Board propose to the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG, amounting to euro 392 million, to pay a dividend of euro 0.58 for each share of common stock (2002: euro 0.52) and euro 0.60 for

BMW Group Revenues by region
in euro million



*reclassified

Following the adoption of International Accounting Standards (IASs) for the Group Financial Statements at 31 December 2001, the BMW Group has, in 2003, harmonised its internal and external reporting systems. This gives rise to several reclassifications in the income statement for 2002, which do not, however, have any impact on the profit from ordinary activities or net profit for that year. A detailed analysis of the adjustments is shown in the notes to the Group Financial Statements on pages 69 to 71. Further information is also available on the Internet at www.bmwgroup.com/ir.

each share of preferred stock (2002: euro 0.54). Share capital entitled to receive dividends amounts to euro 673.5 million (622.2 million shares of common stock and 51.3 million shares of preferred stock, each with a nominal value of euro 1).

Revenues lower as a result of exchange rate changes

The weakness of the US dollar against the euro affected the level of revenues reported by the BMW Group for 2003. As a consequence of the impact of exchange rate changes, Group revenues fell by 2.1% to euro 41,525 million. Adjusted for changes in exchange rates, the Group achieved sales revenue growth of 4.2%.

Revenues of the Automobiles segment surpassed the previous year's level due to volume growth and, at euro 38,317 million, were 0.4% higher than in the previous year.

By contrast, revenues of the Motorcycles segment fell by 6.6% to euro 1,055 million, mainly as a result of exchange rate changes.

Revenues of the Financial Services segment fell by 9.1% to euro 7,582 million in 2003. In addition to the effects of exchange rate changes, this was attributable to the lower volume of end-of-contract business and the lower level of interest rates compared to the previous year.

Important milestones reached

The range of vehicles offered by the BMW Group was expanded significantly in 2003. Throughout the history of the Group, there have never been as many new models presented in one year as in 2003. After the launch of the Rolls-Royce Phantom in January, the same month also saw the introduction of the BMW 760i/Li, the new top model of the BMW 7 Series. This was followed by the revised versions of the BMW 3 Series Cabrio, Coupé and Compact models in February, all of which became available for sale in March. Sales of the BMW 730i/Li worldwide and of the BMW Z4 in Europe also began in March. The high-performance model, BMW M3 CSL, came onto the market in May. The MINI One D was launched in June, thus adding a diesel version to the range of MINI brand cars available.

The model change of the BMW 5 Series Limousine was completed in July with the market introduction of the BMW 530d, BMW 520i and BMW 530i. This was followed in the autumn by the BMW 525i and the BMW 545i, the latter now being the series' top performance model.

The revised BMW X5 model was introduced in October. The BMW X3 and the BMW 6 Series Coupé celebrated their premiere at the International Motor Show in Frankfurt/Main in September. Following the presentation of these cars to the media in October and November 2003 respectively, the new models were launched on the market in January 2004 and have been well received.

Automobile markets in 2003

In 2003, economic conditions prevailing on some of the world's automobile markets were difficult. At the beginning of 2003, the global economy was still experiencing low growth rates. Although the situation picked up during the course of the year, the overall growth rate for the full year was still only modest.

Compared to other countries, the USA enjoyed above-average growth in 2003. Japan surprised with better than expected growth. The growth rate in the United Kingdom also clearly accelerated from the second quarter. By contrast, the economic performance of the euro currency region was once again on the weak side. Although a modest revival could be observed during the second half of the year, this did not prove to be as strong as expected. The German gross domestic product fell marginally in 2003.

The worldwide demand for cars of all manufacturers rose slightly in 2003 and was 2% above the level for the previous year. Individual markets, however, again developed very inconsistently.

The automobile market in the USA in 2003 declined again slightly and the number of registrations dropped by 1% compared to the previous year. US car manufacturers in particular recorded a sharp decrease in unit sales once again, whereas the number of imported vehicles rose sharply.

In Western Europe, the number of new car registrations was approximately 1% lower than in the previous year. Amongst the major European markets, a sharp reduction in car registrations was observed in France (–6%), whereas the markets in Germany, the United Kingdom and Italy were roughly in line with the previous year. Eastern European markets, by contrast, enjoyed dynamic growth.

Virtually all countries in Asia experienced strong growth. In particular, the 74% increase in car registrations in China was well above average. In Japan, new registrations in 2003 were just above the previous year's level.

The South American markets reflected a heterogeneous picture. Whereas car unit sales in Brazil fell in 2003 as in the previous year, Argentina saw a sharp recovery in car registrations in 2003, albeit from a low level.

Premium segments again perform better than the overall market

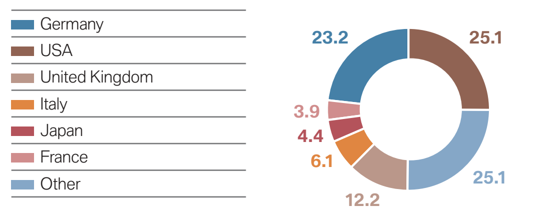
In 2003, the premium segments of the world's automobile markets once more recorded higher growth rates than the market as a whole. The BMW Group, whose brands are only represented in premium segments, was again able to benefit from this trend.

Car sales volume at record level

A total of 1,104,916 BMW, MINI and Rolls-Royce brand cars was sold in 2003, surpassing the previous year's level by 4.5%.

In 2003, for the first time ever, the USA became the Group's strongest market, with 277,037 units sold, exceeding the previous year's level by 8.0%. This was followed by Germany, where 255,821 (–0.9%) units were sold and the United Kingdom, with 134,502 units, 11.3% ahead of the previous year.

BMW Group – key automobile markets 2003
as a percentage of sales volume



Overall, the BMW Group sold 637,949 cars in Western Europe, 1.9% more than in 2002. The BMW Group achieved sales volume increases in most of its other European markets. In addition to the United Kingdom, particularly strong growth was recorded in Finland (+15.9%), Spain (+6.5%) and Italy (+6.4%). Despite the weak state of the market in France, the BMW Group was able to hold its own against the overall trend there and, with 42,753 units sold, recorded a reduction of only 2.0% compared to the previous year.

Asian and Pacific region markets continued to grow dynamically in 2003, a trend from which the BMW Group was also able to profit. In total, 93,030 BMW, MINI and Rolls-Royce brand cars were sold in Asia, an increase of 18.5%.

The BMW Group achieved particularly strong volume growth on the Chinese markets (China, Hong Kong and Taiwan). A total of 27,084 cars was sold on these markets, 75.0% more than in the previous year.

In Japan, the BMW Group performed better than the market as a whole. 48,683 cars were sold in 2003, 7.5% more than in 2002.

BMW brand sales volume higher than in the previous year despite model change

The pattern of unit sales of BMW brand cars in 2003 did not reflect a typical year. As a result of product

USA now the strongest market in sales volume terms.
Sharp sales volume growth in China.
BMW 5 Series Limousine generates expected momentum.

life-cycles, sales volume increases were not achieved until the second half of the year. The launch of the new BMW 5 Series Limousine was the determining factor behind this development. This model became available mid-year and created the expected sales momentum.

With a total of 928,151 BMW cars delivered to customers in 2003, the sales volume surpassed the previous year's level by 1.6%.

The BMW 3 Series, now in its sixth year of production and with 528,358 units sold in 2003, was only 5.9% below the record year 2002. The BMW 3 Series Limousine, with 272,876 units sold, recorded a product-cycle induced volume decline of 5.2% compared to the previous year. Sales of the BMW 3 Series Cabrio (–12.3%), the BMW 3 Series Compact (–10.0%) and the BMW 3 Series Coupé (–7.3%) also fell. The sales volume of the BMW 3 Series Touring in 2003 was 82,006 units, an improvement of 0.7% over the previous year.

70,522 units of the new BMW 5 Series Limousine were sold during the period from its introduction in July 2003 to the year-end. 85,607 units of the predecessor model were also sold in 2003. In its last full year of sale, 29,352 units (–23.5%) of the BMW 5 Series Touring were sold, in line with the volume expected for this phase of the product cycle.

In total therefore, with 185,481 cars sold, the sales volume of the BMW 5 Series was 7.6% ahead of the previous year.

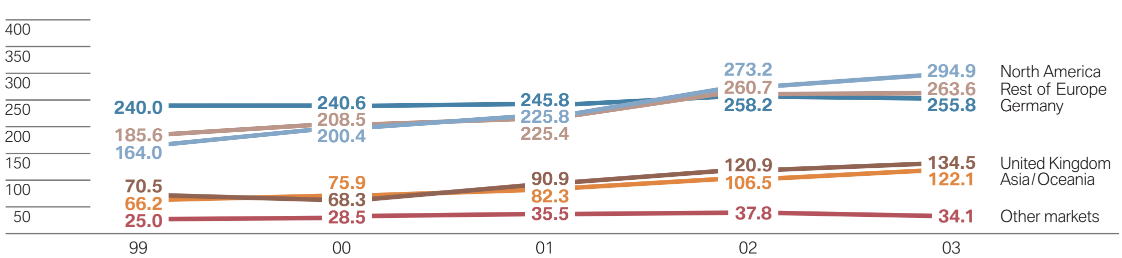
The BMW 7 Series achieved a sales volume of 57,899 units in 2003 and hence a new record for the model. Unit sales rose by 8.2% compared to the previous year. In fact, there has never been a single year in which so many customers have selected the BMW 7 Series as in 2003.

The success of the BMW X5 continued unabated in its fourth year since the start of production. The worldwide sales volume in 2003 totalled 105,554 units, 4.6% more than in the previous year. The BMW X5 thus achieved a new sales volume record.

Within the Roadster segment, the BMW Group more than doubled sales compared to the previous year. The new BMW Z4 achieved a sales volume of 47,049 units and thus leads the competition with a share of approximately 40% in its segment. 2,957 units of the BMW Z3 were sold in 2003; production of this model was discontinued in 2002 according to plan.

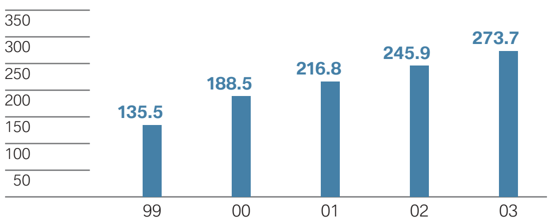
Production of BMW Z8 cars, which are hand-finished at the BMW plant in Munich, was also discontinued in line with plan in 2003. Overall, the BMW Group has manufactured more than 5,700 units of this exclusive roadster over the last four years.

BMW Group Deliveries of automobiles* by region and market
in 1,000 units



*adjusted for Rover/Land Rover

Deliveries of BMW diesel automobiles
in 1,000 units



Diesel technology is already making an important contribution as far as economic usage of resources and the reduction of CO_2 emissions is concerned. On a worldwide basis, 29% of all BMW cars delivered in 2003 are powered by diesel engines. The diesel engine is particularly popular in Western Europe, where more than half of all new BMW cars sold are diesels.

In order to comply with EU4 legislation, the BMW Group is committed to further technical improvements and the introduction of diesel particle filters in spring 2004.

MINI surpasses expectations

The success of the MINI brand continued in 2003 and contributed substantially to the sales volume growth of the BMW Group. With a total of 176,465 MINI brand cars sold, unit sales were almost a quarter higher (+22.4%) than in the previous year. The success of the MINI brand shows that, even in the small car sector, customers are interested in high-value vehicles. Premium is therefore not a question of size but one of the product's underlying substance.

The MINI Cooper leads the model sales mix, and accounts for approximately 50% of all MINI vehicles sold. This is followed by the MINI Cooper S with more than 25%, the MINI One with 20% and the new MINI One D launched in 2003 which took a 5% share.

The sales volume of the MINI Cooper climbed by 9.0% to 87,378 units. The most powerful model, the MINI Cooper S, achieved a sales volume of 44,461 units. In its first full year on sale, this represents an increase of 67.3% compared to the previous year. 35,307 units of the MINI One were sold in 2003. More than 9,300 units of the MINI One D, the first diesel-powered MINI, were sold in the period between market launch in June 2003 and the year-end.

Bolstered by the introduction of the new MINI Convertible in summer 2004, the MINI brand will continue its success story in 2004.

The largest market for MINI brand vehicles remains the United Kingdom, with 41,404 units sold in 2003, 19.3% more than in the previous year. Close behind was the USA with 36,010 MINI cars sold in 2003. Compared to the previous year, this represents a growth of 46.4%. Germany remains the third-strongest market for MINI brand vehicles, with 25,720 units (+11.7%). Strong growth rates were also recorded in other countries. The number of MINI brand cars sold increased in Japan to 12,517 units (+29.4%), in France to 10,100 units (+12.1%) and in Spain to 6,201 units (+23.4%).

Successful start for the Rolls-Royce Phantom

With the Rolls-Royce brand, the BMW Group has expanded its range of products at the very top end of the luxury segment. By the end of 2003, 300 Rolls-Royce vehicles had been delivered to customers. After the initial start-up phase, production at the Goodwood plant reached its planned capacity level within the scheduled time-frame.

With the Rolls-Royce Phantom, the BMW Group is continuing a tradition, established for more than one hundred years, at the pinnacle of automobile construction. From the outset, Rolls-Royce has stood for advanced and uncompromising technical solutions and for unparalleled standards in quality, finishing and choice of materials. With the new Rolls-Royce Phantom, a car has been created which satisfies this aspiration in all respects.

MINI surpasses expectations.
Rolls-Royce at planned production capacity level following start-up phase.
Motorcycle unit sales again higher than the previous year's level.

Motorcycles segment holds its own despite difficult market conditions

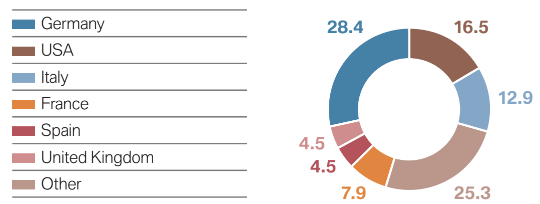
In 2003, the motorcycle business was particularly affected by adverse economic conditions on the international motorcycle markets. The Motorcycles segment held its own within this difficult environment. With 92,962 units sold, the sales volume surpassed the previous year's level for the eleventh year in succession.

The Motorcycles segment recorded sharp volume increases in Switzerland (+26.3%), the USA (+13.3%) and the United Kingdom (+6.5%). In Germany, unit sales of BMW motorcycles rose by 3.2% within a market that otherwise suffered a sharp decline. With a 19.5% share of the market in Germany, the BMW Group was the overall market leader.

The best-selling model in 2003 on a worldwide basis was, once again, the BMW R 1150 GS with sales of 17,136 units (including the Adventure version). This was followed by the R 1150 RT, with sales of 14,455 units and the F 650 GS (including the Dakar version), which was selected by 13,284 customers.

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

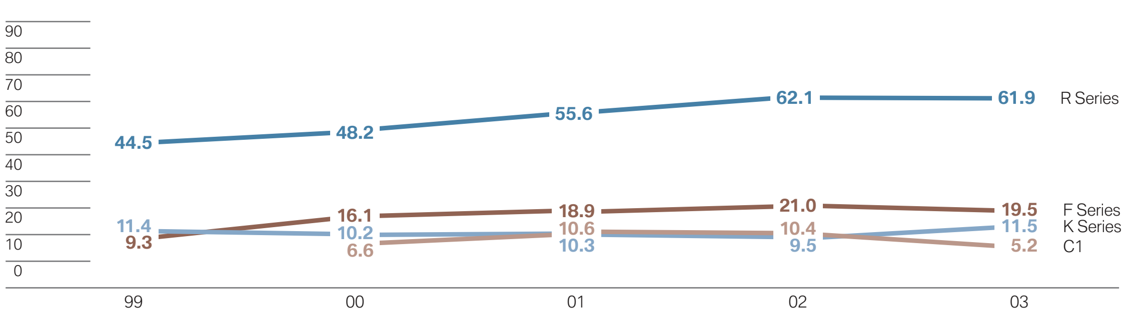
BMW Group – key motorcycle markets 2003
as a percentage of sales volume



The new enduro R 1200 GS, which has been completely redeveloped, was presented to the public at the beginning of January 2004 and will be available from 13 March 2004 onwards. The technically updated one cylinder models and the luxury tourer K 1200 LT were presented in December 2003.

Motorcycle production at the BMW plant in Berlin was further modernised, using highly flexible systems for engine and motorcycle assembly and innovative equipment to handle and process engine and body components. A particularly eco-friendly paint shop completed this expansion and modernisation process in November 2003. This makes the

Motorcycles segment: Deliveries by series
in 1,000 units



BMW plant in Berlin one of the most advanced motorcycle plants in the world. As a result of preparation work for new products, the number of motorcycles manufactured at the Berlin plant, at 89,745 units, was 3.5% lower than in the previous year.

Strong growth in the Financial Services segment

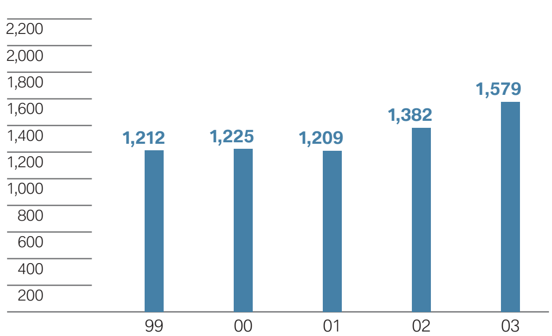
The Financial Services segment also continued its growth course in 2003. The business volume of the segment measured in balance sheet terms climbed in 2003 by 8.1% to stand at euro 28,647 million.

The steady increase in new business, already seen in the previous year, continued in 2003. A total of 1,578,829 new contracts was signed, 14.2% more than in the previous year.

The proportion of new BMW and MINI brand cars leased or financed by the Financial Services segment increased in 2003 by 2.2 percentage points to 38.3%.

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

Financial Services: New contracts signed
in 1,000 units



The number of new credit and lease contracts in the area of retail customer financing reached a new high level in 2003, rising by 10.7% to 710,333 contracts. This means that 45.0% of all new contracts in 2003 related to retail customer business (2002: 46.4%).

The increase in the volume of credit financing contracts with retail customers in 2003 was particularly pronounced, with the number of new contracts up by 13.6%. This can be attributed largely to the favourable trend with used cars and new business with MINI brand cars.

Credit financing contracts as a proportion of total customer business rose in 2003 to 68.6%, compared to 66.8% in the previous year. The proportion accounted for by lease contracts fell accordingly to 31.4%, whereby financing business in Europe was still growing at a rate faster than lease business in the USA, itself still at a buoyant level.

Retail customer business continued to grow for all markets. As in the previous year, the Americas region, with 219,163 new contracts signed and an increase of 12.6%, saw the strongest growth. In the European region, the number of new contracts with customers rose by 8.5% to 412,734 contracts. In line with the dynamic trend of car sales in the Asian region, this area also saw significant increases; the number of new contracts increased by 17.6% to 78,436.

At 31 December 2003, 1,474,254 retail customer financing contracts were in place, 13.0% more than at the end of the previous year.

The total average volume of dealer financing contracts in 2003 amounted to euro 4,427 million, 21.3% more than in the previous year.

Deposit business grew strongly in 2003, augmented by the high volume of inflows for online call deposits accounts. The average deposit volume increased by 43.8% to euro 3,788 million.

254,205 customer accounts were registered at 31 December 2003, 17.7% more than at the same date last year.

Financial Services segment reports worldwide growth.
More than 1,400 employees already recruited for the new BMW Leipzig plant.

The net cash inflow in 2003 for funds offered by BMW Bank amounted to euro 31.5 million, an increase of 149.0%. At 31 December 2003, 13,829 customer securities deposit accounts were maintained, 85.1% more than one year earlier.

The geographical expansion of the Financial Services segment was intensified in 2003. New ventures, based on cooperation agreements, started operations in Europe, Asia, South America and a number of Arabic countries. As a result, the Financial Services segment is now represented in 41 countries, either with its own financing companies or in the form of cooperation arrangements.

In the area of fleet management (Alphabet), the Financial Services segment has also successfully participated in the growing market for fleet lease services. 33,969 financing contracts were signed in 2003 with fleet customers, representing a 52.9% growth over the previous year.

More than 3,000 new jobs created

At the end of 2003, the BMW Group had a worldwide workforce of 104,342 employees, 2.9% more than at the end of 2002. After adjusting for disposals and transfers of group companies, the Group therefore created 3,131 new jobs.

Three quarters of the BMW Group employees are based in Germany. The workforce here increased to 78,569 employees (+3.2%). Since 2002, more than 1,400 employees have been recruited for the new BMW plant in Leipzig. At present, most of these are working at other BMW locations and preparing for their new tasks.

The BMW Group's focused need for additional trained staff will continue in 2004.

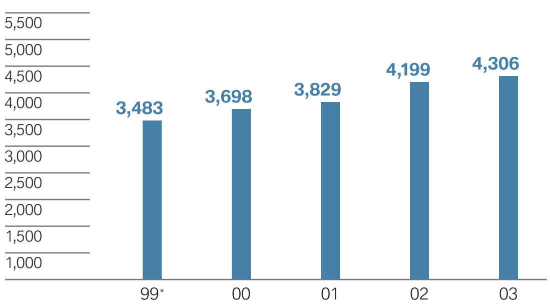
The number of apprentices working for the BMW Group increased again. 4,306 young people are currently learning a profession throughout the Group, 2.5% more than at the previous year-end. The apprentice ratio within the BMW Group (i.e. the proportion of apprentices to the total workforce) is 4.1% worldwide and 5.1% in Germany. In addition, the Group offers numerous starter programmes for high-school leavers and university graduates.

The BMW Group offers a wide range of training courses to improve the skills of its employees. Overall, the BMW Group invested more than euro 196 million in training in 2003. The highest proportion in

BMW Group employees	31.12.2003	31.12.2002	Change in %
Automobiles[1]	95,913	93,216	2.9
Motorcycles	2,954	2,847	3.8
Financial Services[2]	2,476	2,196	12.8
Other	2,999	3,136	–4.4
thereof			
Software	(1,045)	(1,093)	–4.4
Corporate	(64)	(73)	–12.3
Other UK companies	(1,890)	(1,970)	–4.1
BMW Group	**104,342**	**101,395**	**2.9**
adjusted for disposals and transfers of group companies	104,342	101,211	3.1

1] After adjusting for disposals and transfers of group companies and transfers within the group the headcount of the Automobiles segment as at 31.12.2002 was 92,909.
2] After adjusting for disposals and transfers of group companies and transfers within the group the headcount of the Financial Services segment as at 31.12.2002 was 2,319.

BMW Group apprentices at 31 December



*excluding Rover Group apprentices

terms of time spent related to production engineering, information technology and computer assisted engineering.

Approximately 13% of the staff at BMW AG are female, one of the highest percentages for the automobile sector. 31% of all staff gaining work experience and working towards their first or doctor's degree and approximately 21% of those joining straight after university or as young professionals are women – and the trend is rising. The BMW Group is one of the most attractive employers in the world. This is borne out by "employer image" studies, carried out by leading market research organisations, in which the BMW Group regularly achieves leading positions. As part of the on-going process of finding and nurturing suitably trained staff, the BMW Group provides work each year for some 3,600 persons gaining work experience or working towards their first or doctor's degrees. University research activities are supported with an amount of approximately euro 30 million each year. The BMW Group regularly acknowledges outstanding performances by young scientists in the form of the BMW Group Scientific Award.

Production capacities still fully utilised

The BMW Group's production network again proved its underlying strength in 2003. In line with the growth of unit sales, the BMW Group also achieved new record car production volumes. 1,118,940 BMW, MINI and Rolls-Royce brand cars were manufactured, 2.6% more than in the previous year (including contract production of the BMW X3).

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

In 2003, 944,072 BMW cars came off the production lines, 1.5% more than in the previous year. In addition, 174,366 MINI brand cars were manufactured, an increase of 9.0% compared to 2002. The production start-up phase for the Rolls-Royce Phantom was completed. At present, five vehicles are being manufactured per day at Goodwood, England. Overall, 502 Rolls-Royce Phantoms were manufactured in 2003. An annual production volume of approximately 1,000 cars per year is planned.

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

In autumn 2003, contract production of the BMW X3 commenced as planned at Magna Steyr Fahrzeugtechnik, in Graz, Austria. 8,770 units of the BMW X3 model were manufactured in 2003 ahead of the market launch in January 2004.

Construction of the new BMW plant in Leipzig is progressing according to plan. Pilot production of the first vehicles will commence in mid-2004 and series production of the BMW 3 Series will start in 2005.

In conjunction with the worldwide production and quality management system, all BMW Group plants are certified to DIN EN ISO 9001 (quality) and DIN EN ISO 14001 (environment) level.

In addition, the US market research institute, J.D. Power and Associates, underlined the consis-

Number of apprentices increased again.
Contract production of the BMW X3 started.
Joint venture in China starts production.

tent high quality of the BMW Group's worldwide production network with numerous Plant Awards over the past few years. In 2003, the Munich plant was awarded the Golden Plant Award as the best automobile car plant in Europe.

In 2003, significant measures were implemented throughout the Group's plants as part of the process of model change and in order to increase production capacity.

Work on the new factory building at the BMW plant in Munich started at the beginning of 2003, and the project will be completed by the end of 2004. Other important capital expenditure items include major rebuilding work for the paint shop and vehicle assembly area. Since this work cannot be performed during production time, it was decided to temporarily stop production at the Munich plant from Christmas 2003 to 30 January 2004.

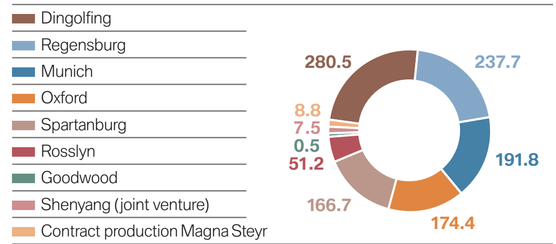
In 2003, the BMW plant in Dingolfing successfully handled the start of production of the fifth generation of the 5 Series, the 6 Series Coupé and Cabrio and the 7 Series security vehicle. In 2003, the Group also began construction of a new spare parts distribution centre which will become operative in 2005.

Series production of chassis components from carbon-fibre-reinforced plastic started in 2003 at the BMW plant in Landshut, using highly-automated processes, for the BMW M3 CSL. This is a world-first for this type of component manufacture. Up to now, carbon fibre or carbon composite parts have largely been manufactured individually and principally used for aerospace and motor car racing applications.

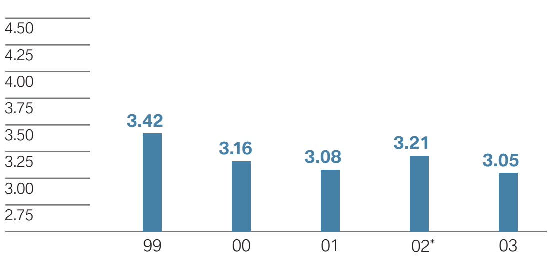
Within the next twelve months, the composite crank case, made of magnesium and aluminium, which has already been developed almost to the series stage, will be taken into series production in the light metal foundry at the BMW plant in Landshut.

Activities at the BMW plant in Regensburg in 2003 were dominated by preparations for future BMW model series. The extension of the plant was nearly completed. This includes a new area of body in white, the stage-by-stage conversion of the paint shop to a powder-based system and the redesign of production processes in the assembly area.

Automobile production of the BMW Group by plant
in 1,000 units

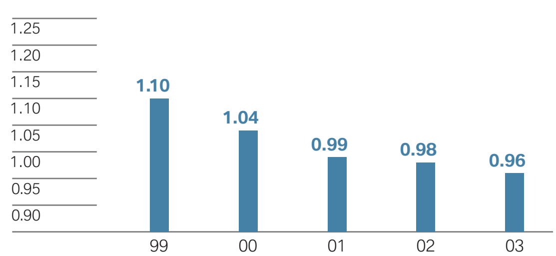


Energy consumed per unit produced
in MWh



*higher energy intensity through continuing conversion to environmentally friendly water-based and powder-based painting technology.

CO_2 emissions per unit produced
in tons



Construction work for phase VII of the extension at the BMW Steyr plant commenced in April 2002. One of the main items of investment here is a new 37,000 m² production hall, where core components for engines such as crank cases and cylinder heads will be manufactured using state-of-the-art production techniques. This is the most extensive of the various construction phases, which will be completed in 2004, and will increase the size of the plant, in square metre terms, by a third.

At the end of September, production of the updated BMW X5 was commenced at the BMW Spartanburg plant. In 2003, the BMW Group also tapped a hitherto unused source of energy for use in Spartanburg. Up to 25 % of the plant's energy requirements are now covered by methane gas, supplied from a waste disposal site situated some 15 km away from the plant.

The body in white area was expanded at the BMW plant in Rosslyn, South Africa in preparation for new models. In addition, the flow of materials throughout the plant was optimised in terms of quality, speed and safety.

Series production of the MINI One D began at the Oxford plant in March 2003. The overall high demand for MINI cars resulted in a further increase in production volumes. With the aid of flexible work-time arrangements, more than 174,300 units were manufactured.

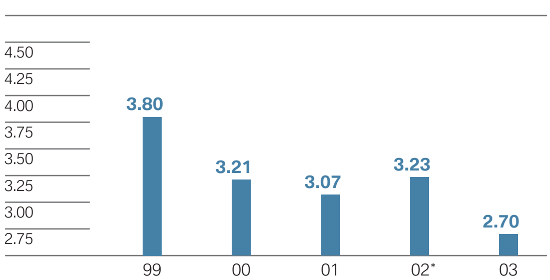
Certified environmental management systems have been in place at all of the BMW Group's production sites around the world since 1999. Working together with centralised production divisions, these systems have been further developed in the period up to 2003 into an integrated environmental management system. The move to a certification matrix covering both environmental care and quality issues has therefore now been completed. Internal audits and other measures are now managed centrally and reported as part of the same reporting system.

The progress made in the area of production-related environmental care is reflected by the quantity of energy and water consumed and emissions of CO_2 and volatile organic compounds: almost all of the relevant key figures significantly improved in 2003, and represent benchmarks for the whole industry.

Capital expenditure increased again

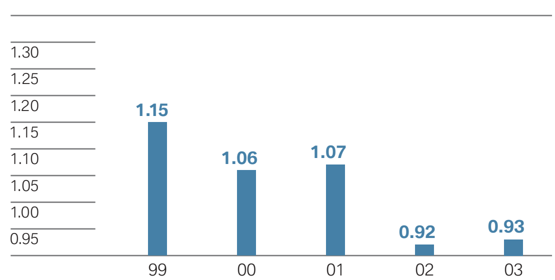
The BMW Group is laying the foundation for continued expansion in the years ahead with substantial levels of capital expenditure. In 2003, the Group invested euro 3,249 million in intangible assets and property, plant and equipment. Together with development costs of euro 996 million which are required to be recognised as assets in accordance with IAS 38, total additions to intangible assets and property, plant and equipment amounted to euro 4,245 million. This represents an increase of 5.0 %.

Volatile organic compounds (VOC) per unit produced
(kg/unit)



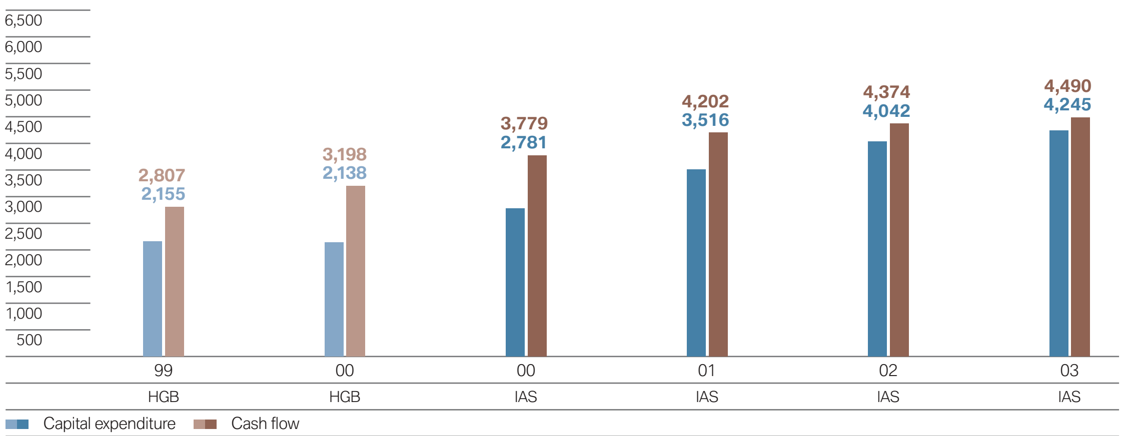
*increase in 2002 due to the new computation basis in accordance with the Volatile Organic Compounds Regulation (31st Federal Regulation on Gas Emissions)

Process effluent per manufactured car
(m³/unit)



Cash flow exceeds capital expenditure.
Continued progress in the area of environmental care.
Substantial capital expenditure for the production network.

BMW Group capital expenditure and cash flow
in euro million



At 38.9 %, the proportion of development costs recognised as assets remains relatively low in comparison to the industry as a whole.

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

Including capitalised development costs, the investment rate (i.e. capital expenditure as a percentage of group revenues) increased to 10.2 % in 2003, which is higher than the previous highest rate recorded in 2002 (9.5 %). This above-average increase was mainly attributable to the currency-related lower level of revenues.

Cash flow in 2003, at euro 4,490 million, was again higher than capital expenditure.

In conjunction with extensive product measures, intensified market activities and the production start-up phase at the BMW plant in Leipzig, the Group's capital expenditure in 2004 will remain at a high level. The investment rate will, however, be lower.

Customer orientation integrated into business processes

The "Customer-Orientated Sales and Production Process" (KOVP) was further extended in 2003, with more than 90 % of the BMW Group's sales volume now being processed by this system. KOVP provides the BMW Group with an instrument with which to respond quickly and flexibly to the wishes of individual customers. It is possible to alter orders for cars up to ten days before the start of production. This opportunity is used worldwide more than 120,000 times each month, usually to make changes for additional equipment.

Production logistics have also been remodelled using KOVP: not only is it possible to offer the customer faster and more individual service, but costs have also been reduced through shorter processing times, whilst quality has improved.

Research and development shaped by product offensive

Numerous new models, engines and innovations characterised the research and development activities of the BMW Group in 2003.

The new BMW 5 Series Limousine, for example, synthesizes many innovative features. The BMW Group is the first automobile manufacturer in the world to use a mixed construction technique in the preliminary stages of body making which combines structures made of steel and aluminium. Amongst other contributory factors, it is due to this technology that, depending on the model, the total weight of the car is up to 55 kg lighter than its predecessor – with corresponding positive effects on consumption and driving dynamics.

The active steering system is another world "first" which is available as an optional feature, and for which the BMW Group was awarded the German industry prize for innovation in 2003. This electronically controlled system also won the Technology Award of the Year 2004, awarded by the American specialist magazine "Automobile Magazine" and the Trophée d'Innovation awarded by the French magazine "L'Automobile Magazine".

Under normal driving conditions, the active steering system provides a more direct response at low to medium speeds. This reduces the amount of effort involved in steering and makes the car considerably easier to handle. At higher speeds, steering is less direct and ensures stability for straight driving and well-controlled steering. Numerous other innovations, such as the Head-Up Display, which can be supplied on request, the adaptive light control, Dynamic Drive or the six gear system all underline the leading innovative and technological position of the new BMW 5 Series.

The new BMW 6 Coupé – the car with which the BMW Group carries on the tradition of the original 6 Series (1976–1989) and of the great luxury coupés – offers completely new technological features. The aluminium/steel-mix bodywork is complemented by the rear lid opening and plastic side panels of the 6 Series Coupé. These features help to reduce the weight and permit virtually equal axle load distribution, and also have a favourable effect on driving dynamics and fuel consumption. In 2004, a four-seater cabrio will complete the new 6 Series.

The outstanding characteristic of the high-performance BMW M3 CSL model is its consistently lightweight construction. The entire roof, for example, is made of carbon-fibre-reinforced plastic. Increased curve speed and optimal agility are achieved through the combination of low total weight and a lower centre of gravity.

The new BMW X3 came into being in a very short space of time thanks to an innovative approach to development. The BMW Group was responsible entirely for the development of the X3 concept, whilst some of the series development was in the hands of Magna Steyr Fahrzeugtechnik in Graz, Austria, where the new Sports Activity Vehicle is also being manufactured on a contract production basis.

One highlight of the BMW X3 is its four-wheel system, xDrive, which offers a continuous and fully variable distribution of power between the front and rear axles. The system immediately recognises when it is necessary to alter power distribution and reacts in an extremely short time. xDrive therefore offers a significant increase in agility and driving enjoyment, and, at the same time, improves safety. Stability control systems, such as DSC, do not need to come into action until a considerably later stage than in traditional four-wheel drive systems. With xDrive, it is also possible to make better progress on unsealed or smooth surfaces since power is transmitted rapidly to the wheels to increase road adhesion when there is a threat of wheel-spin and hence loss of traction.

The revised BMW X5 model is also equipped with the new xDrive four-wheel system and more powerful engines. The model revision is completed by a new aesthetic appearance.

The up-to-date four-cylinder diesel engine used in the MINI One D is supplied by Toyota and has been specially adapted for the MINI One D. On the basis of the EU driving cycle, it consumes on average just 4.8 litres of diesel per 100 km. This makes the MINI One D currently the BMW Group's most economical car.

Development of the MINI Convertible is well advanced. This four-seater cabrio will be added to the MINI product range in summer 2004 and will appeal to customers in the small open-top car segment.

Clear strategy of innovation

In future, innovation will play an even greater role in setting one manufacturer apart from another within the premium segment. The objective of the BMW Group is to build on strategic areas of expertise giving a high potential for differentiation.

Approximately 90% of all innovations emerge from electrical and electronic development activities. A multitude of new possibilities has been opened up by the introduction of electronic steering, mechanics (mechatronics) and innovative software. A good example of this is BMW Active Steering.

The priority for all systems installed in cars of the BMW Group is reliability. Intensive testing assures proper functioning and fail-safe operation. The research and development teams of the BMW Group work together in a worldwide innovation network with the aim of identifying new trends and customer needs, also directly in the sales markets.

The BMW Group has more than 8,600 people working worldwide in the field of research and development. New organisational structures introduced in conjunction with building extension work started at the Research and Development Centre (FIZ) in Munich in 2003 are providing even better opportunities for networked activities extending across divisions and departments.

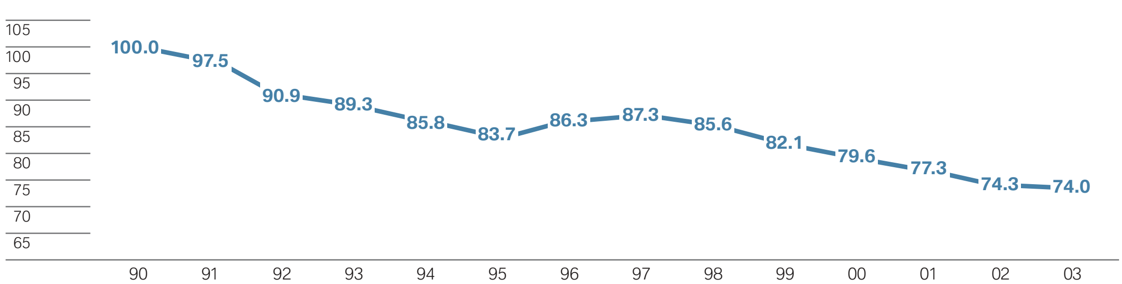
Focus on reducing consumption and emissions

One of the focuses of product development within the BMW Group is to evolve ways of reducing fuel consumption and emissions from vehicles even further. The European Automobile Manufacturers Association, ACEA, has given a commitment to reduce carbon dioxide emissions as a fleet average of all manufacturers to 140 g/km by 2008. There are three main areas which are contributing towards reducing the fuel consumption of the BMW Group fleet:

1. Optimisation of conventional drive systems using innovative methods to reduce consumption and emissions. These measures include the use of the VALVETRONIC system, further development of

Consumption of BMW Group car fleet in Germany in %

(Index: 1990 = 100; basis Germany: DIN-1/3-mix fleet consumption VDA, calculated on the basis of the New European Driving Cycle (NEDC), adjusted for Rover Group)



engine technology and new concepts for construction with lightweight materials.
2. The introduction of new low-consumption models and model series in the lower segments; this includes the MINI brand and the new BMW 1 Series.
3. The hydrogen engine, which is CO_2 emission free, is considered to be the long-term option for engine technology.

Hydrogen as the energy source of the future
With decades of experience now behind it in this field, the BMW Group's hydrogen engine is a fully developed technology which is more efficient than that used for conventional engines. By comparison to the fuel cell, the hydrogen engine immediately impresses with its simple, familiar handling, lighter weight, lower price and better performance. In these early stages of the move into the hydrogen era, the engine has the advantage that it can be powered by hydrogen or petrol, depending on availability. The BMW Group is pushing on with the series development of the hydrogen engine and, within the lifecycle of the current BMW 7 Series, a hydrogen-powered version will be available to customers. BMW's CleanEnergy concept is committed to a future based on hydrogen since it can be obtained on a long-term basis from regenerative sources of energy.

Design for Recycling
As part of the "Design for Recycling" project, recycling experts are working closely with engineers from the BMW Group's Research and Development Centre. Right at the product development stage, experts give detailed recommendations for the optimal design of components from a recycling point of view, so that end-of-life recycling and recovery of all of BMW Group's models is economical and environmentally compatible. Knowledge gained on vehicle recycling is made available to all recycling and recovery organisations via an international database maintained by a number of car manufacturers. The objective is to create circular processes which are both ecological and economical. The BMW Group is already making use of high-quality recyclable materials in its products. Plastic components used in the new BMW 5 Series, for example, have been selected with a view to their being recycled at a later date.

International purchasing network expanded
In 2003, the BMW Group expanded its international network of purchasing centres. Amongst various measures taken, an office was opened in Singapore with the objective of increasing regional purchasing potential in the AFTA region. In conjunction with the start of production of the BMW 3 Series by the joint venture company set up with Brilliance China Automotive Holdings, in Shenyang, the BMW Group has successfully been able to add local suppliers to the supplier network. In preparation for the EU enlargement in 2004, the Group has evaluated the impact on the local supply markets in Eastern European countries which will be joining the EU and incorporated the results into the long-term purchasing strategy.

Purchase volume in NAFTA region increased
Almost one half of the BMW Group's purchase volume is now bought in from outside Germany. This underlines the Group's claim that it is systematically using the global purchasing markets to supply its production network. By making further use of the potential of the purchasing markets in the NAFTA region, the BMW Group was also able in 2003 to offset its US dollar receipts from sales. The renewed increase in production volumes of the MINI resulted in above-average growth of the Group's purchase volume from South America, where engines for the MINI are purchased.

Integration of suppliers
One vital aspect of the competitive position of the BMW Group is the ability to integrate suppliers into

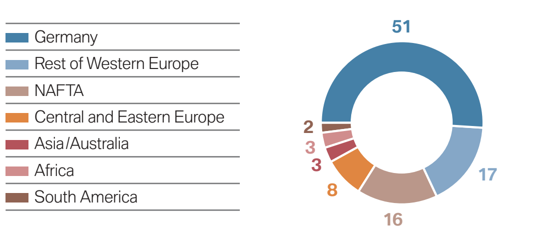
Fleet consumption reduced further.
BMW Group makes use of worldwide purchasing opportunities.
Partner Portal goes online.

the process of vehicle development and production. The selection of suppliers takes account of technical expertise and innovative skills, as well as of ecological and social criteria.

In spring 2003, the BMW Group initiated an international investigation of the Group's series suppliers, with a view to evaluating quality standards and compliance with social and ecological targets. Approximately 90% of the Group's purchase volume is bought in from suppliers who have certified environmental and quality management systems and which specifically incorporate targets for "Design for Recycling and Environment" for new vehicles. The results of the survey also indicate that some 75% of the Group's purchase volume is bought in from suppliers who have established their credentials for dealing fairly with social and employee issues by putting internal social standards into place.

Safeguarding raw material supplies
In order to safeguard supplies and minimise cost risks, all of the main international raw materials markets which are relevant for the BMW Group are permanently monitored. In the case of important raw materials such as steel and aluminium, these considerations determine the decision to enter into contracts which in some cases can run for several years. Changes in price of precious metals such as platinum, palladium and rhodium are particularly important and the hedging strategy for these items is determined by a Raw Materials Committee.

Regional mix of BMW Group purchase volumes
in %, basis: production material



Electronic networking with partners intensified
In mid-June 2003, the BMW Group Partner Portal went online. This portal helps to integrate development partners and suppliers into the Group's work processes and to link up processes involving other external enterprises. The Group has consistently endeavoured to involve its business partners, a strategy initiated five years ago in the form of a "Supplier Web" and built on ever since. The new platform facilitates even simpler, more flexible and faster cooperation between the BMW Group and more than 10,000 external users. Partners are linked by standardised network interfaces and, via the portal, have access to relevant process, product and project information.

Worldwide sales network expanded
The BMW Group expanded its international sales network in 2003 as part of its market offensive. In Europe, the BMW Group has set up a number of new sales companies to ensure that, in future, it will have direct market responsibility in all countries belonging to the single European market. The markets in Ireland, Denmark, Luxembourg and Greece have been operated since October 2003 through group subsidiaries, thus enabling the Group to offer seamless and first-class customer services along the whole added-value chain within an increasingly integrated European market. This also applies to the Eastern European countries which are about to join the EU: a sales company started operations in Poland at the beginning of 2003. In order to take advantage of the market potential in Hungary, the BMW Group will be represented there by a group sales company from May 2004 onwards. The BMW Group founded a new subsidiary in Malaysia in 2003 in order to strengthen its presence in the newly emerging Asian markets. At the year-end, the

BMW Group is represented in 32 countries via its own sales companies. This function is performed in a further 120 countries by importers.

The link to the customer is provided by the dealer network for the BMW, MINI and Rolls-Royce brands. More than 90% of cars are sold via independent enterprises working together with the BMW Group as partners in the market. The BMW Group is also represented in a number of the world's major cities through 36 of its own branches. The dealer network is currently going through a phase of exceptionally high capital expenditure, a prerequisite for achieving the planned growth.

At present, the dealer network for the BMW brand comprises 3,100 locations around the world. In the meantime, the MINI brand is served by 1,392 locations in more than 70 countries.

Contracts are currently in place with 57 dealers for the sale of Rolls-Royce vehicles. This sales network will be expanded during the course of 2004 as new contracts are signed.

The new Block Exemption Regulation (BER) for car sales, passed by the EU Commission in July 2002, is being implemented with a view to the future by the BMW Group. In so doing, the aspiration for premium quality service, both before and after a sale, remains at the forefront. An external quality-auditing firm carries out checks at each location to ensure that sales and service standards prescribed by the BMW Group have been systematically implemented in the interests of customers and dealers.

Brand leadership strengthened

Over the past years, the BMW Group has successfully added the MINI and Rolls-Royce to its portfolio of brands. The Group is thus the only automobile manufacturer with three non-overlapping premium brands. The leading position of these brands will be strengthened still further with effect from 1 January 2004. Brand responsibility has been placed in the hands of semi-autonomous executives, under whose management all brand-related functions will be brought together. Appropriate organisational structures are therefore now in place to take account of the fact that brands play an important role in the customer's purchase decision.

Outlook: Automobile sector expected to revive in 2004

Prospects for the world economy for the year 2004 have improved during the past few months. On the basis of strong growth trends in the USA and Asia, the BMW Group anticipates that global economic recovery will continue and gain in strength as the year progresses. As far as the euro region is concerned, the gradual recovery should pick up momentum; it is not expected, however, that the full year will benefit from a strong upturn.

Against this background, the BMW Group anticipates a modest revival in worldwide car sales. Significant momentum should come from the US car market, whereas it is predicted that markets in Europe and Japan will only see small increases in car registrations. The car markets in Eastern Europe and South-east Asia should continue to develop dynamically in 2004. The fastest growing market in 2004, with double-digit growth rates, will again be China.

The BMW Group anticipates that the premium segments of the world's automobile markets in 2004 will again perform better than each of the relevant markets as a whole. With its premium brands BMW, MINI and Rolls-Royce and numerous new models, the BMW Group will continue to benefit from this development.

Positive outlook for 2004

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

The BMW Group anticipates that it will again be able to achieve sales volume growth in 2004; record levels are expected for all three brands. It is forecast that demand for BMW Group cars will pick up sharply, in particular in Asia and the USA, and also in some of the European markets. In particular, the positive feedback received after the launch of the BMW 6 Series Coupé and the BMW X3 in January 2004 so far underpin this assessment of the situation by the BMW Group.

The Group will continue on its successful course and demonstrate its underlying strength, with the aim of reporting record revenues and earnings figures for the financial year 2004.

Analysis of the Group financial statements

Earnings performance

Following the adoption of International Accounting Standards (IASs), subsequently renamed International Financial Reporting Standards (IFRSs), for the 2001 Group financial statements, the BMW Group has, in line with generally accepted international practice, harmonised its internal and external reporting systems in 2003. The harmonisation of the internal and external reporting systems gave rise to reclassifications in the income statement for the financial year 2002, which do not, however, have any impact on the profit from ordinary activities or net profit for that year. For comparison purposes, the analysis of the earnings performance is based on the

Group Income Statement

in euro million	1.1. to 31.12.2003	1.1. to 31.12.2002 reclassified
Revenues	41,525	42,411
Cost of sales	–32,090	–32,754
Gross profit	**9,435**	**9,657**
Sales and administrative costs	–4,446	–4,389
Research and development costs	–2,146	–2,133
Other operating income and expenses	510	370
Profit before financial result	**3,353**	**3,505**
Financial result	–148	–208
Profit from ordinary activities	**3,205**	**3,297**
Income taxes	–1,258	–1,277
Minority interest	0	0
Net profit	**1,947**	**2,020**

All brands with new sales volume records.
Revenue down as a result of exchange rate changes.
Group profit from ordinary activities at previous year's level.
Capital expenditure increased again.
Cash flow again above previous year's level.

reclassified figures. Further details regarding the reasons for and the effects of the harmonisation of the internal and external reporting systems are provided in Note [7]. Reconciliations are also provided for each affected item in the income statement.

The BMW Group recorded a net profit of euro 1,947 million for the financial year 2003. The net profit was therefore 3.6% below the figure for the previous year. The pre-tax return on sales was 7.7% (2002: 7.8%) and the post-tax return on sales was 4.7% (2002: 4.8%). The Group generated earnings per share of common stock of euro 2.89 (2002: euro 3.00) and earnings per share of preferred stock of euro 2.91 (2002: euro 3.02).

The low exchange rate of the US dollar impacted the level of reported revenues for the year. Group revenues fell by 2.1% compared to the previous year. However, adjusted for changes in exchange rates, the Group achieved revenue growth of 4.2%. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars were at the previous year's level despite the currency impact. Revenues from motorcycle sales fell by 6.6% and revenues from financial services fell by 9.8%, in both cases due to currency fluctuations. Revenues generated by other activities of the Group were 15.5% lower. This reduction was mainly attributable to the revenues of the pressings plant in Swindon and of the Softlab Group. Revenue increases were registered in almost all regions. Revenues rose by 1.8% in Germany, by 1.7% for the remainder of Europe and by 12.1% for the markets in Africa, Asia and Oceania. Revenues generated in Asia climbed by 12.8%, mainly on the back of exports to China. The lower US dollar exchange rate resulted in a 14.3% drop in revenues for the Americas region compared to the previous year. The USA remained, however, the strongest market in revenue terms for the BMW Group.

The reduction of cost of sales was 0.1 percentage points lower than that of revenues. The gross profit fell by 2.3% and represented 22.7% (2002: 22.8%) of revenues. The gross profit percentage for industrial operations fell by 0.6% and that of financial operations improved by 1.8%. Further details of the entities consolidated in each of the sub-groups are provided in Note [1].

Sales and administrative costs increased by only 1.3% despite the expansion of business volumes. They represent 10.7% (2002: 10.4%) of revenues.

Research and development costs were at a similarly high level to the previous year. They represent 5.2% (2002: 5.0%) of revenues. Research and development costs include depreciation and disposals of euro 583 million (2002: euro 536 million) related to development costs recognised as assets. Total research and development costs, including research costs and non-capitalised development costs as well as investment in capitalised development costs, amounted to euro 2,559 million (2002: euro 2,455 million). At this level, the research and development ratio was 6.2% of revenues (2002: 5.8%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 2,370 million (2002: euro 2,143 million).

The positive net amount of other operating income and expenses increased by 37.8% compared to the previous year. Whereas other operating income was marginally higher than in the previous year, other operating expenses fell by 15.0%. This was attributable to the lower level of write-downs and lower allocations to provisions.

The net financial result improved by 28.8% compared to the previous year. This was attributable to gains arising on the fair market measurement of derivative financial instruments. The financial result also includes a marginally negative result from investments, reflecting losses recorded by associated companies and start-up losses of newly founded entities. Net interest expense was reduced by 32.5%. The net expense arising from the reversal of the discounting of pension obligations and from income relating to the expected return on plan assets increased by 26.8% compared to the previous year.

The Group profit from ordinary activities was down by 2.8% against the previous year. As a consequence of the higher effective tax rate, group net profit fell by 3.6%, marginally more pronounced than the decrease in profit from ordinary activities. The higher effective tax rate resulted mainly from the fact that the existing claims for the reduction of corporation tax on dividends paid by BMW AG were suspended as a result of a change in German tax legislation.

The Automobiles segment sold 4.5% more cars than in the previous year. Revenues of the Auto-

Revenues by segment

in euro million	1.1. to 31.12.2003	1.1. to 31.12.2002 reclassified
Automobiles	38,317	38,179
Motorcycles	1,055	1,130
Financial Services	7,582	8,342
Reconciliations	–5,429	–5,240
Group	**41,525**	**42,411**

Profit from ordinary activities by segment

in euro million	1.1. to 31.12.2003	1.1. to 31.12.2002
Automobiles	2,761	2,883
Motorcycles	50	60
Financial Services	452	422
Reconciliations	–58	–68
Group	**3,205**	**3,297**

mobiles segment increased by 0.4% despite the lower exchange rate of the US dollar. Expenditure for the product and market offensive meant that the segment's profit from ordinary activities was 4.2% lower than in the previous year.

Revenues of the Motorcycles segment fell by 6.6% as a result of the exchange rate impact. The segment result fell by 16.7%, which was attributable, amongst other factors, to up-front expenditure for new models which will come onto the market from the beginning of the financial year 2004.

The BMW Group expanded the activities of its Financial Services segment and continued its growth course in 2003. Revenues fell by 9.1% mainly as a result of exchange rate changes. The segment result advanced by 7.1%, another very satisfying performance. This improvement was largely attributable to higher business volumes and continuously falling financing costs.

As in the previous year, reconciliations to the Group profit from ordinary activities were negative overall, whereby the amount was 14.7% lower than in the previous year. This was due to the overall improved results of the Group's financing companies and financial holding companies, which more than offset the higher eliminations of intersegment profit on leased assets relating to financial services.

Financial position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the financial years 2003 and 2002, classified into cash flows from operating, investing and financing activities.

Based on the net profit for the year, the cash flows from operating activities are derived using the indirect method. Cash flows from investing and financing activities are based on actual cash payments and receipts. Cash and cash equivalents in the cash flow statement correspond to those disclosed in the balance sheet.

Operating activities of the BMW Group during the financial year 2003 generated a positive cash flow of euro 7,871 million (2002: euro 7,250 million). In computing this figure, cash outflows relating to the Rover disengagement amounting to euro 49 million (2002: euro 174 million) were allocated to investing activities.

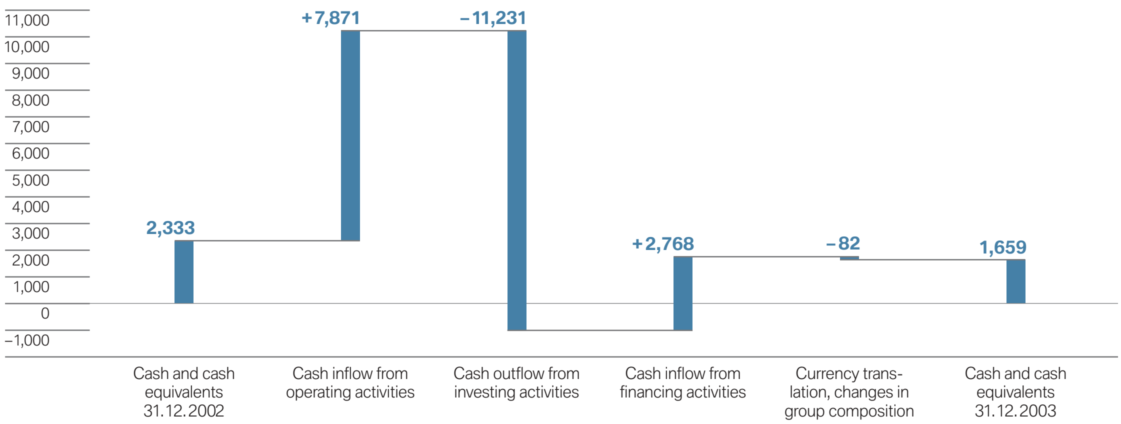
The cash outflow from investing activities amounted to euro 11,231 million, an increase of euro 1,516 million compared to the previous year. This higher cash outflow resulted mainly from the sharp increase in the net investment in financial services business. On a net basis, this was euro 910 million higher than in the previous year. Capital expenditure on intangible assets and property, plant and equipment resulted in an additional cash outflow of euro 164 million. Cash outflow for investments in marketable securities, which are held as a liquidity reserve, amounted to euro 700 million, an increase of euro 366 million compared to the previous year. 70.1% (2002: 74.6%) of the cash outflow from investing activities was covered by the cash inflow from operating activities.

The cash flow statement for industrial operations shows, as in the previous year, that the cash inflow from operating activities exceeded the cash outflow from investing activities by 2.6% (2002: 7.2%).

The cash flow from financing activities of the BMW Group gave rise to a cash inflow of euro 2,768 million which was earmarked to refinance sales financing activities.

After adjustment for the effects of exchange rate fluctuations and changes in the composition of the BMW Group, totalling a negative amount of euro 82 million (2002: negative amount of euro 99 million), the various cash flows resulted in a decrease in cash and cash equivalents of euro 674 million (2002: decrease of euro 104 million).

Change in cash and cash equivalents
in euro million



The reduction in cash and cash equivalents was largely due to the purchase of marketable securities which are held as a liquidity reserve. Liquid funds (marketable securities and cash and cash equivalents) increased by euro 78 million compared to the previous year.

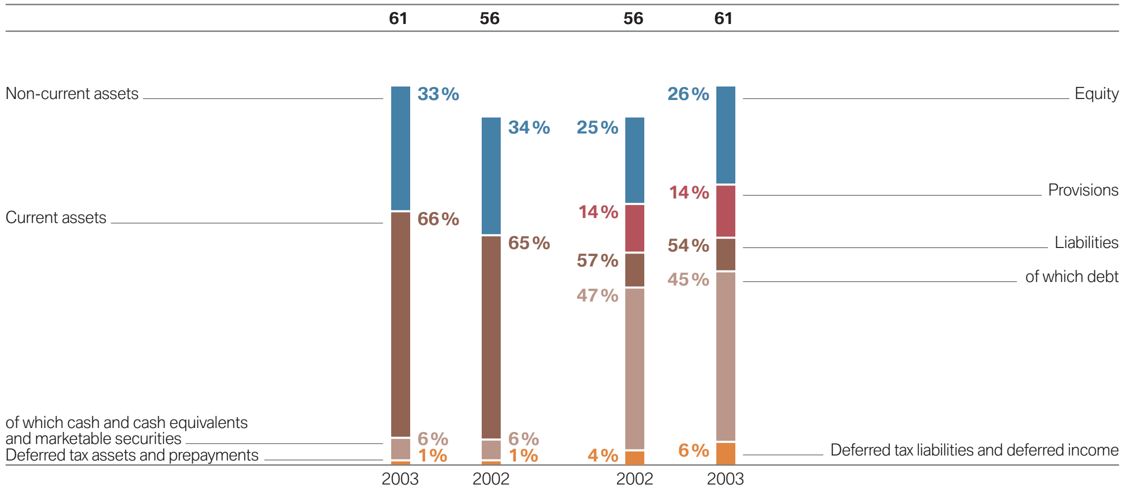
Net interest-bearing assets (cash and cash equivalents and marketable securities less debt) relating to industrial operations increased by euro 136 million to euro 1,816 million.

Net assets position

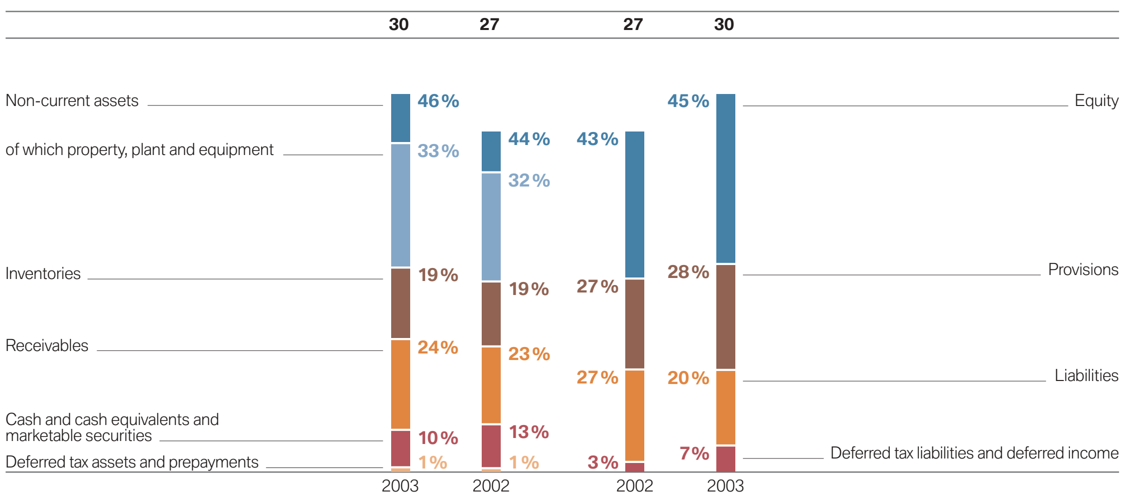
The balance sheet total of the BMW Group increased by 10.7% to euro 61,475 million. The main factors behind this increase on the assets side of the balance sheet were the increased level of receivables from sales financing (+12.6%), property, plant and equipment (+13.2%) and other receivables (+ 18.6%). On the equity and liabilities side of the balance sheet, the main changes occurred in equity (+16.4%), other provisions (+16.9%), debt (+4.5%) and deferred tax liabilities (+67.6%). Currency fluctuations, mainly in connection with the low US dollar exchange rate, reduced the balance sheet total by euro 3,042 million. Adjusted for changes in exchange rates, the balance sheet total would have risen by 16.2%.

Intangible assets increased by 16.7% to euro 3,200 million. Within intangible assets, capitalised development costs increased by 15.9% to euro 3,011 million. Development costs recognised as assets during the financial year 2003 amounted to euro 996 million (+16.1%). Depreciation and disposals amounted to euro 583 million (+8.8%). The total carrying amount of property, plant and equipment increased by 13.2% to euro 9,708 million. The bulk of capital expenditure was used to expand the production network. In total, euro 3,152 million was invested in property, plant and equipment (+1.1%).

Balance sheet structure Group
in euro billion



Balance sheet structure Industrial operations
in euro billion



Total depreciation and disposals, including currency impacts, amounted to euro 2,067 million (+9.0%). Balances brought forward for subsidiaries being consolidated for the first time amounted to euro 45 million. Capital expenditure on intangible assets and property, plant and equipment totalled euro 4,245 million (+5.0%). As in the previous year, this was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 10.2% (2002: 9.5%).

Financial assets increased by 21.9% to euro 607 million. This was mainly attributable to the fair value measurement of the investment in the engine manufacturer Rolls-Royce plc, London. The market price of this investment rose by euro 140 million compared to 31 December 2002. This increase in value was recognised directly in accumulated other equity. Remaining accumulated write-downs on the investment in Rolls-Royce plc, London, amount to euro 129 million at 31 December 2003. A review was carried out 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. This is supported by the development of the market price of this stock, which continued to rise during the fourth quarter of the year under report. The BMW Group has used these increases in the price of the stock of Rolls-Royce plc, London, to issue an exchangeable bond on the shares of Rolls-Royce plc, London, held by the BMW Group.

The total carrying amount of leased products decreased by 4.5% to euro 6,697 million due to the lower US dollar exchange rate. Adjusted for changes in exchange rates, the carrying amount of leased products would have been euro 1,032 million higher.

Inventories increased by 9.5% to euro 5,693 million. The introduction of new models in conjunction with the Group's product offensive was the main reason for this increase.

Trade receivables increased by 24.1% to euro 2,257 million, mainly as a result of the dealer network stocking up with the BMW X3 and 6 Series Coupé.

Receivables from sales financing increased by 12.6% to euro 21,950 million as a result of the expansion of business. Of this amount, customer and dealer financing accounted for euro 16,423 million (+10.6%) and finance leases accounted for euro 5,527 million (+19.0%).

Other receivables increased by 18.6% to euro 7,184 million, primarily due to the increased fair values of derivative financial instruments.

Liquid funds increased by 2.3% to euro 3,516 million. The make-up of liquid funds has continued to change in favour of short-term securities held as a liquidity reserve.

Deferred tax assets, at euro 175 million, also continued to fall and are 8.9% lower than one year ago.

On the equity and liabilities side of the balance sheet, the equity of the Group grew by 16.4% to euro 16,150 million. The main contributing factors were the group net profit for the year amounting to euro 1,947 million and the recognition of fair value measurement gains on financial instruments amounting to euro 966 million. The issue of employee shares increased shareholders' equity by euro 17 million. The payment of the dividend for the financial year 2002 and exchange rate changes reduced equity by euro 651 million. The equity ratio of the BMW Group improved by 1.3 percentage points to 26.3%. This noticeable improvement in the equity ratio was due to the net profit for the year and higher fair values of financial instruments. The equity ratio for industrial operations was 45.4% compared to 43.1% at the end of the previous year. The equity ratio for financial operations improved by 0.4 percentage points to 9.8%.

Provisions recognised in the balance sheet increased by 14.2% to euro 8,751 million. The higher level of additions to provisions mainly related to other provisions and was attributable to the increase in business volume and higher employee-related obligations. The provision for pension obligations was 7.7% higher at euro 2,430 million. Total obligations for pension and similar plans of the BMW Group amount to euro 8,390 million (2002: euro 7,797 million), of which euro 7,294 million (2002: euro 7,079 million) are covered by provisions and fund assets. In the case of defined benefit plans, it is necessary to recognise in the income statement the amount of net obligations which exceed 10% of the relevant obligations, over the remaining average working life of the employees concerned. At 31 December 2003, the amount still to be recognised was euro 321 million (2002: euro 119 million).

Debt increased by 4.5% to euro 27,449 million. Within the amount disclosed as debt, bonds increased by 14.9% to euro 11,404 million. This increase resulted from amounts added to the Medium Term Note Program and the issue of an exchangeable bond on the Group's shares in the engine manufacturer, Rolls-Royce plc, London. Liabilities from customer deposits also rose sharply to euro 3,865 million, an increase of 23.2%. Other debt increased by 7.9% to euro 5,695 million, whereas liabilities to banks and commercial paper liabilities were reduced in total by euro 1,435 million.

At euro 3,143 million, trade payables were at a similar level to the previous year.

Other liabilities increased by 5.9% to euro 2,634 million.

The favourable development of the fair values of derivative financial instruments and the reduced availability of offsettable deferred tax assets were the main reasons for the sharp increase in deferred tax liabilities. These increased by 67.6% to total euro 2,501 million at the end of 2003.

Value added statement

The value added statement shows the value of work performed less the value of work bought in by the BMW Group during the financial year. Depreciation, cost of materials and other expenses are treated as bought-in costs in the net added value calculation. The allocation statement applies added value to each of the participants involved in the added value process. It should be noted that the gross added value treats depreciation as a component of added value which, in the allocation statement, is treated as internal financing.

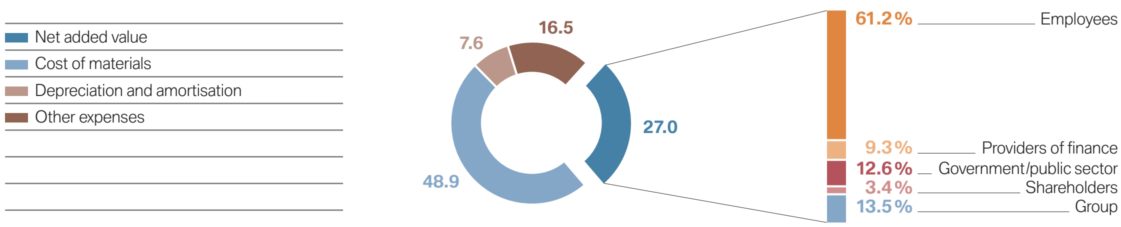
In 2003, the net added value generated by the BMW Group, of euro 11,550 million (2002: euro 11,705 million) was 1.3% lower than in the previous year. This reduction was due to the (exchange rate induced) lower level of revenues compared to the previous year and the higher level of depreciation. By contrast, the gross added value, of euro 14,805 million (2002: euro 14,607 million) climbed by 1.4%, since depreciation, which was higher than in the previous year, is not included.

The bulk of the net added value (61.2%) is applied to employees, 4.9 percentage points more than in the previous year. The proportion applied to providers of finance fell by 4.6 percentage points to 9.3%. The government/public sector (including deferred tax liabilities of the Group) accounted for 12.6%, roughly the same proportion as in the previous year. As a result of the proposed increased dividend, the proportion applied to shareholders increased by 0.4 percentage points to 3.4%. The remaining proportion of net added value (13.5%) will be retained in the Group to finance future operations. This represents a reduction of 0.8 percentage points.

BMW Group value added statement

in euro million	2003	2003 in %	2002 reclassified	2002 in %	Change in %
Work performed					
Revenues	41,525	97.1	42,411	96.6	
Financial income	148	0.3	409	0.9	
Other income	1,111	2.6	1,077	2.5	
Total Group output	**42,784**	**100.0**	**43,897**	**100.0**	**–2.5**
Cost of materials	20,905	48.9	21,955	50.0	
Other expenses	7,074	16.5	7,335	16.7	
Bought-in costs	**27,979**	**65.4**	**29,290**	**66.7**	**–4.5**
Gross added value	**14,805**	**34.6**	**14,607**	**33.3**	**1.4**
Depreciation and amortisation	3,255	7.6	2,902	6.6	
Net added value	**11,550**	**27.0**	**11,705**	**26.7**	**–1.3**
Applied to:					
Employees	7,066	61.2	6,588	56.3	7.3
Providers of finance	1,077	9.3	1,629	13.9	–33.9
Government/public sector	1,460	12.6	1,468	12.5	–0.5
Shareholders	392	3.4	351	3.0	11.7
Group	1,555	13.5	1,669	14.3	–6.8
Net added value	**11,550**	**100.0**	**11,705**	**100.0**	**–1.3**

BMW Group value added 2003
in %



Key performance figures

		2003	2002
Gross Margin	%	22.7	22.8*
EBITDA Margin	%	13.8	13.3*
EBIT Margin	%	8.1	8.3*
Pre-tax return on sales	%	7.7	7.8*
Post-tax return on sales	%	4.7	4.8*
Pre-tax return on equity	%	23.1	30.6
Post-tax return on equity	%	14.0	18.8
Equity ratio – Group	%	26.3	25.0
Industrial operations	%	45.4	43.1
Financial operations	%	9.8	9.4
Equity as a percentage of non-current assets (excluding leased products)	%	119.5	117.4
Equity as a percentage of non-current assets	%	79.9	73.7
Cash inflow from operating activities	euro million	7,871	7,250
Cash outflow from investing activities	euro million	11,231	9,715
Internal financing capability	%	70.1	74.6
Cash flow	euro million	4,490	4,374
Cash flow as a percentage of capital expenditures	%	105.8	108.2

* reclassified after harmonisation of internal and external reporting systems

Comments on financial statements of BMW AG

Whereas the Group financial statements are drawn up in accordance with IFRSs issued by the IASB, the financial statements of BMW AG are drawn up in accordance with the provisions of the German Commercial Code (HGB). Where it is permitted and considered appropriate, the principles and policies of IFRSs are also applied in the individual company financial statements. The pension provision in the individual company financial statements, for example, is also determined in accordance with IAS 19. In numerous other cases, however, the accounting principles and policies applied in the individual company financial statements of BMW AG differ from those applied in the Group financial statements. The main differences relate to the recognition of intangible assets, depreciation and amortisation methods, the measurement of inventories and provisions as well as the treatment of financial instruments.

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself and foreign subsidiaries. These vehicles are sold through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2003 rose by 2.6% to 1,118,940 units. At 31 December 2003, BMW AG had 75,969 employees, an increase of 2,686 compared to the previous year-end. Wage-earners account for approximately 60% of the workforce.

In 2003, revenues were 4.4% higher than in the previous year. Sales to foreign group sales companies accounted for euro 25.0 billion or 68% of the total revenues of euro 36.9 billion. Cost of sales increased by 7.2% and therefore by more than the increase in revenues. The gross profit of euro 5.1 billion was 9.7% below the previous year's figure.

In the financial year 2003, capital expenditure on intangible assets and property, plant and equipment was euro 2,293 million (2002: euro 2,140 million). This represents an increase of 7.1%. Capital expenditure related primarily to investments in new products as well as the expansion of the production network, such as the new Leipzig plant. Depreciation and amortisation amounted to euro 1,322 million. Current assets rose as a result of the increase in cash and cash equivalents and marketable securities.

The equity ratio fell from 30.8% to 27.0% due to the increased balance sheet total. Long-term external capital (pension provision, registered profit-sharing certificates, the liability to BMW Unterstützungsvereins e.V. and liabilities due after one year) increased by 22.4% to euro 2.8 billion. This was due in part to the change in the discount factor used to compute the pension provision (reduced from 5.75% to 5.5%).

BMW AG **Balance Sheet at 31 December** in euro million	2003	2002
ASSETS		
Intangible assets	67	117
Property, plant and equipment	5,298	4,309
Financial assets	6,021	6,043
Non-current assets	**11,386**	**10,469**
Inventories	2,428	2,193
Trade receivables	1,190	501
Receivables from subsidiaries	969	975
Other receivables and other assets	1,607	1,581
Marketable securities	1,353	926
Cash and cash equivalents	439	109
Current assets	**7,986**	**6,285**
Prepayments	**110**	**100**
	19,482	**16,854**
EQUITY AND LIABILITIES		
Subscribed capital	674	674
Capital reserves	1,971	1,954
Revenue reserves	2,217	2,217
Unappropriated profit available for distribution	392	351
Equity	**5,254**	**5,196**
Registered profit-sharing certificates	**36**	**36**
Special tax allowable reserve	**–**	**2**
Pension provisions	2,479	2,156
Other provisions	6,777	5,730
Provisions	**9,256**	**7,886**
Liabilities to banks	299	100
Trade payables	1,168	1,096
Liabilities to subsidiaries	3,269	1,797
Other liabilities	200	741
Liabilities	**4,936**	**3,734**
	19,482	**16,854**

BMW AG **Income Statement** in euro million	2003	2002 reclassified	2002
Revenues	**36,881**	**35,315**	**35,315**
Cost of sales	31,751	29,632	32,058
Gross profit	**5,130**	**5,683**	**3,257**
Sales costs	2,247	2,168	2,365
Administrative costs	775	738	558
Research and development costs	2,419	2,427	–
Other operating income and expenses	873	–67	–51
Result on investments	–2	541	541
Net interest expense	–50	–161	–161
Profit from ordinary activities	**510**	**663**	**663**
Income taxes	109	41	41
Other taxes	9	7	7
Net profit	**392**	**615**	**615**
Transfer to revenue reserves	–	264	264
Unappropriated profit available for distribution	**392**	**351**	**351**

The BMW Group harmonised its internal and external reporting systems in 2003. As a consequence, the presentation of individual items of the BMW Group financial statements, which are drawn up in accordance with the Standards issued by the IASB, was changed. To the extent that these changes are related to BMW AG and are compatible with German accounting regulations, they have also been incorporated into the Company financial statements of BMW AG. The changes in presentation resulting from the harmonisation do not have any impact on the profit from ordinary activities and the net profit for 2002. The changes in presentation relate mainly to the following reclassifications:

Research and development costs previously included in cost of sales are now reported separately. Expenses related to motorsport activities are now included in research and development costs.

Certain administrative costs have been reclassified, mainly from cost of sales and sales costs to general administrative costs.

KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft (Auditors), Munich has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The financial statements are published in the German Federal Gazette and filed with the Trade Register of the Munich District Court. These financial statements are available from BMW AG, D-80788 Munich, Germany.

Risk management in the BMW Group

Great importance is attached to risk management within the BMW Group. As an enterprise with worldwide operations, the BMW Group faces a variety of risks. Business risks are only consciously entered into when it is considered that they can lead to a growth in the value of the business and when the potential outcome can be controlled by the Group. The Board of Management and Supervisory Board are regularly informed about risks which could have a significant impact on business development.

In order to identify, evaluate and document the main risks which could pose a major threat, the BMW Group uses a comprehensive risk management system which is characterised by the following processes:

– Business decisions are reached after consideration of in-depth project analyses which present potential risks and opportunities in detail. In addition, as part of the long-term planning strategy and short-term forecasting procedures, the risks and opportunities attached to specific business activities are evaluated and are used as the basis for setting targets and implementing appropriate risk-mitigation measures.

– The Group reporting system keeps all decision-makers fully informed and up-to-date about performance against targets and highlights changes affecting the market and competitors. By monitoring critical success factors on a continual basis, variances are identified at an early stage, thus allowing appropriate counter-measures to be implemented.

– Overall risk management is supervised by the corporate group controlling department and is reviewed by external auditors and the Group's internal audit department for appropriateness and effectiveness. A network of risk managers, appointed throughout the Group, regularly carries out risk reviews, identifying and analysing all significant risks. The results of the reviews are summarised in a separate risk report which is then presented to the Board of Management.

– By regularly exchanging experiences with other enterprises, the BMW Group is constantly ensuring that innovative ideas and approaches flow into the risk management system of the BMW Group and that operational risk management is continually being developed.

Risks which could threaten the existence of the Group or which could have a significant negative impact on the assets and liabilities, financial position and results of operations of the Group, have not been identified. However, risks can never be entirely ruled out.

In the course of business operations, the BMW Group is exposed to various types of risk:

Risks relating to general economic factors

– Strong growth on all major international markets by the BMW Group and future expansion mean that global key data such as changes in currency parities and the development of the financial markets are very significant. The US dollar has a relatively strong impact on reported revenues and, of all the currencies with which the BMW Group does business, represents the main source of risk. Exchange rate fluctuations of the British pound and the Japanese yen in relation to the euro can also impact earnings significantly. Based on forecasts of the BMW Group, these three currencies account for some 80 % of the foreign currency exposure of the BMW Group. Currency risk is mitigated, amongst other measures, by manufacturing products outside the euro zone, purchasing material and equipment around the world and hedging currency exposures on the financial markets. Hedging transactions are entered into only with financial partners of first-class standing. The nature and scope of such measures are set out in guidelines applicable throughout the BMW Group.

– Economic fluctuations represent risk factors for future development. The BMW Group anticipates these risks by monitoring the market in detail and using early warning indicators. Risk is spread due to the worldwide activities of the BMW Group.

– While not expected at the moment, an escalation of political tensions or terrorist activities could have a negative impact on the economic situation. This in turn, could have a negative impact on the business development of the BMW Group.

Specific industry risks

– In conjunction with the forthcoming enlargement of the European Union, the scope of the EU End-of-Life Vehicle Directive will also become relevant for the new member states. The BMW Group has taken account of its vehicles in the new member states from an early stage and recognised provisions in the balance sheet to cover all expected obligations relating to vehicles sold to date. As a result of its activities in the area of vehicle recycling and the progress made with "Design for Recycling", the BMW Group is well prepared to deal with end-of-life vehicles.
– The change in fuel prices, partly affected by the market and partly by governmental tax policies, and the requirement to reduce the fleet fuel consumption and CO_2 emissions set high demands on engine and product development.

Operating risks

– Risks arising from loss of production are insured up to economically reasonable levels. In addition, the high degree of flexibility of the BMW Group's production network and working time models also helps to reduce risks of this kind.
– Close cooperation between manufacturers and suppliers is normal in the automotive sector and whilst this provides economic benefits, it also creates a degree of mutual dependence. Some suppliers have become very important for the BMW Group. Delivery delays, cancellations or poor quality can lead to production stoppages and thus have a negative impact on profitability.

The BMW Group mitigates this risk by means of extensive selection, monitoring and management procedures in its dealings with suppliers. Before selection, for example, the technical competence and financial strength of potential suppliers are appraised. A comprehensive Supplier Relationship Management system also contributes to risk mitigation.

Risks related to the provision of financial services

– As a consequence of the growth of lease business, the BMW Group faces an increased residual value risk on the vehicles which are returned to the Group at the end of lease contracts. Changes in the residual values of vehicles of the BMW Group on the used car markets are therefore constantly monitored and forecast. Provisions or other balance sheet items are recognised to cover identified risks. This risk is also reduced by measures such as active life-cycle management and management of used car markets at an international level, both of which have a stabilising effect on residual values.
– Against the background of Basel II requirements, the BMW Group is committed to the use of scoring systems and rating methods to avoid bad debt risks as far as possible. The appropriate processes and IT infrastructure are continually being developed. Management tools, including ones based on a value-at-risk approach, are used to minimise and control potential losses.
– Operating risks relating to the provision of financial services are managed by the BMW Group by means of a process which records and measures risks and incorporates specific measures to avoid risk. In this way, the BMW Group minimises the risk of losses, which could arise as a result of the inappropriateness or failure of internal procedures and systems, human error or external factors.
– Liquidity and interest rate change risks to which the BMW Group is exposed are mitigated by matching maturities and by the use of derivative financial instruments. Interest rate change risks are managed using a value-at-risk approach. In addition, sensitivity analyses are prepared on an on-going basis to measure the potential impact of interest rate changes on earnings.

– The financing and lease business is refinanced as a general rule in each of the markets in the relevant currency so as to avoid currency risks.
– A major part of financing and lease business within the Financial Services segment is refinanced on the capital markets. The excellent credit-standing of the BMW Group, reflected in the long-standing first-class short-term ratings issued by Moody's (P-1) and Standard & Poor's (A-1), allows the BMW Group to obtain competitive conditions.

Risks relating to the measurement of financial assets

– Fluctuations on the international securities markets can lead to a lasting decline in value of financial assets. In this situation, IAS 39 (in conjunction with IAS 36) requires that impairment losses are recognised with income effect. A review, which also took account of external analyses, came to the conclusion that no impairment losses were required to be recognised at 31 December 2003.

Legal risks

– The BMW Group is not involved in any court or arbitration proceedings which could have a significant impact on the economic position of the Group.
– Like all enterprises, the BMW Group is exposed to the risk of warranty claims. Adequate provisions have been recognised in the balance sheet to cover such claims. Part of the risk, especially relating to the American market, has been insured up to economically acceptable levels. The high quality of BMW Group products, underpinned by regular quality audits and on-going improvement measures, helps to reduce this risk.

Personnel risks

– As an attractive employer, the BMW Group has a strong position in the intense competition for qualified technical and management staff. Employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift.
– The general increase in life expectancy and changes in the age structure of the population at large also have an affect on the pension obligations of the BMW Group.

BMW AG recognises full provisions for pension obligations to employees in Germany based on actuarial valuations. The funds remain in the company and thus help to finance on-going operations.

Pension entitlements in the USA and the remaining pension obligations in the United Kingdom are funded mainly by fixed-income securities with a high level of creditworthiness and, to a minor extent, by investment in shares. Overall, this contributes to a reduction in the risk of a possible short-fall in coverage as a result of a poor performance of the stock markets. The amount of obligations not recognised in the balance sheet in accordance with the corridor approach of IAS 19 is minimal. The relevant amounts are being recognised over period of up to 15 years. The short-fall in 2003 leads to additional payment obligations to the pension funds of euro 24.6 million.

IT risks

– In the area of information technology, the BMW Group undertakes various measures relating to employees, organisational procedures, applications, systems and networks in order to protect itself from unauthorised access or misuse of data.

Internal rules for handling data and for the safe use of information systems apply throughout the Group. Internal communications reinforces the awareness of employees for security issues.

Amongst the technical measures taken are certain standard activities such as the use of virus scanners, firewall systems and access controls at operating system and application level. These measures serve to protect confidentiality, integrity and authenticity.

BMW stock in 2003. Against the background of a good year for the stock markets, which saw an upward trend for automobile stocks, the price of BMW stock rose sharply during the course of the year.

After three years of losses, the German stock market generally saw a positive trend in 2003. The first quarter, however, was still marked by significant losses, mainly as a result of the Iraq conflict. On 12 March, the DAX-30 stood at 2,202.96, its lowest level for the year and, indeed, the lowest level since November 1995. As the year progressed, however, a positive assessment of economic prospects pushed the index up.

On the last day of trading in 2003, the DAX-30 closed at 3,965.16 points, which was also its high for the year. Overall therefore, the index advanced by 27.7% during the year.

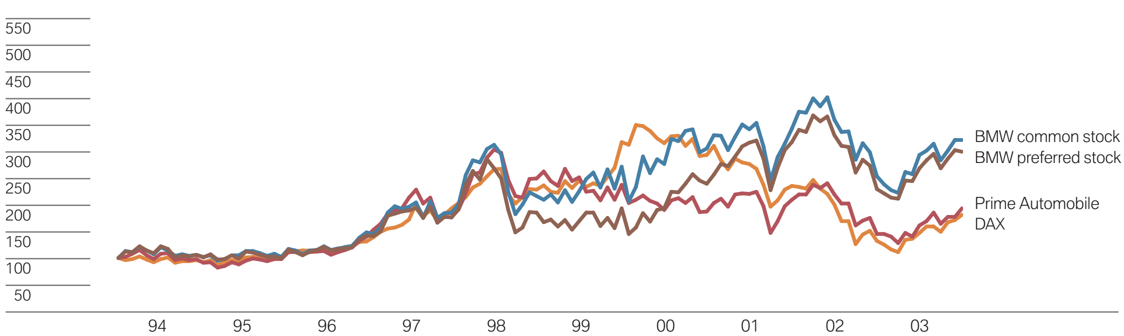
German automobile stocks, which have been included on the Prime Automobile Performance Index since March 2003, moved largely in line with the DAX. On 12 March the sector index, at 210.42 points, reached its low for the year. The index then revived on the back of positive economic forecasts which then pushed the Prime Automobile index up to its highest level for the year (353.27 points) on 3 September. The sector index closed the year at 350.96 points, marginally lower than the year high – an increase of 23.6% compared to the opening level on 2 January 2003.

The price of BMW common stock largely tracked the two indices during the first quarter of 2003. On 12 March, the stock stood at euro 21.00 and thus at its lowest level for the year. With the onset of the upward trend in March, BMW common stock was able to detach itself from overall market development as the year progressed. On 3 September 2003, BMW common stock reached a year high of euro 38.40. BMW common stock moved sideways in December 2003, allowing the DAX and Prime Automobile to catch up. The year-end closing price of BMW common stock was euro 36.95, 24.0% higher than its price at the beginning of the year.

Sustainability as a success factor

For the fifth time in succession, the BMW Group was included in 2003 in the family of sustainability

Development of BMW stock compared to stock exchange indices
(Index: January 1994 = 100)



BMW stock	1999	2000	2001	2002	2003
Common stock					
Number of shares in 1,000	622,228	622,228	622,228	622,228	622,228
Stock exchange price in euro[1]					
Year-end closing price	30.65	34.75	39.55	28.95	36.95
High	32.00	41.05	41.65	47.50	38.40
Low	23.04	23.48	24.01	28.00	21.00
Preferred stock					
Number of shares in 1,000	48,460	49,598	50,638	51,468	52,196
Stock exchange price in euro[1]					
Year-end closing price	14.00	20.00	26.25	19.00	24.75
High	16.81	22.40	27.30	31.95	26.10
Low	12.35	11.75	16.11	18.50	14.71

	1999 HGB	2000 HGB	2000 IAS	2001 IAS	2002 IAS	2003 IAS
Key data per share in euro[2]						
Dividend[3]						
Common stock	0.40	0.46	0.46	0.52	0.52	0.58[4]
Preferred stock	0.42	0.48	0.48	0.54	0.54	0.60[4]
DVFA/SG result[5]	1.01[7]	1.63	1.80/1.82[8]	2.78/2.80[8]	3.00/3.02[8]	2.89/2.91[8]
Cash flow[5]	4.19	4.77	5.62	6.24	6.49	6.66
Equity[5] [6]	5.47	6.84	14.02	16.01	20.59	23.95

1] closing prices on the Frankfurt Stock Exchange adjusted retrospectively for capital increases in 1998 and 1999
2] prior to 2000, stock weighted according to dividend entitlements in the year of issue
3] dividends after 1999, per euro 1 nominal value share, adjusted in previous years
4] proposed by management
5] retrospectively adjusted for capital increases in 1998 and 1999
6] HGB figure excluding unappropriated profit available for distribution
7] DVFA result before extraordinary expenses
8] earnings per share in accordance with IAS 33 for common and preferred stock shares

indices published by Dow Jones Indexes, Stoxx Limited and SAM Group.

In addition, the Group again achieved first place in the Corporate Responsibility Ranking published by oekom research AG and hence the best mark for the fulfilment of ecological and social responsibility.

The BMW Group remains one of the group of leading enterprises included in the most important sustainability indices used on the global financial markets. BMW stock is thus participating in the strong growth of investments based on sustainability criteria.

Sustainable Value Report published

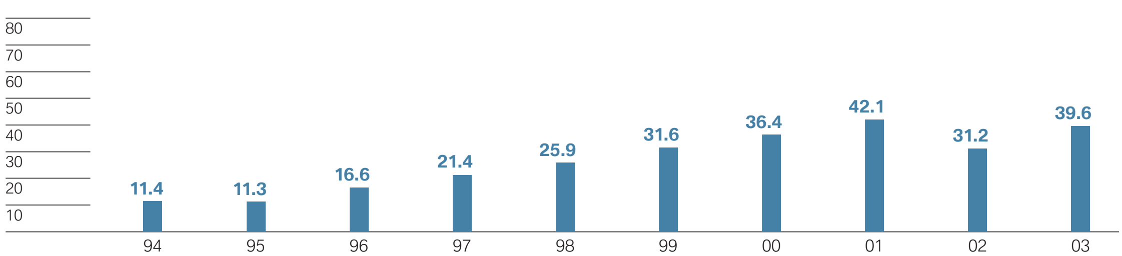
Attaining financial success is the main goal of the BMW Group. This also provides a sound basis to allow it to accept responsibility in environmental and social issues. Sustainability is thus a duty of management as well as an important factor for success. This link is documented in the Sustainable Value Report 2003/2004, which was published in autumn 2003. The report has been prepared along the lines of the guidelines issued by Global Reporting Initiative (GRI). It provides detailed information about the BMW Group's involvement in the areas of environmental care, employees and social responsibility issues and underlines the link with the Group's financial success.

The Sustainable Value Report is available in German, English, Chinese and Japanese and can be obtained, free of charge, via the e-mail address sustainability@bmwgroup.com. The report can also be accessed online at www.bmwgroup.com/sustainability.

Award won for investor relations

At the annual conference of the German Investor Relations Group, the BMW Group was awarded first prize in the competition for "Beste Investor Relations Deutschland" (BIRD). This award was the result of a readers' survey carried out by the magazine "Börse Online", which was particularly aimed at measuring the credibility and understandability of investor relations.

Development in value of a BMW stock investment in euro thousand
Investment of euro 10,000 at 1.1.1994, including dividends and proceeds from subscription rights, values at end of year



Corporate Governance

Background

On 21 May 2003, the Government Commission on the German Corporate Governance Code approved changes to the German Corporate Governance Code. The amended version of the Code was posted in the electronic Federal Gazette on 4 July 2003.

Management and supervisory boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the Corporate Governance Code (in the relevant version) has, and is being, complied with. Companies affected are also required to disclose which of the recommendations of the Code have not been or are not being applied.

Corporate governance in the BMW Group

Corporate governance in the BMW Group is an all-embracing issue affecting all areas of the enterprise. Transparent reporting and a policy of corporate governance aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility, has long been the basis for managing the affairs of the BMW Group. The underlying corporate culture at BMW is founded upon the principles of transparency, placing trust in others and taking responsibility for one's own actions.

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft believe that the recommendations and suggestions contained in the German Corporate Governance Code contribute to an enhancement of the financial markets in Germany, in particular for international investors. The implementation of the Code in Germany has established standards for corporate governance which address the interests of shareholders and other stakeholders. The German Corporate Governance Code is especially suited to achieve this objective.

The Board of Management and Supervisory Board are in favour of the recommendations and suggestions contained therein and have developed a corporate governance code for the BMW Group, taking account of the specific circumstances of the BMW Group. The aim is to provide shareholders and other stakeholders with a comprehensive stand-alone document covering the corporate governance practices applied by the BMW Group.

The Corporate Governance Code of the BMW Group can be obtained, along with other shareholder information, such as notifications pursuant to § 15 a of the German Trade Securities Act (Directors' Dealings) from the BMW Group website. Interested parties can also find general information about the Group, up-to-date analysts' reports and all financial publications of the Group at www.bmwgroup.com/ir/.

A coordinator responsible for all corporate governance issues reports directly and on a regular basis to the Board of Management and Supervisory Board.

Declaration of Compliance issued

The Board of Management and Supervisory Board of BMW AG issued a Declaration of Compliance, as required by law (§ 161 German Stock Corporation Act), for the first time on 3 December 2002.

At the joint meeting held on 2 December 2003, the Board of Management and Supervisory Board of BMW AG issued the Declaration of Compliance with the new version of the German Corporate Governance Code, applicable with effect from 4 July 2003.

At the same time, the Corporate Governance Code of the BMW Group was amended to bring it into line with the new version of the German Corporate Governance Code and posted, together with the Declaration of Compliance, on the Internet.

Principles for the compensation of the Board of Management and Supervisory Board
The BMW Group supports the endeavours of the German Corporate Governance Code to increase the transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. As well as discussing the structure of remuneration, the components of compensation are also disclosed in absolute figures.

1. Compensation of the Board of Management
Responsibilities
The structure and determination of the compensation of the Board of Management are the responsibility of the Personnel Committee of the Supervisory Board. The Personnel Committee comprises the Chairman of the Supervisory Board and the four deputies to the Chairman.

Overall objective
The compensation model used for the Board of Management should be attractive in the context of the competitive environment for highly qualified executives. As an incentive to encourage performance, the variable component of compensation should be linked to a high degree to the financial success of the BMW Group. The structure of the compensation of the Board of Management should also contain parallels to the compensation system applied to employees and senior management.

Components of compensation
The compensation of the Board of Management comprises a fixed component and a variable bonus based on performance. For the purposes of determining the overall compensation of the Board of Management, the Personnel Committee, having considered the overall position and forecasts of the BMW Group, decides on an overall salary framework, which will include a high variable proportion.

The factors determining the amount of variable compensation enable members of the Board of Management to earn an attractive level of income with a very high bonus element (2003: 82.2%, 2002: 81.5%) for financial years in which the BMW Group performs well.

Measurement of the variable component of compensation is based on the BMW Group's net profit for the relevant year and the level of the dividend.

An upper limit is set for the compensation of the Board of Management.

The compensation system does not include any stock options, value appreciation rights which work in the same way as stock options or any other stock-based compensation components.

The Personnel Committee reviews at regular intervals the compensation system, with regard to the structure and amount of the remuneration of the Board of Management.

Compensation of the Board of Management for the financial year 2003
On the basis of the proposed dividend, the compensation of the Board of Management of the BMW Group for the financial year 2003 amounts to euro 10.7 million (2002: euro 11.9 million).

The components of compensation were as follows:

in euro million	2003		2002	
	Amount	Proportion	Amount	Proportion
Fixed salary	1.9	17.8%	2.2	18.5%
Bonus	8.8	82.2%	9.7	81.5%
Total compensation	10.7	100%	11.9	100%

The remuneration paid to former members of the Board of Management and their dependants was euro 3.6 million (2002: euro 5.2 million). Pension obligations for former members of the Board of Management and their dependants are covered by pension provisions of euro 29.7 million (2002: euro 30.0 million).

2. Compensation of the Supervisory Board
Responsibilities

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. Compensation is currently based on shareholders' resolutions taken at the Annual General Meeting on 18 May 1999 and § 15 of the Statutes of BMW AG.

Components of compensation

In addition to the reimbursement of expenses, the members of the Supervisory Board receive a fixed remuneration and a bonus based on the level of the dividend.

Compensation of the Supervisory Board for the financial year 2003

On the basis of the proposed dividend, the compensation of the Supervisory Board for activities during the financial year 2003 amounted to euro 2.3 million (2002: euro 2.0 million). This comprised a fixed component of euro 0.1 million (2002: euro 0.1 million) and a variable component of euro 2.2 million (2002: euro 1.9 million).

None of the members of the Supervisory Board performed advisory, agency or other services for the BMW Group in a personal capacity. In consequence, no additional compensation was paid.

Declaration of the Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 of the German Commercial Code

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft declare the following with respect to the recommendations of the Government Commission on the German Corporate Governance Code:

As stated in the Declaration of Compliance dated 3 December 2003, the recommendations published in the official section of the electronic Federal Gazette on 26 November 2002 (Code version dated 7 November 2002) have been complied with, with the exception of the following divergence which, however, have not resulted in any specific disclosure:
– The purchase and sale of shares in BMW AG or derivative instruments relating to shares in BMW AG by members of the Board of Management and Supervisory Board are published in accordance with § 15 a of the German Securities Trade Act, but are not additionally disclosed in the Notes to the Group Financial Statements (section 6.6 GCGC).

The recommendations published in the official section of the electronic Federal Gazette on 4 July 2003 (Code version dated 21 May 2003) have been complied with, with the exception of the following divergences:
– The discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee and not, additionally, by the Supervisory Board (section 4.2.2 paragraph 1 GCGC).
– The compensation of the members of the Board of Management is disclosed in the Notes to the Group Financial Statements subdivided according to fixed and performance related components, but not by individual person (section 4.2.4 sentence 2 GCGC).
– The compensation of the members of the Supervisory Board in the Notes to the Group Financial Statements is subdivided into its components, but not by individual person (section 5.4.5 paragraph 3 GCGC).
– The purchase and sale of shares in BMW AG or derivative instruments relating to shares in BMW AG by members of the Board of Management and Supervisory Board are published in accordance with § 15 a of the German Securities Trade Act, but are not additionally disclosed in the Notes to the Group Financial Statements (section 6.6 paragraph 2 GCGC).

Munich, 2 December 2003

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board Board of Management

Reason for divergences
Section 4.2.2 sentence 1 GCGC:
The Supervisory Board has transferred the discussion and regular review of the structure of the compensation system of the Board of Management to the Personnel Committee. The Supervisory Board is informed on a regular basis of the work of the Committee.

Section 4.2.4 sentence 2 and 5.4.5 paragraph 3 GCGC:
The principles of the compensation of the members of the Board of Management and Supervisory Board are made known on the Internet in an easy to understand format and discussed in the Annual Report. In addition, the total remuneration of the Board of Management and Supervisory Board, subdivided into fixed and performance-related components are disclosed. The Chairman of the Supervisory Board also reports on these principles and any changes thereto at the Annual General Meeting.

In the opinion of the BMW Group, this scope of reporting provides adequate transparency. It enables the remuneration system to be assessed by comparison with other enterprises and on the basis of the performance of the Group.

Section 6.6 paragraph 2 GCGC (Directors' Dealings)
The purchase and sale of share in BMW AG by members of the Board of Management and Supervisory Board are posted on a timely and up-to-date basis on the BMW Group website. Each notification is reported on the Internet for at least 30 days. From the perspective of the BMW Group, the interests of shareholders and other stakeholders as required by § 15 of the German Securities Trade Act are met. A retrospective list showing transactions, which in an extreme case, could be more than one year old, does not provide any additional informational value and does not serve any purpose.

Contents

BMW Group
Group and sub-group Income Statements

in euro million	Notes	Group 2003	Group 2002 reclassified[2]	Industrial operations[1] 2003	Industrial operations[1] 2002 reclassified[2]	Financial operations[1] 2003	Financial operations[1] 2002 reclassified[2]
Revenues	[9]	41,525	42,411	39,712	39,706	7,822	8,605
Cost of sales	[10]	–32,090	–32,754	–30,925	–30,712	–6,857	–7,700
Gross profit		**9,435**	**9,657**	**8,787**	**8,994**	**965**	**905**
Sales and administrative costs	[11]	–4,446	–4,389	–4,058	–4,009	–407	–403
Research and development costs	[12]	–2,146	–2,133	–2,146	–2,133	–	–
Other operating income and expenses	[13]	510	370	469	300	11	49
Profit before financial result		**3,353**	**3,505**	**3,052**	**3,152**	**569**	**551**
Financial result	[14]	–148	–208	–229	–179	89	–20
Profit from ordinary activities		**3,205**	**3,297**	**2,823**	**2,973**	**658**	**531**
Income taxes	[15]	–1,258	–1,277	–1,128	–1,173	–231	–180
Minority interest	[16]	0	0	0	–	0	0
Net profit		**1,947**	**2,020**	**1,695**	**1,800**	**427**	**351**
Earnings per share of common stock in euro	[17]	2.89	3.00				
Earnings per share of preferred stock in euro	[17]	2.91	3.02				

1] before consolidation of transactions between the sub-groups
2] see also Note [7]

BMW Group
Group and sub-group Balance Sheets at 31 December

Assets in euro million	Notes	Group 2003	 2002	Industrial operations[1] 2003	 2002	Financial operations[1] 2003	 2002
Intangible assets	[20]	3,200	2,741	3,181	2,730	19	11
Property, plant and equipment	[21]	9,708	8,578	9,688	8,544	20	34
Financial assets	[22]	607	498	593	463	14	35
Leased products	[23]	6,697	7,012	225	188	8,293	8,559
Non-current assets		**20,212**	**18,829**	**13,687**	**11,925**	**8,346**	**8,639**
Inventories	[24]	5,693	5,197	5,686	5,191	7	6
Trade receivables	[25]	2,257	1,818	2,191	1,678	66	140
Receivables from sales financing	[25]	21,950	19,493	–	–	21,950	19,493
Other receivables	[25]	7,184	6,056	4,829	4,570	3,545	3,761
Marketable securities	[26]	1,857	1,105	1,857	1,105	0	0
Cash and cash equivalents	[27]	1,659	2,333	1,247	2,256	412	77
Current assets		**40,600**	**36,002**	**15,810**	**14,800**	**25,980**	**23,477**
Deferred tax assets	[15]	**175**	**192**	**120**	**249**	**–873**	**–852**
Prepayments	[28]	**488**	**488**	**166**	**143**	**322**	**345**
Total assets		**61,475**	**55,511**	**29,783**	**27,117**	**33,775**	**31,609**
Total assets adjusted for asset backed financing transactions		56,487	51,002	–	–	28,787	27,100

1] before consolidation of transactions between the sub-groups

Equity and liabilities in euro million	Notes	Group 2003	Group 2002	Industrial operations[1] 2003	Industrial operations[1] 2002	Financial operations[1] 2003	Financial operations[1] 2002
Subscribed capital		674	674				
Capital reserves		1,971	1,954				
Revenue reserves		12,671	11,075				
Accumulated other equity		834	168				
Equity	[29]	**16,150**	**13,871**	**13,534**	**11,694**	**3,298**	**2,957**
Minority interest	[29]	**0**	**0**	**0**	–	**0**	**0**
Pension provisions	[30]	2,430	2,257	2,410	2,242	20	15
Other provisions	[31]	6,321	5,409	6,008	5,095	356	355
Provisions		**8,751**	**7,666**	**8,418**	**7,337**	**376**	**370**
Debt	[32]	27,449	26,262	1,288	1,681	26,161	24,581
Trade payables	[33]	3,143	3,069	2,740	2,740	403	329
Other liabilities	[34]	2,634	2,487	1,811	2,970	2,013	1,792
Liabilities		**33,226**	**31,818**	**5,839**	**7,391**	**28,577**	**26,702**
Deferred tax liabilities	[15]	**2,501**	**1,492**	**1,592**	**477**	**777**	**915**
Deferred income	[35]	**847**	**664**	**400**	**218**	**747**	**665**
Total equity and liabilities		**61,475**	**55,511**	**29,783**	**27,117**	**33,775**	**31,609**
Total equity and liabilities adjusted for asset backed financing transactions		56,487	51,002	–	–	28,787	27,100

1] before consolidation of transactions between the sub-groups

BMW Group
Group and sub-group Cash Flow Statements

in euro million	Notes	Group 2003	Group 2002
Net profit		1,947	2,020
Depreciation of leased products		2,511	2,167
Depreciation and amortisation of other non-current assets		2,390	2,149
Increase in provisions		1,155	924
Rover disengagement		49	174
Change in deferred taxes		853	993
Other non-cash income and expense items		–144	1
Gain/loss on disposal of non-current assets and marketable securities		–4	1
Undistributed results from associated companies		13	–17
Changes in current assets and liabilities			
Change in inventories		–640	–810
Increase in receivables		–877	–749
Increase in liabilities		618	397
Cash inflow from operating activities	[38]	**7,871**	**7,250**
Investment in intangible assets and property, plant and equipment		–4,115	–3,951
Proceeds from the disposal of intangible assets and property, plant and equipment		119	111
Loans paid out to Phoenix Consortium		–	–92
Other payments relating to the Rover disengagement		–49	–82
Investment in financial assets		–148	–62
Proceeds from the disposal of financial assets		60	66
Dividends paid by associated companies		–	104
Investment in leased products		–5,785	–5,741
Disposals of leased products		2,707	3,298
Additions to receivables from sales financing		–34,593	–32,463
Payments received on receivables from sales financing		31,246	29,391
Investment in marketable securities		–700	–334
Proceeds from marketable securities		27	40
Cash outflow from investing activities	[38]	**–11,231**	**–9,715**
Payment into equity		17	18
Payment of dividend for the previous year		–351	–350
Proceeds from issue of bonds		5,669	3,721
Repayment of bonds		–3,483	–2,924
Internal financing of financial operations		–	–
Change in debt		1,364	–545
Change in commercial paper		–448	2,540
Cash inflow/outflow from financing activities	[38]	**2,768**	**2,460**
Effect of exchange rate and changes in composition of group on cash and cash equivalents	[38]	**–82**	**–99**
Change in cash and cash equivalents		**–674**	**–104**
Cash and cash equivalents as at 1 January		2,333	2,437
Cash and cash equivalents as at 31 December	[38]	**1,659**	**2,333**

Industrial operations 2003	Industrial operations 2002	Financial operations 2003	Financial operations 2002	
1,695	1,800	427	351	Net profit
6	7	2,146	1,784	Depreciation of leased products
2,369	2,129	21	20	Depreciation and amortisation of other non-current assets
1,157	890	–	41	Increase in provisions
49	174	–	–	Rover disengagement
787	696	167	373	Change in deferred taxes
–59	46	–85	–45	Other non-cash income and expense items
–6	1	2	–	Gain/loss on disposal of non-current assets and marketable securities
13	–17	–	–	Undistributed results from associated companies
				Changes in current assets and liabilities
–651	–808	11	–2	Change in inventories
–1,084	–886	–662	–362	Increase in receivables
694	521	874	423	Increase in liabilities
4,970	**4,553**	**2,901**	**2,583**	**Cash inflow from operating activities**
–4,094	–3,927	–21	–24	Investment in intangible assets and property, plant and equipment
114	110	5	1	Proceeds from the disposal of intangible assets and property, plant and equipment
–	–92	–	–	Loans paid out to Phoenix Consortium
–49	–82	–	–	Other payments relating to the Rover disengagement
–153	–50	–6	–12	Investment in financial assets
52	57	8	9	Proceeds from the disposal of financial assets
–	104	–	–	Dividends paid by associated companies
–283	–232	–5,502	–5,509	Investment in leased products
240	182	2,467	3,230	Disposals of leased products
–	–	–34,593	–32,463	Additions to receivables from sales financing
–	–	31,246	29,391	Payments received on receivables from sales financing
–700	–334	–	–	Investment in marketable securities
27	15	–	25	Proceeds from marketable securities
–4,846	**–4,249**	**–6,396**	**–5,352**	**Cash outflow from investing activities**
17	18	11	–	Payment into equity
–351	–350	–	–	Payment of dividend for the previous year
–	73	5,669	3,648	Proceeds from issue of bonds
–	–	–3,483	–2,924	Repayment of bonds
–425	–51	425	51	Internal financing of financial operations
116	81	1,248	–626	Change in debt
–494	–187	46	2,727	Change in commercial paper
–1,137	**–416**	**3,916**	**2,876**	**Cash inflow/outflow from financing activities**
4	**–5**	**–86**	**–94**	**Effect of exchange rate and changes in composition of group on cash and cash equivalents**
–1,009	**–117**	**335**	**13**	**Change in cash and cash equivalents**
2,256	2,373	77	64	Cash and cash equivalents as at 1 January
1,247	**2,256**	**412**	**77**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in euro million	Subscribed capital	Capital reserve	Revenue reserves	Accumulated other equity			Total
				Translation differences	Fair value measurement of marketable securities	Derivative financial instruments	
31 December 2001	**673**	**1,937**	**9,405**	**–426**	**–115**	**–704**	**10,770**
Subscribed capital increase out of authorised capital	1	–	–	–	–	–	1
Additional paid-in capital on preferred stock	–	17	–	–	–	–	17
Dividends paid	–	–	–350	–	–	–	–350
Translation differences	–	–	–	–115	–	106	–9
Financial instruments	–	–	–	–	–199	1,621	1,422
Net profit 2002	–	–	2,020	–	–	–	2,020
31 December 2002	**674**	**1,954**	**11,075**	**–541**	**–314**	**1,023**	**13,871**
Subscribed capital increase out of authorised capital	0	–	–	–	–	–	0
Additional paid-in capital on preferred stock	–	17	–	–	–	–	17
Dividends paid	–	–	–351	–	–	–	–351
Translation differences	–	–	–	–179	–	–121	–300
Financial instruments	–	–	–	–	168	798	966
Net profit 2003	–	–	1,947	–	–	–	1,947
31 December 2003	**674**	**1,971**	**12,671**	**–720**	**–146**	**1,700**	**16,150**

[1] Basis of preparation

The consolidated financial statements of BMW AG ("BMW Group financial statements" or "Group financial statements") at 31 December 2003 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London and valid at the balance sheet date. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are mandatory for the financial year 2003, were also applied.

The BMW Group and sub-group income statements and balance sheets correspond to the classification provisions contained in § 298 (in conjunction with § 266 and § 275) of the German Commercial Code (HGB), whereby the income statements are presented using the cost of sales format. In order to improve clarity, certain items are aggregated in the income statement and balance sheet. These items are disclosed and analysed separately in the Notes.

In order to support the sale of BMW products, the BMW Group provides various financial services – mainly loan and lease financing – to its customers. The inclusion of the financial services activities of the Group therefore has an impact on the Group financial statements. In order to provide a better insight into the assets, liabilities, financial position and performance of the Group, additional information has been presented in the BMW Group financial statements on the industrial and the financial operations. Financial operations include financial services and the activities of the Group financing companies. The operating interest income and expense of financial operations are included in revenues and cost of sales respectively. The holding companies BMW (UK) Holdings Ltd., Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, and BMW (US) Holding Corp., Wilmington, Del., are allocated to industrial operations. The main business transactions between the industrial and financial operations, which are eliminated in the Group financial statements, are internal sales of products, the provision of funds for Group companies and the related interest. These additional disclosures allow the assets, liabilities, financial position and performance of the industrial and financial operations to be presented, in accordance with the recognition and measurement principles stipulated by IFRSs, as if they were two separate groups. This information, which has not been audited by the Group auditors, is provided on a voluntary basis.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from customer and dealer financing are sold. Similarly rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial and financial companies. These transactions are usually in the form of so-called "asset backed financing" transactions. This involves the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables (including debt collection) and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) and the interpretation in SIC 12 (Consolidation – Special Purpose Entities), such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet. The balance sheet value of the assets sold at 31 December 2003 totalled euro 5.0 billion (31.12.2002: euro 4.5 billion). For an additional understanding of the asset, liability and financial position of the BMW Group, the Group balance sheet contains a supplementary disclosure of the balance sheet total adjusted for assets which have been sold.

The Group's functional currency is the euro. All amounts are disclosed in millions of euros (euro million) unless stated otherwise.

The Group financial statements at 31 December 2003, drawn up in accordance with § 292 a of the German Commercial Code, and the Group management report have been filed with the Commercial Register of the Munich District Court (HRB 42243) and will be provided for inspection on request. In addition the Group financial statements and the Group management report can be obtained on the BMW Group website at www.bmwgroup.com/ir.

[2] Consolidated companies

The BMW Group financial statements include, besides BMW AG, all material subsidiaries, 18 special securities funds and 16 trusts (almost all used for asset backed financing transactions) both in Germany and abroad.

The number of subsidiaries, special purpose funds and trusts included in the Group financial statements changed in 2003 as follows:

	Germany	Foreign	Total
Included at 31.12.2002	34	120	154
Included for the first time in 2003	6	15	21
No longer included in 2003	1	9	10
Included at 31.12.2003	**39**	**126**	**165**

74 subsidiaries (previous year: 86) either dormant or generating a negligible volume of business are not included. Their influence on the Group's assets, liabilities, financial position and earnings is immaterial.

BMW Pensionskasse (Österreich) AG, Steyr, has also not been consolidated because its assets are assigned for a particular purpose.

Non-inclusion of operating subsidiaries reduces total Group revenues by 0.7% (2002: 1.1%).

Three joint ventures have been consolidated using the equity method. The joint venture BMW Brilliance Automotive Ltd., Shenyang, has been included in the Group financial statements since May 2003. One associated company is no longer consolidated using the equity method. As in the previous year, four associated companies are not included due to their relative insignificance to the Group's financial and earnings position. These associated companies are shown at cost, less write-downs where applicable, under investments in other companies.

A complete list of the Group's shareholdings and the list of third party companies in which it has a shareholding that is not of minor importance for the Group have been filed with the Commercial Register of the Munich District Court (HRB 42243).

[3] Changes in the reporting entity

BMW Anlagen Verwaltungs GmbH, Munich, BMW Vertriebszentren Verwaltungs GmbH, Munich, Bürohaus Petuelring GmbH, Munich, Bürohaus Petuelring GmbH & Co. Vermietungs KG, Munich, Rolls-Royce Motor Cars GmbH, Munich, Rolls-Royce Motor Cars NA, LLC, Wilmington, Del., BMW Russland Trading OOO, Moscow, Alphabet Fuhrparkmanagement GmbH, Munich, 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, have all been consolidated for the first time with effect from 1 January 2003.

BMW Maschinenfabrik Spandau GmbH & Co. Anlagen und Betriebs oHG, Berlin, ceased to be a consolidated group company as a result of the reduction of the shareholding to 49 % and softlab Systems, Inc., San Francisco, Cal., ceased to be a consolidated group company as a result of that company's sale.

Hireus Ltd., Bracknell, was renamed to Rolls-Royce Motor Cars Ltd., Bracknell, and BMW Belgium S.A./N.V., Bornem, was renamed to BMW Belgium Luxembourg S.A./N.V., Bornem.

The group reporting entity also changed by comparison to the previous year as a result of the first-time consolidation of seven special purpose entities and the deconsolidation of two special purpose entities.

The changes in the composition of the Group do not have a material impact on the assets, liabilities, financial position and earnings of the Group.

[4] Consolidation principles

The equity of subsidiaries is consolidated using the purchase method, whereby investments in subsidiaries are set off against the Group's share of the equity of consolidated subsidiaries at the date of acquisition (IAS 22 Business Combinations). Any difference between purchase cost and the Group's share of equity is allocated, on the basis of the group's shareholding, to the identifiable assets and liabilities of the subsidiary where the difference results from previously undisclosed reserves or liabilities. Any excess of cost over the amounts allocated to identifiable assets and liabilities is recognised as goodwill and is amortised over its future estimated useful life (up to a maximum of 15 years) on a straight-line basis. Amortisation is recognised as an expense. Goodwill of euro 91 million which arose prior to 1 January 1995 remains netted against reserves as permitted by IAS 22. When a Group company is deconsolidated, goodwill is removed from the balance sheet with income statement effect.

Receivables, liabilities, provisions, income and expenses and profits between consolidated companies (inter-group profits) are eliminated on consolidation.

Investments in other companies are accounted for using the equity method, when significant influence can be exercised (IAS 28 Accounting for Investments in Associates). This is normally the case when voting rights of between 20 % and 50 % are held (associated companies). Under the equity method, investments are measured at the group's share of equity taking account of fair value adjustments on acquisition, based on the group's shareholding. Any difference between the cost of investment and the group's share of equity is accounted for in accordance with the purchase method. All other investments in other companies are measured at amortised cost.

Consolidation principles are unchanged from the previous year.

[5] Foreign currency translation

The financial statements of consolidated companies which are drawn up in a foreign currency are translated using the functional currency concept (IAS 21: The Effects of Changes in Foreign Exchange Rates) and the foreign entity method. Since foreign subsidiaries operate their businesses autonomously, from a financial, economical and organisational point of view, the functional currency of these companies is identical to the local currency. Income and expenses of foreign subsidiaries are therefore translated in the Group financial statements at the average exchange rate for the year, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation of shareholders' equity are offset directly against accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also offset directly against accumulated other equity.

Foreign currency receivables and payables in the individual entity accounts of BMW AG and subsidiaries are recorded at cost. Exchange gains and losses computed at the balance sheet date are recognised as income or expense.

The exchange rates of the major currencies have moved against the euro as follows:

	Closing rate		Average rate	
	31.12.2003	31.12.2002	2003	2002
US Dollar	1.25	1.04	1.13	0.95
British Pound	0.70	0.65	0.69	0.63
South African Rand	8.27	9.02	8.53	9.90
Japanese Yen	133.82	123.96	131.04	118.08
Australian Dollar	1.67	1.86	1.74	1.74

[6] Accounting principles

The financial statements of BMW AG and of its subsidiaries in Germany and elsewhere have been prepared for consolidation purposes using uniform accounting policies in accordance with IAS 27.

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods are transferred to the customer, the sales price is agreed or determinable and receipt of payment can be assumed. Revenues are stated net of discounts, allowances, settlement discount and rebates. In the case of long-term construction work, revenues are, in accordance with IAS 18 (Revenue) and IAS 11 (Construction Contracts), not recognised by reference to the stage of completion (percentage of completion method), since the effect on revenue recognition is at present not material for the BMW Group. Revenues also include lease rentals and interest income from financial services. Revenues for the financial operations sub-group also include the interest income earned by group financing companies.

Profits arising on the sale of vehicles for which a group company retains a repurchase commitment (buy-back contracts) are not recognised until such profits have been realised. The vehicles are included in inventories and stated at cost.

Cost of sales comprises the cost of manufacturing products and the acquisition cost of purchased merchandise which have been sold. It includes all directly attributable material and production costs and all indirect production overheads. These include depreciation of property, plant and equipment and amortisation of other intangible assets relating to production and write-downs on inventories. Cost of sales also includes freight and insurance costs relating to deliveries to dealers and agency fees in the case of direct sales. Expenses which are directly attributable to financial services business and interest expense from refinancing the entire financial services business, including the expense of risk provisions and write-downs, are reported in cost of sales. Cost of sales for the financial operations sub-group also includes the interest expense of group financing companies.

Research costs and development costs which are not capitalised are recognised as an expense when incurred.

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) **public sector** grants are not recognised until there is reasonable assurance that the conditions attaching to them have been complied with and the grants will be received. They are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share). Undiluted earnings per share are calculated for ordinary and preferred stock shares by dividing the net profit attributable to each category of stock – net of minority interests – by the average number of outstanding shares. The net profit is accordingly allocated to the different categories of shares. The portion of the group net profit for the year which is not being distributed is allocated to each category of stock based on the number of outstanding shares. Net profit available for distribution is allocated in accordance with the actual payment. Diluted earnings per share would have to be disclosed separately.

Purchased and internally generated **intangible assets** are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition and manufacturing cost and amortised on a straight-line basis over their estimated useful lives. With the exception of goodwill and capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and five years.

Development costs for vehicle and engine projects are capitalised at production cost, to the extent that the costs can be allocated reliably and the technical feasibility and marketing are assured. It must also be probable that development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process and an appropriate proportion of development-related overheads. Capitalised development costs are amortised on a systematic basis following the commencement of production over the estimated product life which is generally seven years.

All items of **property, plant and equipment** are considered to have finite useful lives. They are stated at acquisition or manufacturing cost less systematic depreciation based on the estimated useful lives of the assets. Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method.

Expenditure on low value non-current assets is written off in full in the year of acquisition.

Systematic depreciation is based on the following useful lives, applied throughout the Group:

in years	
Office and factory buildings, including utility distribution buildings	10 to 40
Residential buildings	40 to 50
Plant and machinery	5 to 10
Other facilities, factory and office equipment	3 to 10

For machinery used in multiple-shift operations, depreciation rates are increased to account for the additional utilisation.

The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process and an appropriate portion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing cost.

Non-current assets also include assets relating to **leases**. The BMW Group uses property, plant and equipment as the lessee and also leases assets, mainly vehicles manufactured by the Group, as lessor. IAS 17 (Leases) contains rules for determining, on the basis of the risks and rewards of the parties to the lease, the economic owner of the assets. In the case of finance leases, the assets are attributed to the lessee and in the case of operating leases, the assets are attributed to the lessor.

In accordance with IAS 17, assets leased under finance leases are measured at their fair value at the inception of the lease or at the present value of the lease payments, if lower. The assets are depreciated using the straight-line method over their estimated useful lives or over the lease period, if shorter. The obligations for future lease instalments are recognised as liabilities within debt.

Where Group products are recognised by BMW Group leasing companies as leased assets under operating leases, they are measured at manufacturing cost. All other leased products are measured at acquisition cost. All leased products are depreciated using the straight-line method over the period of the lease to the lower of their imputed residual value or estimated fair value.

The recoverability of the carrying amount of **intangible assets** (including capitalised development costs and goodwill) and **property, plant and equipment** is tested regularly for impairment in accordance with IAS 36 (Impairment of Assets) on the basis of cash generating units. An impairment loss is recognised when the recoverable amount (defined as the higher of the asset's net selling price and its value in use) is lower than the carrying amount. If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of its rolled-forward depreciated or amortised cost.

Financial assets are accounted for on the basis of the settlement date. On initial recognition, they are measured at acquisition cost, including transaction costs.

Subsequent to initial recognition, available-for-sale and held-for-trading financial assets are measured at fair value. When market prices are not available, the fair value of available-for-sale financial assets is measured using appropriate valuation techniques e. g. discounted cash flow analysis based on market information available at the balance sheet date.

Loans and receivables which are not held by the Group for trading (originated loans and receivables), held-to-maturity financial investments and all financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably, are measured, to the extent that they have a fixed term, at amortised cost, using the effective interest rate method. When the financial assets do not have a fixed term, they are measured at acquisition cost.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), assessments are made regularly whether there is any objective evidence that a financial asset or group of assets may be impaired. If any such evidence exists, an impairment loss is included in net profit or loss for the period. Gains and losses on available-for-sale financial assets are recognised directly in equity until the financial asset is disposed of or is determined to be impaired, at which time the cumulative loss previously recognised in equity is included in net profit or loss for the period.

Investments in non-consolidated group companies reported in **non-current financial assets** are measured at cost, since published price quotations in an active market are not available and their fair value cannot be reliably determined.

Associated companies are consolidated using the equity method, whereby the investment is measured at the Group's share of the equity of the company.

Investments in other companies are measured at their quoted market price or fair value. When these values are not available or cannot be reliably determined, investments in other companies are measured at cost.

Non-current marketable securities and loans are measured according to the category of financial asset to which they are classified. No held-for-trading financial assets are included under this heading.

Inventories of raw materials, supplies and goods for resale are stated at the lower of average acquisition cost and net realisable value.

Work in progress and finished goods are stated at the lower of manufacturing cost and net realisable value. Manufacturing cost comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing cost.

With the exception of derivative financial instruments, all **receivables and other current assets** are items originated by the Group and are not held for trading. They are measured at amortised cost. Receivables with maturities of over one year which bear no or lower than market interest rate are discounted. Allowances are recognised to take account of all identifiable risks.

Receivables from sales financing comprise receivables from customer, dealer and lease financing.

Derivative financial instruments are only used within the BMW Group for hedging purposes in order to reduce the currency, interest rate and market price risks from operating activities and related financing requirements. All derivative financial instruments (such as interest, currency and combined interest/currency swaps as well as forward currency contracts) are measured in accordance with IAS 39 at their fair value, irrespective of the purpose of or the reason for entering into such instruments. In those cases where hedge accounting is applied, changes in fair value are recognised either in income or directly in equity under accumulated other equity, depending on whether the transactions are classified as fair value hedges or cash flow hedges. In the case of fair value hedges, the results of the fair value measurement of derivative financial instruments and the related hedged items are recognised in the income statement. In the case of fair value changes from cash flow hedges which are used to mitigate the future cash flow risk on a recognised asset or liability or on forecasted transactions, the portion of the unrealised gains and losses on the hedging instrument that is determined to be an effective hedge is recognised initially directly in accumulated other equity. Any such gains or losses are recognised subsequently in the income statement when the hedged item is recognised in the income statement. The ineffective portion of the gains or losses from the fair value measurement is recognised immediately in the income statement. If, contrary to the normal case within the BMW Group, hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the income statement.

Marketable securities reported in current assets are all available-for-sale financial assets.

In accordance with IAS 12 (Income Taxes), **deferred tax assets and liabilities** are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of tax losses available for carry forward, where usage is probable. Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

Provisions for pensions and similar obligations are recognised using the projected unit credit method in accordance with IAS 19 (Employee Benefits). Under this method, not only obligations relating to known vested benefits at the reporting date are recognised, but also the effect of future increases in pensions and salaries. This involves taking account of various input factors which are evaluated on a prudent basis. The provision is derived from an independent actuarial valuation which takes into account the relevant biometric factors.

Actuarial gains and losses are only recognised as income or expenses when their net cumulative amount exceeds 10% of the obligations. In this case they are, to the extent that the gains or losses exceed 10% of the obligations, recognised over the average remaining working lives of the employees. The expense related to the reversal of discounting on pension obligations and the income from the expected return on plan assets are reported separately as part of the financial result. All other costs relating to allocations to pension provisions are allocated to costs by function in the income statement.

Other provisions are recognised when the Group has an obligation to a third party, an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. The measurement of other provisions – in particular in the case of warranty obligations and expected losses on onerous contracts – takes account of all cost components which are included in the inventory valuation. Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the balance sheet date.

Financial liabilities are measured on first-time recognition at cost, which is equivalent to the fair value of the consideration given. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments, measured at amortised cost. The BMW Group has no liabilities which are held for trading. Liabilities from finance leases are stated at the present value of the future lease payments and disclosed under debt.

The preparation of the Group financial statements in accordance with standards issued by the IASB requires management to make certain assumptions and **estimates** that affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. The assumptions and estimates relate principally to the group-wide determination of useful economic lives, the recognition and measurement of provisions and the recoverability of future tax benefits. Actual amounts could in certain cases differ from those assumptions and estimates. Where new information becomes available, differences are reflected in the income statement.

[7] Reclassifications of the Group financial statements at 31 December 2002

Following the conversion from German accounting rules to International Accounting Standards, now International Financial Reporting Standards, at 31 December 2001 for group reporting purposes, the BMW Group harmonised, in line with international practice, its internal and external financial reporting systems during the financial year 2003. The greater emphasis placed by international accounting standards on reflecting economic reality in the financial statements, enables the BMW Group to discontinue the use of different methods for presenting results for internal and external purposes, a time-consuming approach often applied in Germany. The objective of international accounting standards is to provide information to users that is relevant for their economic decision-making processes. This is consistent with the requirements placed on an efficient internal financial reporting system. Information collated by the harmonised internal and external reporting systems, which is considered useful and relevant for the purposes of managing the business, is reflected, in aggregated form, through external reporting. This permits a common language to be used within the Group and for communications with the capital markets. Harmonised reporting structures also improve the efficiency of the accounting and reporting systems. The changes in presentation caused by the harmonisation did not have any impact on the profit from ordinary activities and net profit.

The harmonisation of internal and external financial reporting systems gave rise to the following reclassification in the income statement for the financial year 2002:

in euro million	1.1. to 31.12.2002 Group financial statements 2002	in %	1.1. to 31.12.2002 2002 reclassified	in %	Change
Revenues	42,282	100.0	42,411	100.0	+129
Cost of sales	–31,542	74.6	–32,754	77.2	–1,212
Gross profit	**10,740**	**25.4**	**9,657**	**22.8**	**–1,083**
Sales costs	–4,331	10.2	–3,642	8.6	+689
Administrative costs	–572	1.4	–747	1.8	–175
Research and development costs	–2,011	4.8	–2,133	5.0	–122
Other operating income	1,340	3.2	1,077	2.5	–263
Other operating expenses	–1,788	4.2	–707	1.6	+1,081
Profit before financial result	**3,378**	**8.0**	**3,505**	**8.3**	**+127**
Financial result	–81	0.2	–208	0.5	–127
Profit from ordinary activities	**3,297**	**7.8**	**3,297**	**7.8**	**–**
Income taxes	–1,277	3.0	–1,277	3.0	–
Minority interest	0	–	0	–	–
Net profit	**2,020**	**4.8**	**2,020**	**4.8**	**–**

The main reclassifications related to the following changes in presentation:

Processing fee income generated from financial services business is now reported in revenues rather than in other operating income. Corresponding expenses are reported in cost of sales rather than in other operating expenses.

The expense for allocations to provisions for residual value risks, allowances recognised on lease vehicles for residual value risks and allowances on receivables from sales financing are now reported in cost of sales rather than in other operating expenses.

Expenses for freight and insurance for deliveries to dealers are now reported in costs of sales rather than in sales costs.

Agency fee cost relating to financial services business and direct sales are now reported in cost of sales rather than in sales costs.

A number of administrative costs have been reclassified, mainly from cost of sales and sales costs, to administrative costs.

Expenditure for motorsport activities are now reported as research and development costs. Previously they were included in other operating expenses.

The cost of reversing the discounting of pension provisions and the income from the expected return on pension plan assets are reported as part of the financial result. Previously these costs were included in functional costs.

A detailed analysis of reclassifications is provided in the notes to the individual items of the income statement.

[8] New accounting rules

In June 2003, the IASB issued IFRS 1 (First-time Adoption of International Financial Reporting Standards), which sets out the rules for the first-time application of standards issued by the IASB and which becomes effective on 1 January 2004. This standard does not have any impact on the BMW Group financial statements.

Revised standards were published in December 2003 in conjunction with the IASB Improvement Project. Mandatory application is required from 1 January 2005. Early application is encouraged. This applies to the following standards:
– IAS 1 (Presentation of Financial Statements)
– IAS 2 (Inventories)
– IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
– IAS 10 (Events after the Balance Sheet Date)
– IAS 16 (Property, Plant and Equipment)
– IAS 17 (Leases)
– IAS 21 (The Effect of Changes in Foreign Exchange Rates)
– IAS 24 (Related Party Disclosures)
– IAS 27 (Consolidated and Separate Financial Statements)
– IAS 28 (Investments in Associates)
– IAS 31 (Interests in Joint Ventures)
– IAS 32 (Financial Instruments – Disclosures and Presentation)
– IAS 33 (Earnings per Share)
– IAS 39 (Financial Instruments – Recognition and Measurement)
– IAS 40 (Investment Property)

The revised standards have not been applied for the Group financial statements for the financial year 2003.

[9] Revenues

Revenues by activity comprise the following:

in euro million	2003	2002 reclassified
Sales of products and related goods	34,498	34,603
Income from lease instalments	2,532	2,610
Sale of products previously leased to customers	2,642	3,320
Interest income on loan financing	1,278	1,264
Other income	575	614
Revenues	**41,525**	**42,411**

Group revenues include revenues of euro 6,709 million (2002: euro 7,437 million) relating to financial services business.

An analysis of revenues by business segment and geographical region is shown in the segment information on pages 110 to 113.

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Revenues as per Group Financial Statements 2002		**42,282**
Reclassification from other operating income		+129
from sundry operating income		
– processing fee income	+129	
Revenues 2002 reclassified		**42,411**

*see also Note [7]

[10] Cost of sales

Cost of sales comprises:

in euro million	2003	2002 reclassified
Manufacturing costs	22,997	23,138
Warranty expenditure	1,487	1,408
Cost of sales directly attributable to financial services	4,707	5,387
Interest expense for financial operations	782	1,012
Expense for risk provisions and write-downs for financial services business	479	305
Other cost of sales	1,638	1,504
Cost of sales	**32,090**	**32,754**

Cost of sales includes euro 5,968 million (2002: euro 6,704 million) relating to the financial services business.

Expense for risk provisions and write-downs for financial services business includes write-downs of euro 265 million (2002: euro 175 million) on receivables from financial services.

Manufacturing costs for industrial operations include impairment losses on property, plant and equipment of euro 56 million (2002: euro – million). Public subsidies in the form of reduced taxes on asset and consumption-based taxes amounted to euro 15 million (2002: euro 18 million).

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Cost of sales as per Group Financial Statements 2002		**31,542**
Reclassification to administrative costs		–128
– corporate administrative costs	–128	
Reclassification to financial result		–86
within interest income		
– expected return on plan assets	+311	
within interest expenses		
– expense from reversing the discounting of pension obligations	–397	
Reclassification from sales costs		+619
– expense for risk provisions and write-downs for financial services business	+11	
– freight costs, dealer commission	+579	
– sundry cost of sales	+29	
Reclassification from research and development costs		+8
– sundry cost of sales	+8	
Reclassifications from other operating income		–118
income from the release of provisions		
– release of risk provisions and write-downs	–36	
income from the reversal of write-downs		
– release of risk provisions and write-downs	–82	
Reclassifications from other operating expenses		+917
from expense for allocations to provisions		
– expense for risk provisions and write-downs	+69	
from expense for write-downs		
– expense for risk provisions and write-downs	+641	
from sundry operating expenses		
– sundry cost of sales	+207	
Cost of sales 2002 reclassified		**32,754**

* see also Note [7]

[11] Sales and administrative costs

Sales costs amount to euro 3,670 million (2002: euro 3,642 million, reclassified) and comprises mainly marketing, advertising and sales personnel costs.

Administrative costs amount to euro 776 million (2002: euro 747 million, reclassified). These comprise expenses for administration which are not attributable to production or sales functions.

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Sales and administrative costs as per Group Financial Statements 2002		**4,903**
Reclassifications to cost of sales		–619
to cost of sales directly attributable to financial services business		
– dealer commission	–129	
to expense for risk provisions and write-downs for financial services business		
– expense for risk provisions and write-downs	–11	
to other cost of sales		
– freight costs, dealer commission	–450	
– sundry cost of sales	–29	
Reclassification to financial result		–26
within interest income		
– expected return on plan assets	+14	
within interest expenses		
– expense from reversing the discounting of pension obligations	–40	
Reclassification from cost of sales		+128
– corporate administrative costs	+128	
Reclassification from research and development costs		+3
– sundry cost of sales	+3	
Sales and administrative costs 2002 reclassified		**4,389**

*see also Note [7]

[12] Research and development costs

Research and development costs of euro 2,146 million (2002: euro 2,133 million) comprise all research costs and development costs not recognised as assets as well as amortisation and disposals of capitalised development costs of euro 583 million (2002: euro 536 million).

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Research and development costs as per Group Financial Statements 2002		**2,011**
Reclassification to cost of sales		–8
to other cost of sales		
– sundry cost of sales	–8	
Reclassification to administrative costs		–3
– sundry cost of sales	–3	
Reclassification to financial result		–15
within interest expenses		
– expense from reversing the discounting of pension obligations	–15	
Reclassification from other operating income		–16
from sundry operating income		
– motorsport activities	–16	
Reclassification from other operating expenses		+164
from sundry operating expenses		
– motorsport activities	+164	
Research and development costs 2002 reclassified		**2,133**

* see also Note [7]

[13] Other operating income and expenses

in euro million	2003	2002 reclassified
Exchange gains	210	175
Income from the release of provisions	156	201
Income from the reversal of write-downs	107	91
Gains on the disposal of non-current assets	25	21
Sundry operating income	613	589
Other operating income	**1,111**	**1,077**
Exchange losses	158	97
Expense for additions to provisions	207	262
Expenses for write-downs on receivables	28	54
Sundry operating expenses	208	294
Other operating expenses	**601**	**707**
Other operating income and expenses	**510**	**370**

Sundry operating income includes public-sector grants of euro 33 million (2002: euro 11 million) and one-off income from compensation claims of euro 23 million.

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Other operating income and expenses as per Group Financial Statements 2002		**– 448**
Other operating income as per Group Financial Statements 2002		**1,340**
Reclassification to revenues		– 129
to other revenues		
– processing fee income	– 129	
Reclassification to cost of sales		– 118
to expense for risk provisions and write-downs for financial services business		
– release of risk provisions and write-downs	– 118	
Reclassification to research and development costs		– 16
– motorsport activities	– 16	
Other operating income reclassified		**1,077**
Other operating expenses as per Group Financial Statements 2002		**1,788**
Reclassifications to cost of sales		+ 917
to cost of sales attributable directly to financial services business		
– sundry cost of sales	+ 207	
to expense for risk provisions and write-downs for financial services business		
– expense for risk provisions and write-downs	+ 412	
to other cost of sales		
– expense for risk provisions and write-downs	+ 298	
Reclassification to research and development costs		+ 164
– motorsport activities	+ 164	
Other operating expenses reclassified		**707**
Other operating income and expenses 2002 reclassified		**370**

* see also Note [7]

[14] Financial result

in euro million	2003	2002 reclassified
Income from investments	30	14
– thereof from subsidiaries: euro 3 million (2002: euro 1 million)		
Losses (2002: income) from associated companies	13	20
Expenses from loss transfers	–	1
Impairment losses on investments in subsidiaries and associated companies	20	6
Result on investments	**– 3**	**27**
Expected return on plan assets	249	325
Other interest and similar income	281	385
– thereof from subsidiaries euro 17 million (2002: euro 22 million)		
Interest and similar income	**530**	**710**
Expense from reversing the discounting of pension obligations	410	452
Expense from reversing the discounting of other long-term provisions	104	71
Write-downs on current marketable securities	1	22
Sundry interest and similar expenses	296	377
– thereof to subsidiaries euro 2 million (2002: euro 3 million)		
Interest and similar expenses	**811**	**922**
Net interest expense	**– 281**	**– 212**
Gains (2002: losses) on the fair value measurement of financial instruments	136	23
Other financial result	**136**	**– 23**
Financial result	**– 148**	**– 208**

Income from investments arises principally from the investment in Rolls-Royce plc, London. Losses from associated companies include the equity results of the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich. Write-downs on investments and on current marketable securities pursuant to § 298 (1) HGB (in conjunction with § 275 (3) HGB) amounted to euro 21 million (2002: euro 28 million).

Within other financial result, income and expenses resulting from the fair value measurement of hedged items and hedging instruments have been presented on a net basis in order to reflect appropriately the economic effects of the underlying hedging relationship.

Notes to the reclassification of the previous year's figures*:

in euro million		2002
Financial result as per Group Financial Statements 2002		**–81**
Reclassifications from cost of sales		–86
– expected return on plan assets	+311	
– expense from reversing the discounting of pension obligations	–397	
Reclassification from sales and administrative costs		–26
– expected return on plan assets	+14	
– expense from reversing the discounting of pension obligations	–40	
Reclassification from research and development costs		–15
– expense from reversing the discounting of pension obligations	–15	
Net presentation of interest in conjunction with swap transactions		0
– interest income	+240	
– interest expenses	–240	
Financial result 2002 reclassified		**–208**

* see also Note [7]

[15] Income taxes

Income taxes comprises the following:

in euro million	2003	2002
Current tax expense	441	324
Deferred tax expense	817	953
	1,258	**1,277**

The increase in current taxes is mainly attributable to the fact that tax losses arising in the USA in conjunction with the Worker Assistance and Job Creation Act could not, unlike the previous year, be fully offset against taxable income.

The reduction in the deferred tax expense relates to the first-time recognition of deferred tax assets of euro 192 million on the tax losses which cannot be carried back in the USA.

Deferred taxes are computed using tax rates based on laws already enacted in the various tax jurisdictions or using rates that are expected to apply at the date when the amounts are paid or recovered. In Germany, on the basis of the one-off effect of the Flood Victims Solidarity Act applicable for 2003, a corporation tax rate of 26.5 % applies. After taking account of the average multiplier rate (Hebesatz) of 410 % for municipal trade tax and the solidarity charge of 5.5 %, the overall tax rate for BMW companies in Germany is 40.21 % (2002: 38.9 %). The tax rates for companies outside Germany range from 10.0 % to 41.7 % (2002: 10.0 % to 42.0 %). As a result of changed tax rates in Germany and elsewhere, deferred tax expense was reduced by euro 11 million. In the previous year, the deferred tax expense was increased by euro 7 million as a result of changes in tax rates.

No taxes arose in conjunction with extraordinary items or from the discontinuation of operations in the year under report. The income tax expense does not include any amounts relating to changes in accounting policies.

Deferred taxes were not recognised on retained profits of euro 9,419 million (2002: euro 8,973 million), as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

Deferred tax assets and liabilities at 31 December were attributable to the positions, as shown below. For the year under report, deferred tax assets and liabilities relating to provisions were offset against each other within the appropriate position, whereas in the previous year, the offsetting effect was shown on the line “netting”. Comparative figures have been reclassified.

in euro million	Deferred tax assets		Deferred tax liabilities	
	2003	2002	2003	2002
Intangible assets and property, plant and equipment	1,304	1,424	4,003	3,732
Financial assets	1	1	2	2
Current assets	867	601	4,130	3,687
Tax loss carryforwards	1,117	1,556	–	–
Provisions	721	729	23	56
Liabilities	2,419	2,592	543	400
Consolidations	1,186	1,099	139	120
	7,615	8,002	8,840	7,997
Valuation allowance	– 1,101	– 1,305	–	–
Netting	– 6,339	– 6,505	– 6,339	– 6,505
	175	**192**	**2,501**	**1,492**

Deferred tax assets on tax loss carryforwards decreased by euro 439 million compared to the previous year. This was due to the further utilisation of tax losses, in particular by BMW AG. A valuation allowance is recognised on deferred tax assets when recoverability is uncertain. In determining the level of the valuation allowance, all positive and negative factors concerning the likely existence of sufficient taxable profits in the future are taken into account. These estimates can change depending on the actual course of events. The valuation allowance includes euro 226 million (2002: euro 293 million) on tax loss carryforwards and euro 440 million (2002: euro 489 million) on losses on disposals (so called "capital losses") in the United Kingdom, which can only be offset against capital gains, but not against operating profits. In addition, there is a valuation allowance of euro 435 million (2002: euro 523 million) on deferred tax assets relating to capital allowances in the United Kingdom which is shown above in intangible assets and property, plant and equipment. The valuation allowance decreased in total by euro 204 million. This includes euro 129 million resulting from the translation of foreign currency financial statements and which are recognised directly in equity, the deferred tax expense being therefore only reduced by euro 75 million.

Equity is reduced at the balance sheet date by deferred tax liabilities of euro 474 million (2002: euro 1,042 million) recognised directly in equity. As in the previous year, this was the result of the positive market value changes of interest and currency derivatives recognised directly in equity.

The actual tax expense for the financial year 2003 of euro 1,258 million (2002: euro 1,277 million) is euro 31 million lower (2002: euro 6 million) than the expected tax expense of euro 1,289 million (2002: euro 1,283 million) which would theoretically arise if the tax rate of 40.21% (2001: 38.9%), applicable for German companies, was applied across the Group. The difference between the expected and actual tax expense is attributable to the following:

in euro million	2003	2002
Expected tax expense	**1,289**	**1,283**
Variances due to different tax rates	– 101	– 98
Tax reductions (–)/tax increases (+) as a result of non-taxable income and non-deductible expenses	36	65
Tax expense (+)/benefits (–) for prior periods	102	32
Other variances	– 68	– 5
Actual tax expense	**1,258**	**1,277**

The tax expense/benefits for prior years include in 2002 a corporation tax reduction of euro 50 million relating to the dividend payments of BMW AG. In the year under report, there was no similar reduction. As a consequence of the Tax Preference Reduction Act enacted on 16 May 2003, the claims for the corporation tax reduction on the payment of dividends by BMW AG in 2003 were suspended. Other variances include a reversal of the valuation allowance (euro 40 million) on deferred tax assets relating to tax losses available for carry forward in the United Kingdom.

[16] Minority interest

The minority interest in profit totalling euro 0.235 million (2002: euro 0.201 million) comprises euro 0.223 million (2002: euro 0.201 million) relating to the minority shareholder Euro Lloyd Reisebüro GmbH, Cologne, and euro 0.012 million (2002: euro – million) relating to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

[17] Earnings per share

		2003	2002
Net profit for the year after minority interest	euro million	1,947.0	2,020.0
Profit attributable to common stock	euro million	1,797.8	1,867.0
Profit attributable to preferred stock	euro million	149.2	153.0
Average number of common stock shares outstanding during the year	number	622,227,918	622,227,918
Average number of preferred stock shares outstanding during the year	number	51,275,972	50,638,232
Earnings per share of common stock	euro	**2.89**	**3.00**
Earnings per share of preferred stock	euro	**2.91**	**3.02**
Dividend per share of common stock	euro	**0.58**	**0.52**
Dividend per share of preferred stock	euro	**0.60**	**0.54**

Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant years. Diluted earnings per share were not applicable in either the current or prior year.

[18] Other disclosures to the income statement

The income statement includes personnel costs as follows:

in euro million	2003	2002
Personnel costs		
Wages and salaries	5,951	5,541
Social security, retirement and welfare costs	1,115	1,047
– thereof for retirement costs: euro 657 million (2002: euro 603 million)		
	7,066	**6,588**

The average number of employees during the year was:

	2003	2002
Wage earners	54,828	54,013
Other employees	43,317	40,697
	98,145	**94,710**
Apprentices	3,931	3,768
	102,076	**98,478**

BMW Group
Notes to the Group Financial Statements
Notes to the Balance Sheet

[19] Analysis of changes in Group non-current assets

in euro million	Acquisition and manufacturing costs					
	1.1.2003[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2003
Development costs	4,335	–	996	–	433	4,898
Other intangible assets	461	–9	97	–	82	467
Intangible assets	**4,796**	**–9**	**1,093**	**–**	**515**	**5,365**
Land, titles to land, buildings, including buildings on third party land	4,625	–119	190	161	31	4,826
Plant and machinery	15,133	–299	1,519	474	500	16,327
Other facilities, factory and office equipment	1,888	–66	261	–1	175	1,907
Advance payments made and construction in progress	1,176	–6	1,182	–634	25	1,693
Property, plant and equipment	**22,822**	**–490**	**3,152**	**–**	**731**	**24,753**
Investments in subsidiaries	138	–3	73	–	60	148
Investments in associated companies	42	–2	54	–	33	61
Investments in other companies	521	–	1	–	–	522
Non-current marketable securities	31	–2	6	–	21	14
Other non-current loans receivable	33	–3	–	–	28	2
Financial assets	**765**	**–10**	**134**	**–**	**142**	**747**
Leased products	**8,591**	**–1,239**	**4,139**	**–**	**3,275**	**8,216**
Non-current assets	**36,974**	**–1,748**	**8,518**	**–**	**4,663**	**39,081**

1] including the gross balances brought forward of companies consolidated for the first time
2] including impairment losses of euro 56 million
3] fair value measurement changes recognised directly in accumulated other equity (euro 140 million)

Depreciation and amortisation				Reversals		Net book values	
1.1.2003[1]	Translation differences	Current year[2]	Disposals		31.12.2003	31.12.2003	31.12.2002
1,737	–	582	432	–	1,887	3,011	2,598
316	–4	48	82	–	278	189	143
2,053	**–4**	**630**	**514**	**–**	**2,165**	**3,200**	**2,741**
1,908	–36	186	11	–	2,047	2,779	2,675
10,906	–198	1,325	445	–	11,588	4,739	4,227
1,385	–43	228	161	–	1,409	498	500
–	–	1	–	–	1	1,692	1,176
14,199	**–277**	**1,740**	**617**	**–**	**15,045**	**9,708**	**8,578**
13	–	16	7	–	22	126	125
–	–	–	–	–	–	61	42
253	–	4	–	140[3]	117	405	268
–	–	–	–	–	–	14	31
1	–	–	–	–	1	1	32
267	**–**	**20**	**7**	**140**	**140**	**607**	**498**
1,429	**–207**	**865**	**568**	**–**	**1,519**	**6,697**	**7,012**
17,948	**–488**	**3,255**	**1,706**	**140**	**18,869**	**20,212**	**18,829**

[20] Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tooling costs, licences, purchased development projects and software. Changes in intangible assets during the year are shown in the analysis of changes in Group non-current assets on pages 84 and 85.

[21] Property, plant and equipment

A breakdown of the different classes of property, plant and equipment disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group non-current assets on pages 84 and 85.

Property, plant and equipment includes leased plant and machinery and other equipment amounting to euro 320 million (2002: euro 421 million) and relates primarily to the Oxford and Hams Hall production plants. Due to the nature of the lease arrangements (finance leases), economic ownership of these assets is attributable to the Group. The leases for plant and machinery and other equipment at the Oxford production plant, with a carrying amount of euro 149 million (2002: euro 200 million) at 31 December, run for periods up to 2013 at the latest. For each of the leases, there is a recurring option to extend the leases by one year. A purchase option was not agreed. The lease for plant and machinery and other equipment at the Hams Hall production plant, with a carrying amount of euro 141 million (2002: euro 194 million), runs until 2018 and may be extended for one year periods thereafter. A purchase option was not agreed.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2003	31.12.2002
Total of future minimum lease payments		
due within one year	77	83
due between one and five years	330	344
due later than five years	527	692
	934	**1,119**
Interest portion of the future minimum lease payments		
due within one year	22	17
due between one and five years	76	86
due later than five years	155	232
	253	**335**
Present value of future minimum lease payments		
due within one year	55	66
due between one and five years	254	258
due later than five years	372	460
	681	**784**

[22] Financial assets

A breakdown of the different classes of financial assets disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group non-current assets on pages 84 and 85.

Additions to investments in subsidiaries relate to share capital increases for the companies BMW Polska Sp. z o. o., Warsaw, BMW Renting (Portugal), Lda., Lisbon, the acquisition of BMW Roma S. r. l., Rome, and the foundation of BMW Automotive (Ireland) Ltd., Dublin, BMW Portugal Lda., Lisbon, BMW Hellas Trade of Cars SA, Athens, and BMW Holding Malaysia Sdn Bhd, Kuala Lumpur.

Disposals of investments in subsidiaries relate mainly to the initial consolidation of Alphabet Fuhrparkmanagement (Schweiz) AG, Otelfingen, BMW Russland Trading OOO, Moscow, Alphabet Italia S.p.A., Milan, Alphabet Belgium N.V., Bornem, and Alphabet Fleet Services España S.L., Madrid, and to the sale of EBB, Inc., Wilmington, Del., and BMW of Beverly Hills, Inc., Wilmington, Del..

Investments in associated companies comprise primarily the Group's interest in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich. The Group's interest in these joint ventures, on an aggregated basis, was as follows:

in euro million	31.12.2003
Disclosures relating to the income statement	
Income	225
Losses	217
Disclosures relating to the balance sheet	
Non-current assets	139
Current assets	229
Equity	83
Non-current liabilities	104
Current liabilities	181

In the previous year, the joint ventures TRITEC Motors Ltda., Campo Largo, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich were already in operation. Income, expenses, assets and liabilities of these joint ventures were not disclosed in the previous year since they were not material in relation to the relevant items in the Group financial statements.

The amount shown as a disposal of investments in associated companies relates to the sale of Rover Finance Holdings Ltd., Guildford.

The reversal of write-downs on investments in other companies in the year relates to the investment in Rolls-Royce plc, London; the carrying amount was written up to the market value at 31 December 2003. This increase in value was recognised directly in accumulated other equity.

[23] Leased products

The BMW Group, as lessor, leases out assets (predominantly own products) as part of its sales financing activities. Minimum lease payments of euro 3,684 million (2002: euro 3,425 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2003	31.12.2002
within one year	1,925	1,782
between one and five years	1,753	1,643
later than five years	6	–
	3,684	**3,425**

Contingent rents of euro 2 million (2002: euro 4 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options as well as price escalation clauses.

Changes in leased products during the year are shown in the analysis of changes in Group non-current assets on pages 84 and 85.

[24] Inventories

Inventories comprise the following:

in euro million	31.12.2003	31.12.2002
Raw materials and supplies	569	547
Work in progress, unbilled contracts	827	773
Finished goods	3,439	3,174
Goods for resale	858	701
Advance payments to suppliers	–	2
	5,693	**5,197**

The introduction of new models during the financial year 2003, in conjunction with the Group's product offensive, resulted in an increase in finished goods compared to the previous year.

At 31 December, inventories measured at their net realisable value amounted to euro 475 million (2002: euro 286 million) and are included in total inventories of euro 5,693 million (2002: euro 5,197 million). Amounts recognised as income from the reversal of write-downs were not significant.

[25] Receivables and other assets

in euro million	31.12.2003	31.12.2002
Trade receivables	2,257	1,818
– thereof with a maturity of more than one year: euro 1 million (2002: euro 14 million)		
Receivables from sales financing	21,950	19,493
– thereof with a maturity of more than one year: euro 13,330 million (2002: euro 13,052 million)		
Other receivables	7,184	6,056
– thereof with a maturity of more than one year: euro 3,090 million (2002: euro 2,455 million)		
	31,391	**27,367**

Receivables from sales financing
Receivables from sales financing comprise euro 16,423 million (2002: euro 14,847 million) for loan financing for customers and dealers and outstanding instalments on operating leases as well as euro 5,527 million (2002: euro 4,646 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2003	31.12.2002
Gross investment in finance leases		
due within one year	2,442	1,968
due between one and five years	3,735	3,298
due later than five years	11	20
	6,188	**5,286**
Present value of future minimum lease payments		
due within one year	2,226	1,755
due between one and five years	3,291	2,873
due later than five years	10	18
	5,527	**4,646**
Unrealised interest income	**661**	**640**

The amount of contingent rents recognised as income, generally relating to the distance driven, was not material. Write-downs on finance leases amounting to euro 117 million (2002: euro 87 million) were computed and recognised on the basis of specific credit risks.

Other receivables

in euro million	31.12.2003	31.12.2002
Receivables from subsidiaries	760	938
– thereof with a maturity of more than one year: euro 193 million (2002: euro 92 million)		
Receivables from associated and other companies in which an investment is held	311	166
– thereof with a maturity of more than one year: euro 10 million (2002: euro – million)		
Miscellaneous assets	6,113	4,952
– thereof with a maturity of more than one year: euro 2,887 million (2002: euro 2,363 million)		
	7,184	**6,056**

Receivables from subsidiaries include trade receivables of euro 166 million (2002: euro 99 million) and financial receivables of euro 594 million (2002: euro 839 million).

Miscellaneous assets comprise:

in euro million	31.12.2003	31.12.2002
Interest and currency derivatives	3,543	2,278
Present value of the receivable from Ford Motor Company, Dearborn, Mich., relating to the sale of Land Rover	867	807
Tax receivables	763	932
Collateral receivables	257	151
Credit card receivables	151	120
Receivables from employees	28	141
Interest receivable	22	49
Sundry other assets	482	474
	6,113	**4,952**

The increase in the market values of interest and currency derivatives is primarily attributable to the positive market development of currency hedges.

[26] Marketable securities

Current marketable securities comprise:

in euro million	31.12.2003	31.12.2002
Stocks	407	348
Investment funds	129	62
Fixed income securities	1,242	626
Sundry marketable securities	79	69
	1,857	**1,105**

The contracted maturities of debt securities are as follows:

in euro million	31.12.2003	31.12.2002
Fixed income securities		
due within 3 months	311	4
due later than 3 months	931	622
Sundry marketable securities		
due within 3 months	46	37
due later than 3 months	33	32
	1,321	**695**

[27] Cash and cash equivalents

Cash and cash equivalents of euro 1,659 million (2002: euro 2,333 million) comprise cash on hand, deposits at the Bundesbank and cash at banks, all with a maturity of under three months.

[28] Prepayments

Prepayments of euro 488 million, which are unchanged from the previous year, relate mainly to prepaid interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 388 million (2002: euro 363 million) have a maturity of less than one year.

[29] Equity

The Group Statement of Changes in Equity is shown on page 60.

Number of shares issued

At 31 December 2003, issued BMW AG common stock was divided, as in the previous year, into 622,227,918 shares with a par value of one euro. Issued BMW AG preferred stock was divided into 52,196,162 (2001: 51,467,627) shares, with a par value of one euro. All of the company's stock is issued in the form of bearer shares. Preferred stock bears an advance profit (additional dividend) of euro 0.02 per share. 920,190 of the shares of preferred stock are only entitled to receive dividends with effect from the beginning of the financial year 2004.

The share capital of BMW AG increased by euro 0.7 million (2002: euro 0.8 million) to euro 674.4 million (2002: euro 673.7 million) as a result of the issue to employees of 728,535 (2002: 829,395) non-voting shares of preferred stock.

Authorised capital of BMW AG with a total nominal amount of euro 5 million, limited until 1 May 2004 for the issue of non-voting shares of preferred stock, was therefore fully utilised.

Capital reserves

The capital reserves comprise additional paid-in capital on the issue of shares. The addition to capital reserves of euro 16.6 million (2002: euro 17.3 million) arose in the year from the subscription of employee shares.

Revenue reserves

Revenue reserves are disclosed in accordance with the disclosure requirements contained in German commercial law. They comprise the post-acquisition and non-distributed earnings of consolidated group companies. In addition, revenue reserves include both positive and negative goodwill arising on the consolidation of group companies prior to 31 December 1994.

Accumulated other equity

Accumulated other equity consists of all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries and the effects (net of deferred tax) of recognising changes in the fair value of financial instruments directly in equity. Accumulated other equity includes deferred tax liabilities of euro 1,102 million (2002: euro 628 million) which have been recognised directly in equity.

Minority interest

Minority interest in the share capital of subsidiaries amounts to euro 0.297 million (2002: euro 0.258 million). Of this amount, euro 0.286 million (2002: euro 0.258 million) relates to the minority shareholder Euro Lloyd Reisebüro GmbH, Cologne, and euro 0,011 million (2002: euro – million) to the minority shareholder Norddeutsche Landesbank Girozentrale, Braunschweig.

Other

Under the German Stock Corporation Act, the dividend available for distribution to the shareholders must be computed on the basis of the unappropriated profit available for distribution disclosed in the financial statements of BMW AG. The unappropriated profit of BMW AG of euro 392 million will be proposed to the Annual General Meeting for distribution. The proposed dividend payment will not give rise to a tax credit relating to the corporation tax system applicable until 2001, since, following the enactment of the Tax Preference Reduction Act on 16 May 2003, the tax benefit on distributed profits was suspended until the end of 2005. The tax reduction benefits of euro 83 million, unchanged from the previous year, resulting from the previous corporation tax system, can be realised in specific annual amounts during the period from 2006 to 2019. As a result of the maximum amount regulations which apply for each dividend year, the total amount will not be fully utilised before 2019.

[30] Pension provisions

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service and salary of employees. Due to similarity of nature, the obligations of BMW Group companies in the U.S. and of BMW (South Africa) (Pty) Ltd., Pretoria, for post-employment medical care are also disclosed as pension provisions. The provision for these pension-like obligations amounts to euro 27 million (2002: euro 19 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 8% p.a. (2002: 7% p.a.). The expense for medical care costs in the financial year 2003 amounted to euro 5 million (2002: euro 2 million).

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for all defined contribution plans of the BMW Group amounted to euro 10 million (2002: euro 11 million).

Under defined benefit plans, the enterprise is required to pay the benefits granted to present and past employees. Defined benefit plans may be funded or unfunded, the latter sometimes financed by means of accounting provisions. Most of the pension commitments of the BMW Group in Germany relate to BMW AG, whose pension plans, like the majority of other German enterprises, are unfunded and financed by means of accounting provisions. In addition, a deferred remuneration retirement scheme is in place which is funded by employee contributions. The main funded plans of the BMW Group are in the United Kingdom, the USA, Switzerland, the Netherlands, Belgium and Japan.

Pension obligations are computed on an actuarial basis at the level of the defined benefit obligation. This computation requires the use of estimates. The main assumptions, in addition to life expectancy, depend on the economic situation in each particular country. The following weighted average values are used in the United Kingdom (UK) and in the other countries:

in %	Germany		UK		Other countries	
31 December	2003	2002	2003	2002	2003	2002
Discount rate	5.5	5.8	5.4	5.4	5.3	5.8
Salary level trend	3.5	3.5	3.8	3.3	3.2	3.5
Pension level trend	2.0	2.0	2.7	2.4	1.8	2.1

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the period of service of employees with the Group.

In the case of funded plans, the defined benefit obligation is offset against plan assets measured at their fair value. Where the plan assets exceed the pension obligations and the enterprise has a right of reimbursement or a right to reduce future contributions, the surplus amount is recognised in accordance with IAS 19 as an asset under miscellaneous assets. A liability is recognised under pension provisions in the case of funded plans where the pension expense exceeds the contributions paid to the fund.

Actuarial gains or losses may result from increases or decreases in either the present value of the defined benefit obligation or in the fair value of the fund assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets. Past service cost arises where a BMW Group company introduces a defined benefit plan or changes the benefits payable under an existing plan.

Based on the measurement principles contained in IAS 19, the following **funding status** applies to the Group's pension plans:

in euro million	Germany		UK		Other countries		Total	
31 December	2003	2002	2003	2002	2003	2002	2003	2002
Present value of pension benefits covered by accounting provisions	2,513	2,186	–	–	91	73	2,604	2,259
Present value of funded pension benefits	–	–	5,564	5,329	222	209	5,786	5,538
Defined benefit obligations	2,513	2,186	5,564	5,329	313	282	8,390	7,797
Fair value of fund assets	–	–	4,744	4,722	156	144	4,900	4,866
Net obligation	2,513	2,186	820	607	157	138	3,490	2,931
Actuarial gains (+) and losses (–) not yet recognised	–208	–69	–852	–617	–44	–52	–1,104	–738
Income (+) or expense (–) from past service cost not yet recognised	–	–	–	–	–2	–3	–2	–3
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	–	–	10	23	10	23
Balance sheet amount at 31.12.	**2,305**	**2,117**	**–32**	**–10**	**121**	**106**	**2,394**	**2,213**
thereof pension provision	2,305	2,117	3	33	122	107	2,430	2,257
thereof pension asset (–)	–	–	–35	–43	–1	–1	–36	–44

Pension provisions relating to pension plans in other countries amounted to euro 122 million (2002: euro 107 million). This includes euro 34 million (2002: euro 32 million) relating to externally funded plans.

The level of the pension obligations differs depending on the pension system applicable in each country. Since the state pension system in Great Britain only provides a basic fixed amount benefit, retirement benefits are largely organised in the form of company pensions and arrangements financed by the individual. The pension benefits in the United Kingdom therefore contain contributions made by the employee.

The **net obligation from pension plans** in the United Kingdom changed as follows:

in euro million	Net present value of pension benefits	Fair value of fund assets	Net obligation
1 January 2003	5,329	– 4,722	607
Current service cost	48	–	48
Expense from reversing the discounting of pension obligations	273	–	273
Expected return on plan assets (–)	–	– 239	– 239
Employer contributions	–	– 111	– 111
Benefits paid	– 255	255	0
Actuarial gains (–) and losses (+)	441	– 155	286
Translation differences and other changes	– 272	228	– 44
31 December 2003	**5,564**	**– 4,744**	**820**

The actuarial losses, which led to an increase in the present value of pension entitlements in the financial year 2003, resulted from changes in the discount factors and assumptions about inflation and mortalities used for the purposes of the actuarial computation. The actual income from pension fund assets in the United Kingdom, amounting to euro 394 million, exceeded the expected return of euro 239 million by euro 155 million, which is shown above as actuarial gains.

Actuarial losses in excess of a corridor of 10% of the defined benefit obligations amount to euro 321 million (2002: euro 119 million). They are required to be recognised as income or expenses over the average remaining working lives of the relevant employees. These losses will result in additional expense in the financial year 2004 of euro 23 million in the United Kingdom, euro 1 million in the USA and euro 1 million in other countries. The current shortfall in Germany is attributable to the reduction in the discount factor from 5.8% to 5.5% in the light of capital market developments.

The defined benefit plans of the BMW Group gave rise to an **expense from pension obligations** in financial year 2003 of euro 339 million (2002: euro 344 million), comprising the following components:

in euro million	Germany		UK		Other countries		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Current service cost	81	62	48	52	39	31	168	145
Expense from reversing the discounting of pension obligations	122	112	273	327	15	13	410	452
Expected return on plan assets (–)	–	–	–239	–313	–10	–12	–249	–325
Actuarial gains (–) and losses (+)	–	–	6	2	3	1	9	3
Past service cost	–	–	–	–	1	2	1	2
Effect of plan settlements (recognised in provisions in previous years)	–	–	–	67	–	–	–	67
Expense from pension obligations	**203**	**174**	**88**	**135**	**48**	**35**	**339**	**344**

The expense from reversing the discounting of pension obligations and the income from the expected return on plan assets are reported as part of the financial result. All other components of pension expense are included in the relevant income statement under costs by function.

The actual return from external pension funds was euro 407 million (2002: euro 52 million). The variance compared to the expected return and the actual return in the previous year was attributable mainly to the fact that pension fund assets generated a higher return than planned as a result of the recovery of the international capital markets, particularly in the United Kingdom. The difference between actual and expected return from external pension funds is an actuarial gain or loss. Actuarial gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plans, when the accumulated amount of the actuarial gains or losses exceeds 10% of the present value of the defined benefit obligations.

The **changes in the pension provision** and the pension asset (reimbursement claims or rights to reduce future contributions to the funds) as disclosed in the balance sheet are as follows:

in euro million	Germany 2003	Germany 2002	UK 2003	UK 2002	Other countries 2003	Other countries 2002	Total 2003	Total 2002
Balance sheet amount at 1.1.	2,117	1,945	–10	–67	106	100	2,213	1,978
Expense from pension obligations	203	174	88	68	48	35	339	277
Effect of plan settlements (recognised in provisions in previous years)	–	–	–	67	–	–	–	67
Pension payments or transfers to external funds	–56	–49	–111	–81	–24	–20	–191	–150
Employee contributions to the deferred remuneration retirement scheme	43	47	–	–	–	–	43	47
Transfer of obligations to non-consolidated entities	–2	–	–	–	–	–	–2	–
Translation differences on foreign pension plans	–	–	1	3	–9	–9	–8	–6
Balance sheet amounts at 31.12.	**2,305**	**2,117**	**–32**	**–10**	**121**	**106**	**2,394**	**2,213**
thereof pension provision	2,305	2,117	3	33	122	107	2,430	2,257
thereof pension asset (–)	–	–	–35	–43	–1	–1	–36	–44

[31] Other provisions

Other provisions principally comprise the following items:

in euro million	31.12.2003 Total	31.12.2003 thereof due within one year	31.12.2002 Total	31.12.2002 thereof due within one year
Taxes	359	334	372	370
Obligations for personnel and social expenses	1,440	1,284	1,096	789
Obligations for on-going operational expenses	3,288	1,513	2,737	1,174
Other obligations	1,234	748	1,204	726
	6,321	**3,879**	**5,409**	**3,059**

Provisions for obligations for personnel and social expenses comprise mainly profit-share schemes and bonuses, early retirement part-time working arrangements, employee long-service awards, vacation entitlements and flexible working-time credits. The increase compared to the previous year is attributable mainly to the higher level of obligations for early retirement part-time work arrangements.

Provisions for obligations for on-going operational expenses comprise primarily warranty obligations and sales bonuses and rebates. The increase is mainly attributable to the higher level of contractual and voluntary warranty obligations caused, amongst other factors, by increased business volumes. The discount factor was reduced from 5.0 % to 3.4 % in the light of the capital market situation, thus resulting in allocations to non-current provisions of euro 47 million (2002: euro – million).

Provisions for other obligations cover numerous specific risks and obligations of uncertain amount. They comprise mainly obligations and risks in respect of the disengagement from Rover activities, the obligation for recovery and recycling of end-of-life vehicles and risks from legal disputes.

Provisions changed during the year as follows:

in euro million	At 1.1.2003	Translation differences	Additions	Reversal of discounting	Used	Released	At 31.12.2003
Taxes	372	–16	219	–	213	3	359
Obligations for personnel and social expenses	1,096	–9	1,147	–	780	14	1,440
Obligations for on-going operational expenses	2,737	–36	1,746	97	1,211	45	3,288
Other obligations	1,204	–11	429	9	291	106	1,234
	5,409	**–72**	**3,541**	**106**	**2,495**	**168**	**6,321**

Of the amount shown as released, euro 9 million is included in cost of sales in the income statement.

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

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	3,300	7,001	1,103	11,404
Liabilities to banks	1,347	1,787	22	3,156
Liabilities from customer deposits (banking)	3,801	64	–	3,865
Commercial paper	3,327	–	–	3,327
Bills of exchange	2	–	–	2
Other debt	2,242	2,994	459	5,695
	14,019	**11,846**	**1,584**	**27,449**

31 December 2002 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	3,101	4,968	1,859	9,928
Liabilities to banks	1,677	1,891	168	3,736
Liabilities from customer deposits (banking)	3,034	104	–	3,138
Commercial paper	4,182	–	–	4,182
Bills of exchange	2	–	–	2
Other debt	1,510	3,225	541	5,276
	13,506	**10,188**	**2,568**	**26,262**

Bonds include an exchangeable bond of euro 561 million issued on 4 December 2003 relating to the investment of the BMW Group in the engine manufacturer Rolls-Royce plc, London. This bond is subject to an annual interest rate of 1.875 % and has a term of five years. After three years into the term, the Group has the right, up to the maturity date, to give notice on the bond if Rolls-Royce stock rises to a level of more than 130 % of the conversion price of GBP 2.46. A cash-out option is also in place giving the Group, in the event that the conversion right is exercised, the right to make a payment equivalent to the market price of the stock at that date, rather than to deliver the stock itself. The present value of the bond at the balance sheet date was euro 501 million. The option liability of euro 60 million which arose on the date of the issue of the bond is included at 31 December 2003 in other liabilities at its fair value of euro 49 million.

Other debt of euro 5,695 million (2002: euro 5,276 million) comprises mainly asset backed financing liabilities and finance lease liabilities.

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO Code)	Weighted average maturity period (in years)	Weighted average interest (in %)
BMW Finance N.V., The Hague	variable	EUR 250 million	5.0	2.4
	fixed	JPY 60,000 million	7.5	1.8
	fixed	EUR 2,357 million	9.5	4.3
	fixed	USD 400 million	4.0	4.2
	fixed	CHF 400 million	4.5	3.0
	fixed	CZK 300 million	6.0	7.8
BMW Coordination Center N.V., Bornem	variable	EUR 963 million	1.8	2.0
	variable	HKD 100 million	2.0	1.8
	variable	USD 110 million	1.0	1.2
	variable	GBP 40 million	1.0	4.0
	variable	JPY 15,000 million	2.0	0.0
	fixed	JPY 10,000 million	1.0	0.1
	fixed	USD 250 million	1.0	1.4
	fixed	EUR 172 million	1.6	2.7
BMW (UK) Capital plc, Bracknell	fixed	GBP 568 million	6.3	6.3
	fixed	EUR 200 million	5.8	3.9
BMW US Capital, LLC, Wilmington, Del.	variable	JPY 11,000 million	2.0	1.3
	variable	USD 475 million	1.3	1.1
	variable	EUR 1,303 million	5.1	1.4
	variable	GBP 250 million	3.0	1.2
	fixed	JPY 3,000 million	3.0	0.1
	fixed	USD 874 million	11.6	4.9
	fixed	EUR 760 million	10.0	6.7
Rolls-Royce Motor Cars Ltd., Bracknell	variable	GBP 45.8 million	1.0	3.8
Other	variable	AUD 141 million	1.0	5.6
	variable	JPY 18,000 million	2.0	0.1
	variable	USD 120 million	6.0	1.4
	fixed	JPY 42,000 million	21.2	0.6
	fixed	NOK 500 million	2.0	7.5
	fixed	USD 250 million	5.0	6.9
	fixed	AUD 150 million	3.0	5.5
	fixed	EUR 300 million	4.0	1.4

The following details apply to the commercial paper:

Issuer	Issue volume in relevant currency (ISO Code)	Weighted average maturity period (in days)	Weighted average interest (in %)
BMW (UK) Capital plc, Bracknell	EUR 1,564 million	30.9	2.1
BMW Coordination Center N.V., Bornem	EUR 549 million	31.7	2.1
BMW US Capital, LLC, Wilmington, Del.	USD 1,528 million	5.8	1.0

[33] Trade payables

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,110	33	–	3,143

31 December 2002 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	3,026	43	–	3,069

[34] Other liabilities

Other liabilities comprise the following items:

31 December 2003 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Taxes payable	354	2	–	356
Social security	119	1	–	120
Employees	21	–	–	21
Advance payments from customers	272	2	–	274
Deposits received	70	93	–	163
Interest	96	–	–	96
Subsidiaries	55	–	–	55
Fair values of derivative financial instruments	219	131	22	372
Liabilities to associated and other companies in which an investment is held	–	–	–	–
Sundry other liabilities	582	554	41	1,177
	1,788	**783**	**63**	**2,634**

31 December 2002 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Taxes payable	279	3	–	282
Social security	109	1	–	110
Employees	18	–	–	18
Advance payments from customers	247	–	–	247
Deposits received	50	116	–	166
Interest	151	–	–	151
Subsidiaries	138	–	–	138
Fair values of derivative financial instruments	180	130	24	334
Liabilities to associated and other companies in which an investment is held	10	–	–	10
Sundry other liabilities	443	542	46	1,031
	1,625	**792**	**70**	**2,487**

The total amount of liabilities due later than five years amounts to euro 1,647 million (2002: euro 2,638 million).

[35] Deferred income

Deferred income comprise the following items:

in euro million	31.12.2003 Total	31.12.2003 thereof due within one year	31.12.2002 Total	31.12.2002 thereof due within one year
Deferred income from lease financing	416	277	399	242
Other deferred income	431	129	265	111
	847	**406**	**664**	**353**

Other deferred income includes euro 280 million (2002: euro 165 million) of grants received from third parties, primarily for investment purposes. In accordance with IAS 20, they are recognised as income over the useful lives of the assets to which they relate. The increase in other deferred income is attributable mainly to the receipt of investment grants for the new BMW plant in Leipzig. The conditions attached to the grant have been fulfilled.

[36] Contingent liabilities and other financial commitments

Contingent liabilities

No provisions were recognised for the following contingent liabilities (stated at their nominal amount), since an outflow of resources is not considered to be probable:

in euro million	31.12.2003	31.12.2002
Guarantees	62	52
Performance guarantees	105	79
Bills of exchange	16	16
	183	**147**

The above amounts include euro 11 million (2002: euro 17 million) in respect of non-consolidated subsidiaries.

Several liability applies in the case of investments in general partnerships.

The usual commercial guarantees have been given in relation to the sale of Rover Cars and Land Rover activities.

Other financial commitments

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for land, buildings, plant and machinery, tools, office and other facilities. The leases run for periods of one to 99 years and in some cases contain extension and purchase options as well as price escalation clauses. Lease payments of euro 118 million (2002: euro 124 million) were recognised as expense during the year.

The total of future minimum lease payments under non-cancellable leases can be analysed by maturity as follows:

in euro million	31.12.2003	31.12.2002
Nominal total of future minimum lease payments		
due within one year	166	221
due between one and five years	448	521
due later than five years	612	597
	1,226	**1,339**

The above amounts include euro 29 million (2002: euro 44 million) in respect of non-consolidated subsidiaries and euro 27 million (2002: euro 58 million) for back-to-back operating leases.

Obligations for future minimum lease payments on back-to-back finance leases were as follows:

in euro million	31.12.2003	31.12.2002
Total of future minimum lease payments		
due within one year	30	166
due between one and five years	11	13
due later than five years	–	–
	41	**179**
Interest portion of future minimum lease payments		
due within one year	1	8
due between one and five years	1	1
due later than five years	–	–
	2	**9**
Present value of future minimum lease payments		
due within one year	29	158
due between one and five years	10	12
due later than five years	–	–
	39	**170**

These future obligations are matched, or exceeded, by finance lease receivables which are included in receivables from sales financing.

In addition, the BMW Group is the lessee in the case of operating leases for vehicles which are leased to third parties over matching periods. The following amounts are payable under these contracts:

in euro million	31.12.2003	31.12.2002
Nominal total of future minimum lease payments		
due within one year	773	799
due between one and five years	722	756
due later than five years	–	–
	1,495	**1,555**

These future obligations are matched, or exceeded, by income on sub-leases.

Purchase commitments for property, plant and equipment amount to euro 1,151 million (2002: euro 1,229 million).

Sundry other financial commitments amount to euro 255 million (2002: euro 92 million). This includes the amount of euro 79 million committed for the intended refurbishment of the headquarters of BMW AG.

[37] Financial instruments

Use and control of financial instruments
As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which exchange rate risks arise. The BMW Group's operations are financed in various currencies, mainly by the issue of bonds and medium term notes and through bank loans. The BMW Group's financial management system involves the use of all standard types of financial instrument, e.g. short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates, stock market prices and exchange rates. Financial instruments are only used to hedge underlying positions or forecasted transactions.

Protection against such risks is provided at first instance though natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Exchange rate, interest rate and liquidity risks of the BMW Group are managed at a corporate level. At 31 December 2003, derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies US Dollar, British Pound and Japanese Yen.

Quantitative disclosures on financial instruments
The differences between the carrying amount and the fair value of the material non-derivative financial instruments are shown in the following table:

in euro million	31.12.2003		31.12.2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from sales financing	21,950	22,199	19,493	20,014
Debt	27,449	27,410	26,262	26,414

The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2003 on the basis of the following interest rates:

ISO code in %	EUR	USD	GBP	JPY
Interest rate for six months	2.1	1.2	4.2	0.1
Interest rate for one year	2.3	1.5	4.4	0.1
Interest rate for five years	3.7	3.7	5.0	0.7
Interest rate for ten years	4.5	4.8	5.1	1.4

These interest rates were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

The nominal amounts of derivative financial instruments correspond to the purchase or sale amounts or contract values of the underlying transactions. The nominal amounts, fair values (and also carrying amounts) and maturities of derivative financial instruments of the BMW Group are shown in the following analysis:

in euro million	Nominal amount	Fair values			
		Total	due within one year	due between one and five years	due later than five years
31 December 2003					
Assets					
Currency hedge contracts	16,877	2,957	1,824	1,090	43
Interest rate contracts	9,217	567	65	146	356
Other derivative financial instruments	600	19	12	–	7
Total	26,694	3,543	1,901	1,236	406
Liabilities					
Currency hedge contracts	3,169	190	102	88	–
Interest rate contracts	5,527	108	52	43	13
Other derivative financial instruments	639	74	65	–	9
Total	9,335	372	219	131	22
31 December 2002					
Assets					
Currency hedge contracts	24,063	2,011	918	1,093	–
Interest rate contracts	5,184	259	65	28	166
Other derivative financial instruments	38	8	8	–	–
Total	29,285	2,278	991	1,121	166
Liabilities					
Currency hedge contracts	11,530	100	89	11	–
Interest rate contracts	11,404	210	67	119	24
Other derivative financial instruments	118	24	24	–	–
Total	23,052	334	180	130	24

The disclosed fair values of derivative financial instruments, based on their nominal amounts, do not take account of any compensating changes in the value of the underlying transaction. Moreover, the fair values disclosed do not necessarily correspond to the amounts which the BMW Group will realise in the future under the market conditions prevailing at that time.

At 31 December 2003, the positive impact from the fair value measurement of financial instruments (net of deferred taxes) amounted to euro 1,554 million (2002: euro 709 million) and has been recognised directly in equity. This comprises a positive impact from cash flow hedges of euro 1,700 million (2001: euro 1,023 million) and negative impact from available-for-sale securities of euro 146 million

(2002: euro 314 million). During the year under report, positive changes in fair value measurement amounting to euro 845 million (2002: euro 1,528 million) were recognised directly in equity. Of this amount, euro 677 million (2002: euro 1,727 million) relate to positive effects from cash flow hedges and euro 168 million (2002: euro 199 million negative) relate to positive effects from available-for-sale securities.

The fair values of financial instruments relating to hedged forecasted transactions are recognised directly in accumulated other equity. In the financial year under report, positive fair value measurement changes of euro 602 million (2002: euro 161 million) were removed from accumulated other equity and realised during the year. As a result of the situation on the capital markets, write-downs of euro 1 million (2002: euro 22 million) on available-for-sale securities were recognised as expenses and reversals of write-downs on current marketable securities of euro 3 million (2002: euro – million) were recognised as income. In 2003, losses of euro 20.6 million (2002: euro 33.3 million) were realised on the disposal of available-for-sale securities and the equivalent amount removed from accumulated other equity and recognised in the income statement.

Credit risk

Financial assets are recognised in the balance sheet net of write-downs for the risk that counter-parties are unable to fulfil their contractual obligations, irrespective of the value of collateral received. In the case of all performance relationships which underlie non-derivative financial instruments, collateral is required, information on the credit-standing of the counter-party obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk. The nature and extent depends on the type and amount of the relevant transaction. Write-downs are recorded as soon as credit risks are identified on individual financial assets. In the case of derivative financial instruments, the Group is also exposed to a credit risk which results from the non-performance of contractual agreements on the part of the contracting party. This credit risk is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant. A concentration of credit risk with particular borrowers or groups of borrowers has not been identified.

[38] Explanatory notes to the cash flow statements

The cash flow statements shows how the cash and cash equivalents of the BMW Group, industrial operations and financial operations have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Cash Flow Statements), cash flows are classified into cash flows from operating, investing and financing activities. The cash flow statements of the BMW Group are presented on pages 58 and 59.

Cash and cash equivalents included in the cash flow statement comprise cash on hand, cheques, deposits at the Federal Bank and cash at bank included in the balance sheet, to the extent that they are available within three months from the balance sheet date. The negative impact of changes in cash and cash equivalents due to the effect of exchange rate fluctuations was, as in the previous year, euro 109 million.

The cash flows from investing and financial activities are based on actual payments and receipts. The cash flow from operating activities is computed using the indirect method, starting from the net profit of the Group. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group and sub-group balance sheets.

The cash inflow from operating activities includes the following cash flows in accordance with IAS 7 paragraphs 31 and 35:

in euro million	2003	2002 reclassified [1]
Interest received	290	410
Interest paid	336	388
Dividends received	30	14
Income taxes paid	257	597

1] see also Note [14]

[39] Related party relationships

In accordance with IAS 24 (Related Party Disclosures), related individuals or enterprises which have the ability to control the BMW Group or which are controlled by the BMW Group, must be disclosed unless such parties are not already included in the consolidated financial statements as consolidated companies. Control is defined as ownership of more than one half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group.

In addition, the disclosure requirements of IAS 24 also cover transactions with associated companies and with parties which have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediaries. Significant influence over the financial and operating policies of the Group can arise when a party holds 20% or more of the shares of BMW AG, is a member of the Board of Management or Supervisory Board of BMW AG or holds another key management position within the Group.

In the case of the BMW Group in the financial year 2003, these IAS 24 disclosure requirements only affect business relationships with associated companies, members of the Board of Management or the Supervisory Board of BMW AG and other key management personnel.

Transactions of BMW Group companies with associated companies – mainly BMW Brilliance Automotive Ltd., Shenyang (50%), TRITEC Motors Ltda., Campo Largo (50%), F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, (50%), and ZNF Maschinenfabrik Spandau GmbH, Berlin (49%) – all arise in the normal course of activities of those companies and are based on arm's length principles.

Stefan Quandt is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H., which, via its subsidiaries in the Thiel Group, performed logistics services for the BMW Group during the financial year 2003. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sale contracts are not material for the BMW Group and are made, without exception, according to arm's length principles.

Susanne Klatten is a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Bad Homburg v. d. H., and also a shareholder and member of the Supervisory Board of BMW AG. During the financial year 2003, Altana AG, Bad Homburg v. d. H. purchased vehicles from the BMW Group. These sale contracts are not material for the BMW Group and are made, without exception, according to arm's length principles.

With the exception of these related party transactions, companies of the BMW Group did not enter into any contracts with members of the Board of Management or Supervisory Board of BMW AG or with other key management personnel in the BMW Group or with companies in whose representative bodies those persons are represented. The same applies to close members of the families of those persons.

[40] Declaration with respect to the Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued a declaration, required by § 161 of the German Stock Corporation Act, which is included in the BMW Group Annual Report and which is available to shareholders on the BMW Group website under the address www.bmwgroup.com/ir.

[41] Shareholdings of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.7 % of the issued common and preferred stock shares, of which 16.12 % relates to Stefan Quandt, Bad Homburg v. d. H. and 11.58 % to Susanne Klatten, Bad Homburg v. d. H. The shareholding of the members of the Board of Management is, in total, less than 1 % of the issued stock shares.

[42] Total remuneration of the Board of Management and the Supervisory Board

Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of current members of the Board of Management for the financial year 2003 amounts to euro 10.7 million (2002: euro 11.9 million). This comprises fixed components of euro 1.9 million (2002: euro 2.2 million) and variable components of euro 8.8 million (2002: euro 9.7 million).

The remuneration of former Board members and their dependants amounts to euro 3.6 million (2002: euro 5.2 million).

Pension obligations to former members of the Board of Management and their dependants are fully covered by pension provisions amounting to euro 29.7 million (2002: euro 30.0 million), computed in accordance with IAS 19.

Subject to the approval of the proposed dividend at the Annual General Meeting of Shareholders, the remuneration of the Supervisory Board for the financial year 2003 amounts to euro 2.3 million (2002: euro 2.0 million). This comprises fixed components of euro 0.1 million (2002: euro 0.1 million) and variable components of euro 2.2 million (2002: euro 1.9 million).

The names of the members of the Supervisory Board and of the Board of Management are disclosed on pages 8 to 11.

[43] Segment information

Description of business segments
In accordance with the rules contained in IAS 14 (Segment Reporting), the BMW Group presents segment information using business segments as its primary reporting format and geographical segments as its secondary reporting format. This distinction is based on internal management and financial reporting systems and reflects the risk and earnings structure of the Group.

The activities of the BMW Group are broken down into the segments Automobiles, Motorcycles and Financial Services.

The Automobiles segment develops, manufactures, assembles and sells cars and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts and accessories.

BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent importers. Rolls-Royce brand vehicles are sold worldwide by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells BMW brand motorcycles as well as spare parts and accessories.

The Financial Services segment focuses primarily on leasing automobiles, providing loan finance for customers and dealers, accepting customer deposits and insurance activities. The profit before financial result of this segment includes net interest income on customer and dealer financing business and the result of lease business. Leased products are carried at acquisition cost less straight-line depreciation down to the imputed residual value of the vehicles. Leased products are written down to their fair value where this is lower. Inter-group profits on own products are eliminated on consolidation and included in the Reconciliations to the Group profit from ordinary activities.

Reconciliations to the Group profit from ordinary activities for the Group include national holding companies, group financing companies and income and expenses not specifically attributable to the business segments. Reconciliations also includes certain operating companies which are not allocated to segments, namely BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, Swindon Pressings Ltd., Bracknell, Rover Service Center Corp., Tokyo, and the Softlab Group.

Other explanatory comments on segment information
Segment information is generally prepared in conformity with the accounting policies adopted for preparing and presenting the Group financial statements. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in Reconciliations. Inter-segment sales take place at arm's length prices.

Significant non-cash items comprise mainly changes in provisions, write-downs, reversal of write-downs and depreciation on leased products.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Segment assets and segment liabilities comprise all assets and liabilities employed by the relevant business segment to generate the profit before financial result.

By contrast to the previous year, the return on sales for each segment is based on the profit from ordinary activities. In the previous year, the return on sales of the segments was based on the profit before financial result. Comparative figures have been reclassified.

Internal financing is computed as the profit or loss from ordinary activities adjusted for depreciation and significant non-cash items and less actual tax payments.

In the case of segment information by geographical region, external sales are based on the location of the customer's registered office. Segment information is provided for the regions Germany, rest of Europe, America and Africa, Asia and Oceania, in line with internal management and reporting procedures.

As a result of the harmonisation of the internal and external reporting systems, it has been necessary to reclassify figures derived from the income statement. The profit from ordinary activities for the previous year was not affected. Further details of the reclassifications to the previous year's figures are provided in Note [7].

Segment information by region in euro million	External sales 2003	2002 reclassified[1]	Capital expenditure 2003	2002	Assets 2003	2002
Germany	10,590	10,404	3,492	3,137	21,510	18,388
Rest of Europe	13,389	13,168	549	576	14,390	12,284
America	11,620	13,552	143	255	15,263	16,216
Africa, Asia, Oceania	5,926	5,287	61	74	6,142	5,084
Reconciliations	–	–	–	–	4,170	3,539
Group	**41,525**	**42,411**	**4,245**	**4,042**	**61,475**	**55,511**

1] see also Note [7]

Segment information by business segment in euro million		Automobiles 2003	Automobiles 2002 reclassified[1]
Revenues with third parties		**33,424**	**33,445**
Change compared to previous year	%	–0.1	11.6
Inter-segment revenues		**4,893**	**4,734**
Change compared to previous year	%	3.4	32.9
Total revenues		**38,317**	**38,179**
Change compared to previous year	%	0.4	13.8
Gross profit		**8,527**	**8,706**
Result before financial result		**3,030**	**3,104**
Change compared to previous year	%	–2.4	1.5
Result from at equity accounting		**–13**	**8**
Other net financial expenses		**–256**	**–229**
Result from ordinary activities		**2,761**	**2,883**
Change compared to previous year	%	–4.2	3.3
Return on sales	%	**7.2**	**7.6**
Significant non-cash items		**1,068**	**688**
Internal financing		**5,760**	**5,144**
Capital expenditure		**4,111**	**3,887**
Depreciation and amortisation		**2,270**	**2,028**
Additions to leased products		**283**	**232**
Assets		**22,549**	**19,006**
Liabilities		**14,541**	**12,587**
Average workforce during the year		**93,821**	**90,483**

1] see also Note [7]

Motorcycles		Financial Services		Reconciliations		Group	
2003	2002 reclassified[1]	2003	2002 reclassified[1]	2003	2002 reclassified[1]	2003	2002 reclassified[1]
1,053	1,128	**6,709**	7,437	**339**	401	**41,525**	42,411
–6.6	6.9	–9.8	8.3	–15.5	–42.9	–2.1	9.9
2	2	**873**	905	**–5,768**	–5,641	**–**	–
0.0	–50.0	–3.5	14.7	–2.3	–29.6	–	–
1,055	1,130	**7,582**	8,342	**–5,429**	–5,240	**41,525**	42,411
–6.6	6.7	–9.1	9.0	–3.6	–43.5	–2.1	9.9
258	279	**840**	805	**–190**	–133	**9,435**	9,657
57	66	**451**	445	**–185**	–110	**3,353**	3,505
–13.6	4.8	1.3	17.4	–68.2	–189.5	–4.3	1.3
–	–	**–**	–	**–**	12	**–13**	20
–7	–6	**1**	–23	**127**	30	**–135**	–228
50	60	**452**	422	**–58**	–68	**3,205**	3,297
–16.7	1.7	7.1	8.2	14.7	–	–2.8	1.7
4.7	5.3	**6.0**	5.1	**–**	–	**7.7**	7.8
10	10	**1,744**	1,698	**728**	448	**3,550**	2,844
93	113	**2,337**	2,107	**678**	323	**8,868**	7,687
105	94	**21**	24	**8**	37	**4,245**	4,042
39	51	**21**	20	**40**	44	**2,370**	2,143
–	–	**5,502**	5,511	**–1,646**	–1,588	**4,139**	4,155
631	584	**32,564**	30,831	**5,731**	5,090	**61,475**	55,511
436	403	**28,539**	27,060	**1,809**	1,590	**45,325**	41,640
2,862	2,843	**2,355**	1,984	**3,038**	3,168	**102,076**	98,478

[44] Disclosures pursuant to § 292 a HGB

The consolidated financial statements of BMW AG have been drawn up in accordance with the standards valid at the balance sheet date issued by the IASB. In accordance with § 292 a HGB, these consolidated financial statements exempt BMW AG from drawing up consolidated financial statements in accordance with German commercial law (HGB). The BMW Group financial statements and Group management report also comply with the European Union Directive on Group Accounting (83/349/EEC), whereby this directive has been interpreted along the lines of the interpretation contained in Standard no. 1 (GAS 1) "Exempting Consolidated Financial Statements in accordance with § 292 a HGB" issued by the German Accounting Standards Committee (GASC).

The accounting policies and consolidation methods applied in accordance with IFRSs for the Group financial statements of BMW AG differ from German accounting rules in the following main areas:

Non-current assets
Under IFRSs, under certain circumstances, internally generated intangible assets must be recognised as an asset. In the case of the BMW Group, this is mainly relevant for development costs incurred for vehicle and engine projects. Under German accounting rules, it is prohibited to recognise internally generated intangible items as an asset.

Furthermore, non-current assets are generally depreciated for IFRSs purposes over their useful economic lives using the straight-line method and not using the reducing balance method.

Lease transactions
IAS 17 prescribes the accounting rules for lease transactions. Under these rules, an enterprise which bears the risks and enjoys the rewards of using a leased item, is required, as the economic owner, to recognise that item in its balance sheet. Many leases have therefore been reclassified from operating leases to finance leases in accordance with IAS 17. The accounting treatment of leases is not specifically dealt with by German accounting rules. In the absence of such accounting rules, it is therefore common to apply the treatment prescribed by the German tax authorities.

Inventories
Under IFRSs, inventory must be measured on a consistent basis at fully absorbed production cost. In compliance with German accounting law, inventories of the Group's production companies were measured for HGB purposes at the lower direct production cost. Inventories held by all other group companies were measured at production cost including a proportion of direct overheads. In addition, in line with the prudence principle, it was permitted under HGB to recognise a higher level of write-downs than under IFRSs. Advance payments received cannot be offset against inventories under IFRSs.

Other current assets
The treatment of financial instruments (marketable securities, foreign currency receivables and payables, derivative instruments) differs significantly between IFRSs and HGB at a conceptual level. IFRSs require that all financial derivative instruments are measured at their fair value, including the recognition of unrealised gains. The requirement for fair value measurement affects the BMW Group particularly in the accounting treatment of forward currency contracts. All positive and negative fair values arising on derivative instruments must be recognised. Fair value changes arising on forward currency contracts to hedge future transactions (the normal case for BMW) are recognised directly in equity, thus leading to a greater risk of volatility in equity as a result of interest rate and currency fluctuations. Under HGB, derivative financial instruments may not be recognised. Other financial instruments may not be measured at an amount above cost (i.e. the acquisition cost principle) and they must always be measured at their most prudent amount (i.e. in accordance with the imparity principle which requires recognition of unrealised losses but not of unrealised gains). Whereas it is not permitted to recognise unrealised gains under HGB, provisions must be recognised for all pending losses on onerous contracts.

IFRSs also require that the surplus on certain external pension funds must be recognised as an asset. In the case of the BMW Group, this is an issue principally affecting the pension fund in the United Kingdom.

Deferred taxes
Under IFRSs, there is a general requirement to recognise deferred taxes on all temporary differences between the accounting and tax bases of assets and liabilities, whereby quasi-permanent differences are also classified as temporary differences. Deferred taxes are measured at the rates that are expected to apply in the future based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date. Under HGB, there is only a requirement to recognise all deferred tax liabilities as well as deferred tax assets arising from consolidation procedures. There is an option to recognise deferred tax assets arising from timing differences. Deferred taxes are measured under HGB at the rates that are expected to apply in the future based on tax rates and tax laws that are valid at the balance sheet date. It is not permitted under HGB to recognise deferred taxes on quasi-permanent differences between the accounting and tax bases of assets and liabilities, which will only reverse over a very long period or which will only be realised on sale or liquidation.

Under IFRSs, a deferred tax asset must be recognised for the carryforward of unused tax losses, to the extent that is probable that the tax benefits will be realised. Under German accounting rules, the recognition of deferred tax assets on tax loss carryforwards is controversal.

Provisions

Pension provisions must be recognised in accordance with HGB and IFRSs, and measured at the level of the expected future payments, on a discounted basis. Under IFRSs, the projected unit credit method must be applied, which also takes account of future salary and pension increases. Under German accounting rules, a number of actuarial methods can be applied. IFRSs permit an accounting option for the realisation of gains and losses resulting from actuarial computations. Unlike HGB, actuarial gains and losses, which exceed the greater of 10% of the present value of the obligations or 10% of the fair value of the plan assets may be recognised as income or expense over the expected average remaining working lives of the workforce.

Other provisions may only be recognised under IFRSs if an enterprise has a present obligation (legal or constructive) to a third party and if it is probable ("more likely than not") that the obligation will be incurred. The recognition of deferred expense provisions, as permitted by German accounting rules, is not allowed under IFRSs. Provisions are measured for HGB purposes on the basis of prudent management judgement; for IFRSs they must be measured at their most probable amount. IFRSs require that long-term provisions are discounted.

Consolidated companies

The group reporting entity must be determined under IFRSs using the control concept, which is based on the underlying substance of the relationship. Under this concept, control can arise even if the formal criteria for control do not exist. For this reason, so-called special purpose entities must also be included in the reporting entity if there is a constructive ability to control another enterprise. Under German accounting rules, the group reporting entity is determined on the basis of the concept of uniform management and the control concept. This control concept lays more emphasis on the legal situation.

Munich, 20 February 2004

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

We have audited the consolidated financial statements, comprising the income statement, the balance sheet and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Bayerische Motoren Werke Aktiengesellschaft, Munich, for the business year from 1 January to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January to 31 December 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, 27 February 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Berger	Höfer
Wirtschaftsprüfer	Wirtschaftsprüfer

BMW AG Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2003	Equity in euro million	Net result in euro million	Capital investment in %
Domestic [1]			
BMW Bank GmbH, Munich [4]	268	0	100
BMW Finanz Verwaltungs GmbH, Munich	209	3	100
BMW INTEC Beteiligungs GmbH, Munich [4]	113	0	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	49	3	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	2	100
BMW Maschinenfabrik Spandau GmbH, Berlin	35	2	100
BMW Leasing GmbH, Munich [4]	16	0	100
BMW Hams Hall Motoren GmbH, Munich [3]	15	0	100
BMW Fahrzeugtechnik GmbH, Eisenach [4]	11	0	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich [4]	[2]	0	100

Principal subsidiaries of BMW AG at 31 December 2003	Equity in euro million	Net result in euro million	Capital investment in %
Foreign[5]			
BMW Coordination Center N.V., Bornem	523	70	100
BMW Finance N.V., The Hague	192	49	100
BMW Overseas Enterprises N.V., Willemstad	58	1	100
BMW Österreich Holding GmbH, Steyr	1,139	31	100
BMW Motoren GmbH, Steyr	469	144	100
BMW Austria Gesellschaft m.b.H., Salzburg	36	5	100
BMW Holding B.V., The Hague	4,314	482	100
BMW Japan Corp., Tokyo	556	71	100
BMW Japan Finance Corp., Tokyo	217	20	100
BMW (Schweiz) AG, Dielsdorf	278	19	100
BMW (South Africa) (Pty) Ltd., Pretoria	274	84	100
BMW Italia S.p.A., Milan	160	62	100
BMW Ibérica S.A., Madrid	149	38	100
BMW France S.A., Montigny-le Bretonneux	148	50	100
BMW Australia Finance Ltd., Melbourne, Victoria	109	17	100
BMW Canada Inc., Whitby	93	11	100
BMW Belgium Luxembourg S.A./N.V., Bornem	70	17	100
BMW Australia Ltd., Melbourne, Victoria	69	25	100
BMW Sverige AB, Stockholm	52	32	100
BMW de Mexico, S.A. de C.V., Mexico City	46	15	100
BMW Korea Co., Ltd., Seoul	33	11	100
BMW Nederland B.V., The Hague	22	10	100
BMW (UK) Holdings Ltd., Bracknell	1,864	160	100
BMW (GB) Ltd., Bracknell	364	53	100
BMW (UK) Manufacturing Ltd., Bracknell	335	117	100
BMW Financial Services (GB) Ltd., Hook	207	30	100
BMW (UK) Capital plc, Bracknell	130	14	100
BMW (US) Holding Corporation, Wilmington, Del.	706	72	100
BMW of North America, LLC, Wilmington, Del.	1,464	10	100
BMW Manufacturing Corp., Wilmington, Del.	600	129	100
BMW Financial Services NA, LLC, Wilmington, Del.	276	56	100
BMW US Capital, LLC, Wilmington, Del.	204	22	100

1] In the case of German affiliated companies, based on financial statements drawn up in accordance with HGB.
2] below euro 500,000
3] profit and loss transfer agreement with a subsidiary of BMW AG
4] profit and loss transfer agreement with BMW AG
5] In the case of foreign affiliated companies, based on financial statements drawn up in accordance with uniform IFRSs accounting policies. Equity and net result are translated at the closing rate.

BMW Group 10-year Comparison

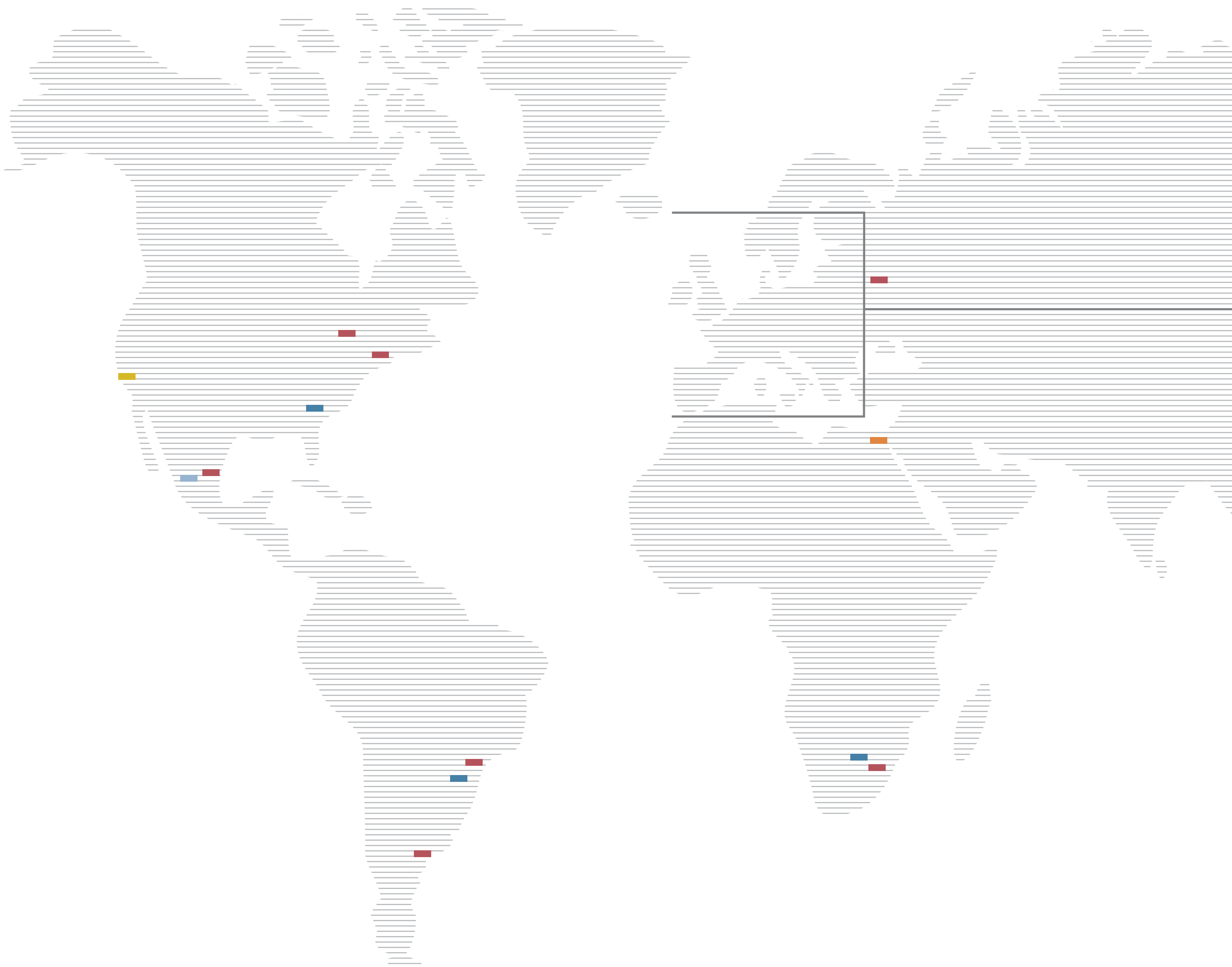
		2003 IAS	2002 IAS reclassified[1]
Revenues	euro million	41,525	42,411
Change	%	–2.1	9.9
Vehicle production			
Automobiles[2]	units	1,118,940	1,090,258
Motorcycles[3]	units	89,745	93,010
Deliveries to customers			
Automobiles[2]	units	1,104,916	1,057,344
Motorcycles[4]	units	92,962	92,599
Workforce at end of year[5]		104,342	101,395
Capital expenditure	euro million	4,245	4,042
as % of revenues	%	10.2	9.5
Depreciation and amortisation	euro million	2,370	2,143
Internal financing[6]	euro million	8,868	7,687
as % of investments	%	208.9	190.2
Non-current assets	euro million	20,212	18,829
Receivables from sales financing[7]	euro million	21,950	19,493
Other current assets, deferred tax assets and prepayments	euro million	19,313	17,189
Subscribed capital	euro million	674	674
Reserves	euro million	14,642	13,029
Capital reserve	euro million	1,971	1,954
Revenue reserves	euro million	12,671	11,075
Equity	euro million	16,150	13,871
as % of non-current assets	%	79.9	73.7
Equity ratio			
Industrial operations	%	45.4	43.1
Financial operations	%	9.8	9.4
Long-term debt	euro million	16,739	15,918
Long-term capital	euro million	32,889	29,789
as % of non-current assets	%	162.7	158.2
Balance sheet total	euro million	61,475	55,511
Personnel costs	euro million	7,066	6,588
per employee[5]	euro	71,996	69,560
Profit from ordinary activities	euro million	3,205	3,297
Income taxes	euro million	1,258	1,277
Net profit / – loss for the year	euro million	1,947	2,020
Unappropriated profit of BMW AG available for distribution[9]	euro million	392	351

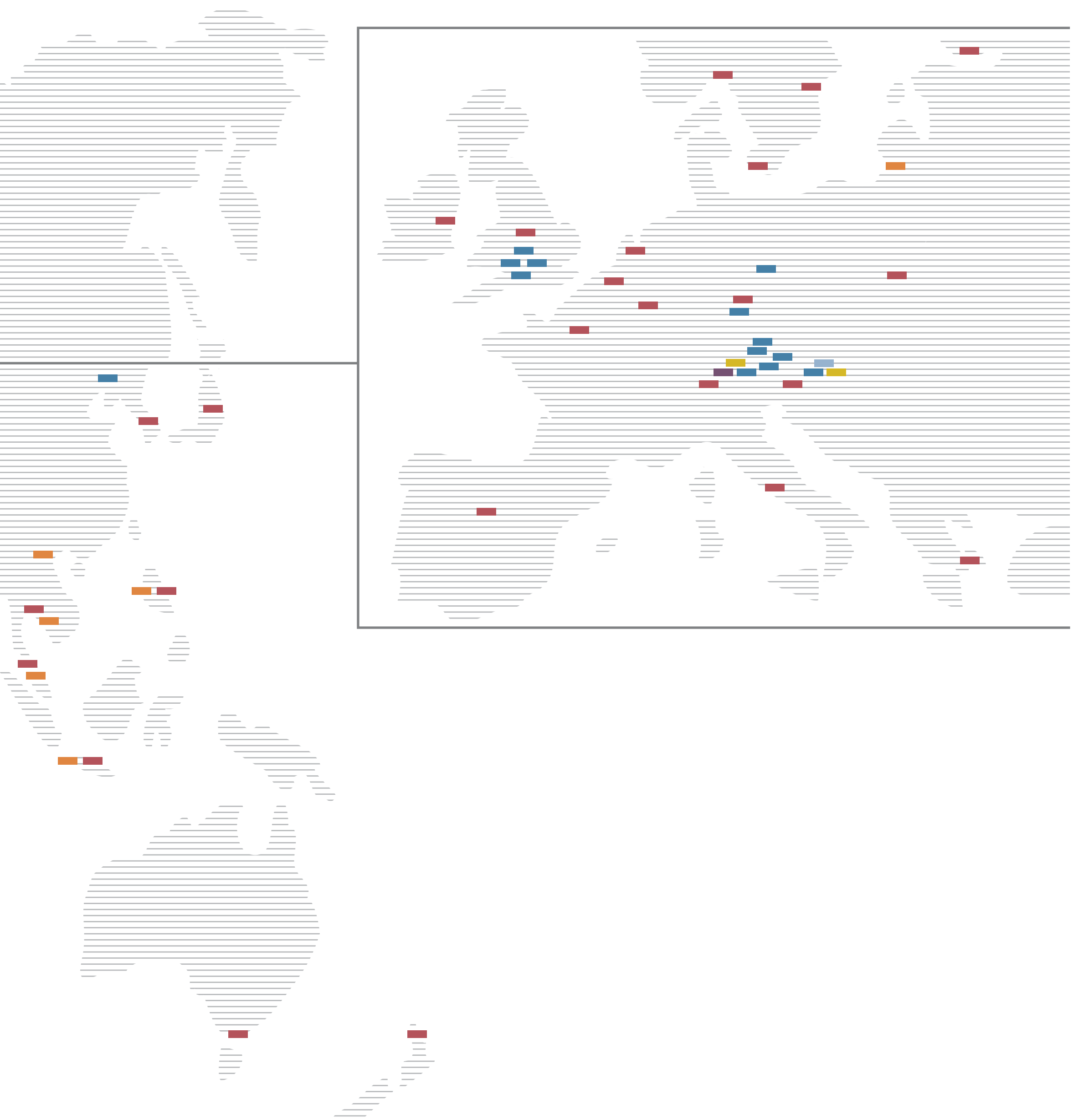
1] reclassified after harmonisation of internal and external reporting systems 2] incl. Rover Cars from 18 March 1994 until 9 May 2000 and Land Rover from 18 March 1994 until 30 June 2000
5] from 1998 figures exclude suspended contracts of employment, employees in the vacation phase of pre-retirement, low-income earners 6] to 2000 HGB: cash flow 7] to 2000 HGB:

2001 IAS	2000 IAS	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB	1995 HGB	1994 HGB
38,463	37,226	35,356	34,402	32,280	30,748	26,723	23,593	21,538
3.3		2.8	6.6	5.0	15.1	13.3	9.5	45.2
946,730	–	1,026,775	1,147,420	1,204,000	1,194,704	1,143,558	1,098,582	948,683
90,478	–	74,397	69,157	60,152	54,933	48,950	52,653	44,435
905,657	–	1,011,874	1,180,429	1,187,115	1,196,096	1,151,364	1,073,161	931,883
84,713	–	74,614	65,168	60,308	54,014	50,465	50,246	46,667
97,275	–	93,624	114,952	118,489	117,624	116,112	115,763	109,362
3,516	2,781	2,138	2,155	2,179	2,311	1,958	1,778	1,812
9.1	7.5	6.0	6.3	6.8	7.5	7.3	7.5	8.4
2,159	2,435	2,322	2,042	1,859	1,812	1,535	1,471	1,312
7,352	6,579	3,198	2,807	2,479	2,518	2,092	1,920	1,825
209.1	236.6	149.6	130.3	113.8	109.0	106.8	108.0	100.7
18,468	17,481	6,763	8,771	7,810	7,789	6,866	6,087	6,007
17,398	17,082	17,578	16,859	12,564	10,862	8,589	7,673	6,800
15,393	14,777	11,534	11,877	10,265	8,590	7,728	7,124	6,977
673	–	672	671	658	506	506	505	504
11,342	9,763	3,914	2,992	5,487	4,465	3,915	3,487	3,343
1,937	1,914	1,914	1,893	1,876	836	825	814	805
9,405	7,849	2,000	1,099	3,611	3,629	3,090	2,673	2,538
10,770	9,432	4,896	3,932	6,445	5,240	4,636	4,193	4,050
58.3	54.0	72.4	44.8	82.5	67.3	67.5	68.9	67.4
37.0	35.9	19.1	11.9	28.7	25.3	25.0	25.1	24.8
8.4	8.1	8.0	8.7	10.0	10.0	11.5	11.4	12.2
17,085	15,314	10,375	10,379	7,039	7,772	6,015	5,512	4,608
27,855	24,746	15,271	14,311	13,484	13,012	10,651	9,704	8,658
150.8	141.6	225.8	163.2	172.7	167.1	155.1	159.4	144.1
51,259	49,340	35,875	37,507	30,639	27,241	23,183	20,884	19,784
6,079	6,095	5,976	6,177	5,896	5,535	5,033	4,523	4,308
66,711	63,548	62,307	55,710	51,703	50,493	46,122	42,292	42,684
3,242	2,032	1,663	1,111	1,061	1,293	849	699	694
1,376	823	637	448	599	655	429	345	337
1,866	1,209	1,026	–2,487[8]	462	638	420	354	357
350	–	310	269	234	203	152	137	142

3] up to 1999 including BMW F650 assembly at Aprilia S.p.A./excluding C1 production at Bertone, production volume of C1 up to 2002: 33,489 units 4] excluding C1, sales volume up to 2003: 32,859 units
assets from sales financing 8] net profit of euro 663 million before extraordinary result 9] calculation under HGB

BMW Group Locations. The BMW Group is present in the world markets with 23 production and assembly plants, 32 sales subsidiaries and a research and development network.





Headquarters

Research and Development
BMW Group Research and Innovation Centre (FIZ), Munich
BMW Technik, Munich
BMW Group Car IT, Munich
BMW Group Designworks, Newbury Park, USA
BMW Motoren, Steyr, Austria

Production
Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Munich plant
Oxford plant, GB
Regensburg plant
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
TRITEC Motors Ltda., Curitiba, Brazil (joint venture with DaimlerChrysler)
Wackersdorf plant

Contract production
Magna Steyr Fahrzeugtechnik, Austria
Toluca Planta de Blindados, Mexico

Assembly plants
CKD production Cairo, Egypt
CKD production Hanoi, Vietnam
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kuala Lumpur, Malaysia
CKD production Manila, Philippines
CKD production Rayong, Thailand

Sales subsidiary markets

Argentina	Luxembourg
Australia	Malaysia
Austria	Mexico
Belgium	Netherlands
Brazil	New Zealand
Canada	Norway
Denmark	Philippines
Finland	Poland
France	Russia
Germany	South Africa
Great Britain	South Korea
Greece	Spain
Indonesia	Sweden
Ireland	Switzerland
Italy	Thailand
Japan	USA

Glossary

[ACEA]
Abbreviation for "Association des Constructeurs Européens d'Automobiles". European automobile manufacturers' association.

[Active Steering]
An electronically controlled system that adapts steering transmission to current driving speed. In the low to medium speed range, Active Steering makes steering transmission more direct, reducing steering effort and significantly enhancing the car's handling, for example, when parking or taking bends. At high velocity, the steering reacts more indirectly, ensuring a high level of directional stability.

[ALC]
Adaptive Light Control (ALC) directs two variable headlights at the road ahead. This gives the driver a better view of the road when approaching and driving round bends. When approaching road junctions, the light beam is broadened to provide better visibility of the crossroads and pedestrian paths.

[Cash flow]
The difference between cash inflows and cash outflows for a specific period. Cash flow can be defined in a variety of ways. The cash flow referred to in the BMW Group Annual Report is computed as follows:

	Net profit/loss
+	depreciation and amortisation on intangible assets and property, plant and equipment
+/–	increase/decrease in pension provisions
=	Cash flow

[CleanEnergy]
CleanEnergy is the name of the BMW Group's initiative for a sustainable energy strategy. The aim is to develop products which are based on the idea of sustainability and which embrace the responsibility for the future. For this reason, the BMW Group will support in the long term a hydrogen economy based on regenerative energy sources such as hydro-electric power, wind power and solar energy. As a result, the BMW Group favours the hydrogen-powered combustion engine, since it best fulfils customer demands in terms of power, dynamic performance, costs and sophistication.

[Common stock]
Stock with voting right (cf. preferred stock).

[ConnectedDrive]
ConnectedDrive is the term used by the BMW Group to describe the interaction of the driver, the car and the surrounding traffic on the road. The objective is to prepare as much information as required and desired for the driver, offering him individual service customised to his requirements. The three areas of ConnectedDrive – telematics services, online services, and driver assistance systems – make motoring more comfortable, safer and efficient.

[Cost of materials]
Comprises all expenditure to purchase raw materials and supplies.

[Current assets]
All assets which are not held to benefit operations on a long-term basis are classified as current. The following items are classified as current assets:

	Inventories
+	Trade receivables
+	Receivables from sales financing
+	Other receivables
+	Marketable securities
+	Cash and cash equivalents
=	Current assets

[DAX]
Abbreviation for "Deutscher Aktien Index", the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

[Deferred taxes]
Accounting for deferred taxes is a method of allocating tax expense/benefit to the appropriate accounting period.

[Derivatives]
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

[DJSI World]
The abbreviation for Dow Jones Sustainability Index World. An index for companies introduced by Dow Jones and the Swiss SAM Sustainability Group Investment Agency focusing on companies which are following strategies aimed at sustainability. The BMW Group is one of the leading car makers in the DJSI Automotive Group ever since its establishment in 1999.

[DSC]
Dynamic Stability Control can correct unstable situations, such as under- or over-steering, as soon as they begin. When DSC is activated and intervenes in the braking system or engine management, the car can be stabilised by applying brakes on individual wheels. Dangerous skidding can be stopped before it starts – within physical limits.

[DVFA/SG result]
A basis for the computation of earnings used by the "Deutschen Vereinigung für Finanzanalyse und Asset Management/Schmalenbach Gesellschaft", the German Society of Investment Analysts and Asset Managers. Under this method, the annual results of a company are adjusted for one-off special effects to improve comparability.

[Dynamic Drive]
Active suspension system for maximum roll stabilisation. Body roll is reduced to a minimum when taking bends. This is ensured by two active stabilisers built into the front and rear axles.

[EBIT]
Abbreviation for "Earnings Before Interest and Taxes". The profit before income taxes, minority interest and financial result.

[EBITDA]
Abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortisation". The profit before income taxes, minority interest, financial result and depreciation/amortisation.

[Effectiveness]
The degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

[EMAS]
Abbreviation for "Eco-Management and Audit Scheme". A management tool which allows companies and organisations to evaluate, report on and improve their environmental performance.

[Equity ratio]
The proportion of equity (= subscribed capital, reserves and accumulated other equity) to the balance sheet total.

[Head-Up Display]
The Head-Up Display contributes to active safety by presenting important data directly in the driver's line of vision. The virtual image is projected onto the windscreen. The information, such as navigation instructions or current speed, appears about two metres away above the bonnet and is easy to read.

[IASs]
International Accounting Standards.

[IFRSs]
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRS are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

[Internal financing]
Internal financing is defined by the BMW Group as profit from ordinary activities less actual tax payments and adjusted for depreciation and amortisation and significant non-cash items.

[KOVP]
The German abbreviation for Customer-Oriented Sales and Production Process. The overriding objective of KOVP is to give each customer his personal car on his specified date. To achieve this goal in a competitive environment constantly changing and increasingly demanding, the BMW Group has started to develop a new sales and production system.

[Mechatronics]
Mechatronics is the generic term for mechanical systems which are controlled electronically. It will revolutionise automobile technology in the years to come.

[Non-current assets]
Intangible assets: expenses for formation and expansion of business operations, concessions, patents, licences, design patents, trade marks, goodwill, development costs, know-how, etc.
Property, plant and equipment: land and buildings, plant and machinery, other facilities, factory and office equipment and construction in progress.
Financial assets: investments in subsidiaries, investments in associated companies, loans (with a maturity of more than five years) to subsidiaries and to other companies in which shares are held, investments in other companies, long-term marketable securities, other loans.
Leased products: from operating leases.

[Online ordering]
Online ordering helps to significantly speed up change management in handling customer orders, expedites the order processing and enables, at the time of order, confirmation that the vehicle can be completed in the required configuration, so that a definite delivery date can be given. An important part of KOVP.

[Preferred stock]
Stock which receives a higher dividend than common stock, but without voting rights.

[Principal subsidiaries]
Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly
– holds the majority of the voting rights
– has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
– has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

[Production network]
The BMW Group production network is made up of 15 plants and 8 assembly facilities worldwide. Particular abilities of the network are the common supply of systems and components as well as a high standard of productivity and agility.

[Rating]
Standardised evaluation of a company's credit standing which is widely accepted on the global capital markets. Ratings are published by independent rating agencies e.g. Standard & Poor's or Moody's based on their analysis of a company.

[Return on sales]
The ratio of the profit from ordinary activities to Group revenues. For segment reporting purposes, the computation is based on the profit before financial result.

[Risk management]
An integral component of all business processes. Following enactment of the Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations and which could endanger the continued existence of the company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

[Sports Activity Vehicle]
The BMW X5 is the first-ever Sports Activity Vehicle – a combination of a typical BMW Limousine featuring sporting and comfortable driving features on the one hand, with far-reaching driving abilities in terrain on the other. This creates a new market segment.

[Steer-by-wire]
A fully-fledged steer-by-wire system dispenses with any mechanical link between the steering wheel and the vehicle's wheels and sends steering signals via data lines. The BMW Active Steering system features a steering column which connects the steering wheel and the front wheels mechanically. This guarantees maintenance of steering functions at all times even if the steer-by-wire system is not operating properly or breaks down altogether, and is the prerequisite for the authentic steering "feel".

[Subscribed capital]
The share capital of a company is computed by multiplying the nominal value of the shares by the number of shares.

[Supplier relationship management]
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the group and create efficient sourcing and procurement processes along the whole added-value chain.

[Sustainability]
The process of stable, ongoing development. The United Nations Conference on the Environment and Development held in Rio de Janeiro in 1992 resolved a global action plan for combating poverty, ensuring a suitable population policy, promoting urban development, human rights, trade, agriculture, environmental protection, research and technology. Referred to as Agenda 21, this action plan serves to ensure sustainable development preserving the world's natural resources and limiting the emission of pollutants into the environment to a volume the world can absorb or degrade.

[VALVETRONIC]
VALVETRONIC provides variable valve lift, taking over the function of the throttle butterfly which is no longer required. The result is an engine able to breathe freely, saving fuel in the process.

[xDrive]
xDrive is a new, intelligent all-wheel drive system with active dynamic suspension control. It ensures not only optimum traction in difficult road conditions, but also increased driving safety and more dynamic performance thanks to its electronically controlled, fully variable flow of power between front and rear axles.

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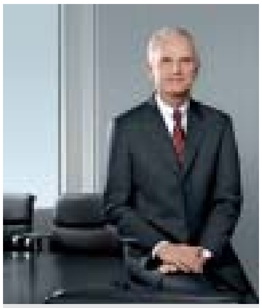
This version of the Annual Report is a translation from the German version. Only the original German version is binding.

Detecting potentials. Shaping growth.

Detecting potentials. Shaping growth. Taking a clear stand. Understanding and using distinctive strengths – and taking action based on a clear strategy. However perfect the latest achievement, it is merely the starting point in the quest for something better. This belief is shared by everyone in the BMW Group, it forms corporate culture and determines the processes in the Company. And it is apparent in an uncompromising commitment to the premium claim: only strong brands with a clear-cut profile have a role to play. This approach results in vehicles that are sought after all over the world; automobiles and motorcycles that create excitement in more and more people, and whose success is leading the Company into a new dimension. Born from our own aspiration, our own strengths and our own efforts.



Helmut Panke
Chairman of the Board of Management

Ladies and Gentlemen,

2003 was a very successful year for the BMW Group. As car sales rose to new highs in all our brands, the Group set a new record. In the Motorcycles segment, unit sales exceeded the previous year's level for the eleventh time in succession. The Financial Services segment continues to grow, with the number of new contracts increasing to an all-time high.

At the same time, we have succeeded in generating the same high level of revenues as in the previous year, despite the high level of expenditure for the product and market offensive. This result is all the more welcome considering that 2003 was marked by international political crises and a difficult economic environment. It was thus anything but a hospitable climate in which we set out to attain our ambitious objectives.

The BMW Group's success in 2003 is renewed evidence of the Company's strength and efficiency. The BMW Group stands for strong brands, fascinating vehicles and an uncompromising commitment to making good on every aspect of the premium claim. The Company depends on the dedication and the skills of its employees who have time and again enabled the Company to achieve outstanding results, and who have made a decisive contribution to our success in 2003 as well.

For the BMW Group the past year was especially marked by product life cycles and model activities. Never before in the history of our Company have we introduced as many new products as in 2003. This wealth of innovation is the result of the unwavering pursuit of our premium brand strategy, which will propel our Company into a new dimension. With now three vehicle brands and nine model ranges, we have expanded our product range significantly.

At the very beginning of the year, we introduced the new Rolls-Royce Phantom, thus enhancing our range of motor cars to include the very top end of the luxury segment. With the Rolls-Royce brand, the BMW Group now has a third strong brand in its portfolio and focuses, like no other car manufacturer, exclusively on the premium segments of the international automobile markets.

The worldwide success of the MINI brand surpassed even our own expectations. In the spring of 2003, we introduced a diesel version, the MINI One D, thus broadening the MINI product range.

The strength of our product offensive in 2003 was most obvious, however, in the BMW brand, which featured two new model ranges, one model change, four updated models and numerous new engine versions. In the first half of the year, we made new engine versions available in the BMW 7 Series and revised the BMW 3 Series Coupé, Cabrio and Compact models. In the second half of the year, the new BMW 5 Series Saloon stimulated demand as expected, leading to significantly increased unit sales for the whole of 2003, despite the model change. The revised BMW X5 followed in the autumn. Then, at the end of the year, we introduced two completely new cars, the BMW X3 and the BMW 6 Series Coupé, which will win over new groups of customers for the BMW brand.

In addition to developing our product range, we have in recent months taken important steps to expand geographically. In Europe, since October 2003 we had served the markets Ireland, Denmark, Luxembourg and Greece through our own subsidiaries; these markets were formerly served by importers. Further subsidiaries will follow in 2004. By establishing a new subsidiary in Malaysia, we have taken a further important step to develop the markets of Southeast Asia. By launching the production and sales joint venture in China in 2003, we achieved a breakthrough on what is currently the world's strongest growth market for cars.

The course for 2004 is clear. We will leverage the strengths of our brands to enhance the BMW Group's leading role in the premium segments of the international car markets. We will continue to grow, increasing sales both of our core models and in established markets. And we will continue to expand, winning new groups of customers with new models or entering new markets with our range of vehicles.

We have ambitious plans for our product range for 2004. In the first quarter, the new BMW X3 and the BMW 6 Series Coupé were launched on the world's markets. Other new models will follow during the year: the BMW 6 Series Cabrio, the BMW 1 Series and the MINI Convertible will appeal to new groups of customers and thus greatly increase our unit sales potential. The new BMW 5 Series Touring will set standards in its segment and contribute significantly to our growth.

We will also seize sales opportunities on new markets. In this context, we are further developing the BMW Group's presence in Central and Eastern Europe, as well as in Asia. At the same time, we are working resolutely to intensify sales on the Company's traditional markets. As a result, we expect the BMW Group's sales volume to increase significantly again this year. This will enable us to achieve new record results in 2004, emphasising yet again the BMW Group's position as one of the world's most profitable car manufacturers.

Helmut Panke
Chairman of the Board of Management

With its three brands BMW, MINI and Rolls-Royce, the BMW Group clearly focuses its efforts on selected premium segments of the international car markets. The Group thus utilises its strengths with a determination that is unique in the industry. From development to product and marketing, the Company is uncompromisingly committed to the premium claim.

The Company's strategy clearly aims at profitable growth, for the premium segments are expected to grow almost twice as fast as the mass segments over the next few years. However, this growth will not only take place in previously defined and familiar segments. Rather, new groups of customers will come to demand premium products, and new market segments will evolve, and this will also be due to new vehicle concepts with which the BMW Group will be expanding into new market segments.

With its three brands BMW, MINI and Rolls-Royce, which are among the most-sought-after car brands in the world, addressing all the relevant market segments, the BMW Group is well-equipped to meet these challenges.

Detecting potentials.
Shaping growth.

Production of BMW cars in Shenyang in the northeast of China began in September 2003 – this is an important milestone in the BMW Group's expansion strategy.

Production follows the market

With the MINI brand, the BMW Group successfully established the premium concept in the small car segment – even in the United States where, until then, small cars did not have a big following.

Opening up new segments

Agility and efficiency are the decisive factors for success in the BMW Group's worldwide production network.

Thinking and acting in networks

To be included in the cars of the BMW, MINI or Rolls-Royce brands, innovations need to offer customers real benefits.

Developing innovations and transforming them into products

It is the BMW Group's goal to be the most successful premium manufacturer in the automobile industry. To this end, the Company is pursuing a market and product offensive whose scope and dimensions are unique in the Company's history. 2003 provides impressive evidence of this. It was, after all, a year in which the Company literally put the entire strength of its product and market offensive on the road. Never before has the BMW Group introduced so many new products within a single year. Further important vehicles will follow in 2004: the BMW brand will launch the new 1 Series and the 6 Series Cabrio, and the MINI brand will add Convertibles to its model range. The BMW Group will then have three brands and ten model ranges.

The BMW Group seizes on opportunities for growth and expansion on the market side just as resolutely as it develops its product range. For the BMW Group, growth means increasing sales of the existing product range in the established triad markets, i.e. in Europe, the United States and Japan.

At the same time, the BMW Group is continuing the Company's regional expansion, thus opening up segments and markets that offer new opportunities for the Company and its brands. In this respect, the markets of Eastern Europe and, in particular, Asia play a decisive role for the BMW Group. As their economies grow, these regions develop promising market potential for premium products.

With its product and market offensive, the BMW Group is set to achieve steady, profitable growth in the coming years. At the same time, the increased demands that this growth generates need to be addressed inside the Company. The production and development network of the BMW Group creates the right conditions: by using "breathing" structures that permit the efficient and sustainable use of resources, by thinking and working in networks, thus engendering the flexibility that gives the Company its competitive edge, and by looking ahead so as to drive innovations and develop products that are valued the world over.

In broadening its activities in Asia, the BMW Group remains true to a long-term strategy that brought the Company to the region early on. Having first opened up the market through importers, the BMW Group became the first European car manufacturer to open its own sales subsidiary in Japan in 1981. Other subsidiaries in Southeast Asia followed: in South Korea, Thailand, Indonesia, the Philippines and, in 2003, in Malaysia. A regional office in Singapore attends to the needs of the markets served by importers.

While developing its sales network in Asia, the BMW Group established assembly plants with partners in Malaysia, Vietnam, Indonesia and the Philippines. Since the beginning of 2000, the Company has also had its own assembly plant in Rayong, Thailand. In response to the ASEAN Free Trade Area (AFTA) development, the BMW Group will gradually develop its production activities in the region in order to further consolidate its position in the markets of Southeast Asia. In addition to assembly and production plants, the BMW Group operates a regional parts distribution centre in Asia. It has also opened an IT centre in Malaysia serving the whole of Asia and tying into existing IT centres in Germany and the United States.

In China, the BMW Group has reached an important milestone in its expansion strategy, launching production of BMW 3 and 5 Series cars for the Chinese market in a joint venture with its Chinese partner Brilliance China Automotive Holdings Limited in Shenyang in September 2003. This is yet another example of the principle “Production follows the market” under which the BMW Group sets up its own production facilities in particularly promising markets, thus addressing the market from the inside; a market that will continue to grow dynamically in the next few years. In the medium term, the BMW Group expects the Shenyang plant to produce around 30,000 automobiles a year for the Chinese market.

In the next five years, the BMW Group’s sales volume throughout Asia will increase significantly. Thus, Asia is becoming an increasingly important pillar for the success of the BMW Group.

Detecting potentials. Shaping growth.

Developing markets


MINI

Shenyang, northern China, in December 2003: a metropolis on the move. Brick constructions from the 1950s, concrete slab high-rises from the 1970s and between them modern skyscrapers towering into the sky; wide thoroughfares, department stores and billboards mark the inner city: Shenyang displays at first sight all the striking contrasts between the old and the new, which are found throughout the People's Republic of China. The capital of Liaoning Province, with almost seven million inhabitants, is said to have more than 5,800 industrial companies. The city is the premier location for Chinese heavy industry and is now in search of new paths for economic development. New industries are being established in order to accelerate the transformation of older factories into state-of-the-art industrial plants.

The district of Dadong in the east of the city is one of the industrial centres to which the government of Liaoning Province and Shenyang's city government aim to attract internationally competitive production ventures. This is where the new plant of BMW Brilliance Automotive, the joint venture of the BMW Group and its Chinese partner Brilliance China Automotive Holdings, is located and where BMW 3 and 5 Series cars are now produced. The joint venture plans to invest a total of 450 million euros in the plant by 2005 and thus contribute significantly to revitalising the industrial landscape in Shenyang. Already, more than 4,000 BMW 3 Series cars have been made in Shenyang from the beginning of production in September 2003 to the end of the year. The BMW 5 Series Limousine has also been manufactured in Shenyang since November 2003 and has met with an extremely positive response among Chinese customers. In the medium term, the plant's annual capacity is to be increased to 30,000 cars, all of which are destined for the Chinese market. The joint venture will then employ around 3,000 associates.

Quality of the very best. In Shenyang every process guarantees the fulfilment of the BMW Group's worldwide standards production quality, from the first weld applied to a body part by a local employee, to the car's packaging for transport.

The local supplier industry is steadily being developed and integrated into the production process. For example, Chinese companies already supply the seats, axles and tyres. Following a brief introduction phase, local content will rise to more than 40 percent of the value added. A great number of parts and components are supplied by existing BMW Group production plants. Thus, Shenyang is also an example of how involvement in China safeguards jobs in Germany.

Production in the joint venture includes body in white, paint shop, assembly and engine assembly. Also, the administrative offices are located on the premises in Shenyang. The young workforce is enthusiastic; the plant's development is making good progress. In the assembly area, Chinese associates weld together the bodies for BMW cars at almost twenty workstations. New associates look on with interest. They are preparing to work on the second shift very soon, which will further increase the plant's production capacity. Most of them are technical college graduates who have been trained for their new tasks by skilled workers from the BMW plants in Munich, Dingolfing and Regensburg, during the start-up phase.

Quality work is of essence not only in production, but also when transporting the new BMW cars from the plant to the vehicle distribution centre and from there to the 24 dealerships throughout China.

The BMW cars that have been rolling off the assembly lines since September are first transported in closed trucks to Yingkou harbour in the south of Liaoning Province. From there they go their separate ways: cars destined for the cities of Shanghai or Canton in southern China are loaded onto ships in Yingkou.

Those destined for customers in northern China and the capital Beijing are transported overland. A BMW delivered from Shenyang to a customer in Kunming, the capital of Yunnan Province in southwest China, for example, travels up to 5,000 kilometres by truck.


吉E 50

The journey of a BMW 530i from the Shenyang plant to the dealership in Shanghai usually takes about four weeks. When the cars arrive in Shanghai, the service staff inspect them thoroughly before delivering them to the customers.

After all, Chinese customers such as Lilian Zhang expect nothing but the best. Ms Zhang is a typical Chinese businesswoman; she runs her own real estate agency. To her, taking delivery of a BMW 530i means fulfilling a dream she has had since her days as a university student. She had always wanted to own a BMW – and to drive it herself. However, twenty years ago, when she was still a student and the People's Republic of China under Deng Xiaoping launched its reforms in the direction of a market economy, this goal was almost impossible to achieve. Ms Zhang studied Economics and English and subsequently worked her way up to become a management trainer at a renowned university.

It is particularly important to Ms Zhang that BMW makes cars in China for the Chinese market. She did not decide to buy her BMW 5 Series car until she heard that Brilliance China Automotive Holdings and the BMW Group had agreed on the joint venture.

A few years ago, demand on the Chinese car market came mainly from government bodies and local authorities. Today, however, it is the private customers anxious to fulfil their wish for individual mobility that fuel demand.

The opportunities currently offered by the Chinese market are best reflected by the explosive growth and rapid modernisation of the financial metropolis of Shanghai. The city with its 15 million inhabitants abounds with dynamic activity and entrepreneurial spirit.

In the last five years a middle class has formed, and has acquired plenty of purchasing power. Its members want to own and, in particular, drive a premium car. They value the reliability and quality, comfort and technical innovations offered by BMW automobiles.

At the same time, a “Bao ma” – a “noble steed” or “racing horse” – as the Chinese call their BMW cars, is also an outward sign of personal achievement and commitment to the market economy. Young entrepreneurs, senior employees and upwardly mobile skilled workers are potential buyers of BMW cars in China. Studies show that, as purchasing power increases, brand awareness is particularly strong in this segment of society, making the highest growth likely to occur here. This is why the premium segment is expected to show above-average growth over the next few years in China, as well.

BMW cars on the roads of China’s business centres are a sign of economic success: in 2003, the BMW Group sold 18,445 cars in the People’s Republic of China, exceeding the previous year’s unit sales by 176%. At the same time, China became the third-largest market for the BMW 7 Series. In 2003, with almost 1,000 units, sales of the top model alone, the BMW 760Li, were higher in China than anywhere else in the world.

Thus, the timing for starting a joint venture and strengthening the BMW Group’s commitment in China is just right. A fast-growing market, efficient production in China, a well-established network of dealerships and an excellent image all constitute optimum conditions. The BMW Group has a clear aim: it intends to be the most successful supplier of premium cars in China, as elsewhere.

The BMW Group is growing into a new dimension. In 2003, the Company that used to be a car maker with a single brand and three model ranges became a premium manufacturer with three brands, and in 2004 the number of model ranges will increase to ten. The BMW Group's sales volume will also grow dynamically in the next few years. By the year 2008, the Company will have an annual sales volume of more than 1.4 million automobiles. This target cannot be attained solely through the development of existing markets. Obviously, this is a necessary basis for further growth; it needs, however, to be supplemented by opening up new opportunities and winning over new groups of customers.

Wherever a segment with substantial potential for premium products can be identified and the BMW Group can make an authentic offer with its BMW, MINI or Rolls-Royce brands, then it will do so – without compromise regarding the premium claim. One of the decisive factors contributing to the BMW Group's success, after all, is the clearly defined image of its brands. Therefore, the character of the vehicles is absolutely essential when expanding into new segments. The vehicles must fit in with the brand and, in particular, fully meet the customers' demands and expectations. Current examples of this expansion strategy include the new BMW X3, the BMW 6 Series, and the Rolls-Royce Phantom which was launched at the beginning of 2003 and extended the BMW Group's product range at the very top end of the luxury segment of the international car markets.

The MINI brand, however, provides the most comprehensive example for the development of new segments. With MINI, the BMW Group established, with unparalleled success, the premium concept in the small car segment. MINI proves that being "premium" is not a question of the vehicle's size, but of the underlying concept. The MINI is successful even in the United States, where the small car segment has played only a minor role to date; so successful, in fact, that the United States is now the second-largest market for MINI cars worldwide, just behind Great Britain, the MINI's mother country.

Detecting potentials. Shaping growth.

Opening up segments


Prudential
HSBC
SAMSUNG
THIRSTY?
Coca-Cola
REMEMBER YOUR
FIRST TIME...
PETER PAN
THE LION KING
999
WICKED

MINI is back in town. In 2002, the MINI brand staged its successful comeback in the United States, 35 years after the last Mini was sold there.
The BMW Group has thus proved that a small car can be positioned successfully on the US market, provided the brand and substance of the product make the vehicle desirable. The MINI is a unique case in point.
In the year of the brand's launch, 24,590 MINI cars were sold. In 2003, the first full sales year, the United States accounted for sales of 36,010 MINI cars and thus ranked second on the list of MINI markets with the strongest unit sales. Numerous awards show that the MINI has already become a household name in the US market. It was immediately voted the "North American Car of the Year 2003" – the smallest car on the US market to do so.
The MINI is finding buyers in all age groups, appeals to people with very different interests, and is accepted and welcomed wherever it goes.




Cesar Sanchez, New York. Driving in Manhattan is pure luxury, according to Cesar Sanchez, for parking lots are rare and road traffic is nearly always dense. There is, in fact, only one good reason for driving a car: the fun of driving. And that is why Cesar drives “Miles”, his MINI. As project manager of a design agency, he obviously sets great store by the right look. However, Cesar enthuses most about the sheer driving pleasure that his MINI gives him – and the dependability with which “Miles” takes him through the streets of New York.

MINI arouses emotions. At first sight, from outside or inside, but particularly behind the wheel. It is not just the unmistakable design, but the driving experience, that unique go-kart-like feeling, that gives the MINI its special character. Also, all kinds of options are available for the MINI, some of which are rather unusual in a small car – navigation system, high-end stereo system, xenon headlights or Park Distance Control. Extras are popular. The share of optional equipment and accessories is uncommonly high in the MINI.

Series production of these distinctive cars is based on an efficient logistics network. More than 200 contractors from all over Europe provide the MINI Plant Oxford with 4,000 different parts. The engines come from Brazil and Japan.

At the plant, an integrated logistics centre ensures that the various production areas are supplied flexibly, reliably and efficiently with parts and components. Several system suppliers are also located here. Just-in-time suppliers deliver large components such as the cockpit and seats, directly to the assembly line.

MINI stands for design. Timeless and unshowy, striking or discreet, classic or ultramodern – the MINI offers its owner a large variety of special equipment for greater individuality like no other small car.

More than 70 optional equipment packages are available for the MINI. The entire production process at the MINI Plant Oxford is monitored by an integrated quality control system that provides an electronic history of each car produced. State-of-the-art technologies in the paint shop allow fast colour change, and the ergonomic design of the assembly area promotes the staff's concentration as they fulfil customers' wishes.

Jasmine Kuo, San Francisco, California. Design was first and foremost when Jasmine Kuo decided on her MINI. In the MINI Owners' Lounge on the Internet, the architect shows what you can transport in a MINI. She reports on her experiences: Jasmine has transported chairs, a dining table and bookshelves in her MINI without any difficulty. However, when it came to the sofa, she gave up.

Myrna, Chris and Ian Echelmeier, Boulder, Colorado. Chris Echelmeier works in the sales department of a software company. And he enjoys mountain biking. Colorado offers ideal conditions for his sport. Chris is proud that his bike fits into his MINI, but that is not all that the family car has to transport. Sometimes the whole Echelmeier family goes camping – and the MINI takes them.

The MINI is welcome everywhere. Whether on campus or outside the opera, a MINI never looks out of place. The brand is accepted at all echelons of society. Ecological aspects contribute to this. Great store is set by the sparing use of resources during the car's production, and the entire vehicle is designed for eventual recycling.

Water-based paints are used in the paint shop, and corrosion protection with wax involves a particularly low proportion of solvents. More than 90 % of the paint particles used are sprayed directly onto the bodies. Extremely low spray losses of around 10 % are treated and reintroduced into the painting process.

A recycling centre ensures that waste materials are collected, separated and re-used in an environmentally friendly way. The MINI Plant Oxford holds a leading position in this field. Finished cars for most European markets are transported by rail, thereby saving around 650,000 truck-kilometres a year.

Cheeky and unconventional. Communications for vehicle and brand are like the MINI itself. When it was launched in the United States, the MINI was a regular guest at the hippest parties, was spotted on the stands at “Monday Night Football” and adorned large-format banners on many an old building. In 2003, the MINI conquered Hollywood and played the leading automobile role in “The Italian Job”. MINI enthusiasts in the United States can get in touch with one another to share tips and experiences via the MINI Owners’ Lounge on the Internet.

The MINI is a hit, and this is borne out by awareness levels, too. In the United States, these figures show the MINI ahead of its competitors in what is still only the second year following its introduction.

Brooks Garner, "Weatherman", Cambridge, Massachusetts. Brooks Garner makes even bad weather look good. He designs the weather charts for a television network and is also active as a film-maker. His MINI quickly takes him through the city, whatever the weather, and even as far as Barcelona, where Brooks was a member of the USA team in the Mission MINI 2002.

The product and market offensive creates clear-cut challenges for the BMW Group's production network. One important aspect is agility, that is the Company's ability to react swiftly and flexibly to market trends, while at the same time maintaining a high level of efficiency in all production processes. This is a key to profitable growth. In order to anchor this growth worldwide, the Company also cooperates internationally in the field of production.

To meet this challenge, the BMW Group relies on networks both within the Company and in cooperation with external partners. For one, production locations provide mutual support for each other under a system of so-called "sister plants". This ensures comprehensive know-how transfer within the network and, for example, enables the Company to launch new products or revise models exceptionally quickly. The network approach has another advantage: to cope with rapid changes in demand, several models can be made at a single plant at the same time, or they can be integrated into a plant's production at short notice. Add to this the BMW Group's various flexible work time models, and the Company can react swiftly and flexibly to surges in demand. As a result, capacity utilisation is continuously in tune with market requirements. Capital expenditure on cutting-edge technologies and structures ensures this exceptional agility in the long term.

In addition to optimising its own resources, the BMW Group has been increasingly integrating external partners into its production network. This allows the Company to utilise its own capacities for strategic tasks and to focus its own resources on strategic subjects, such as vehicle concept, sign-off, service or purchasing. Thus, authority in development, control and assessment of strategic topics in vehicle projects remains firmly anchored within the BMW Group. This is the only way the BMW Group can assume its responsibility and keep the promises it has made to customers through its brands.

Detecting potentials. Shaping growth.

Utilising resources efficiently

Production of the BMW 3 Series Touring in the Regensburg plant. The BMW Group's production network currently comprises 23 locations on four continents. More than 1.1 million cars manufactured to customers' specifications roll off the assembly lines each year.

Networks for flexibility. The BMW Group's production locations cooperate closely. As a rule, each plant will produce at least two models and their variants. Thanks to flexible structures, individual models can be integrated into production at another location, if necessary. For example, in addition to manufacturing BMW 7, 6 and 5 Series models, the Dingolfing plant can adapt its capacity to produce 3 Series cars, which are otherwise manufactured primarily in the plants in Regensburg, Munich and Rosslyn, South Africa.

Selective partnerships and networks provide the BMW Group with additional room to manoeuvre. For example, the new BMW X3 is manufactured in cooperation with Magna Steyr Fahrzeugtechnik in Graz, Austria. Through this project-based cooperation the BMW Group has secured additional capacity in a critical phase of its product and market offensive and can thus use its own strengths even more efficiently.

Fitting headlights to the MINI Cooper S on the rotary sling. All MINI models have been produced at the Oxford plant since 2001. The introduction of work time accounts, together with a shift system designed to meet the plant's special requirements, ensures operation up to seven days a week.

Flexible work time models underpin investments. More than 300 different work time models currently in place provide the BMW Group with an effective instrument to de-link operating times from individual work times. Both the Company and its associates benefit from these work time models. For example, operating times in BMW's new Leipzig plant are continuously variable within a corridor ranging from 60 to 140 hours a week. By combining varying work time concepts with working time modules the Company achieves outstanding flexibility, safeguarding its competitiveness.

For the associates, work time models mean job security and a locally competitive income, regardless of market influences. Moreover, individual work time enables associates to organise their free time more effectively and thus to attain a balance between professional and private life. This aspect plays an important role in the BMW Group's human resources policy and may also help to explain why the Company is regarded as one of the world's most attractive employers.

Production follows the market. For the BMW Group, production also plays a decisive role in the development of new markets. Where a market offers potential, the BMW Group applies the principle "Production follows the market" and underpins its entry into the market by setting up its own production facilities in the region concerned. The United States is a prime example of the scope of opportunities offered by market development from the inside in conjunction with local production: starting with around 65,000 vehicles in 1992, the BMW Group's car

Loading the BMW X5 at the plant in Spartanburg, United States. The plant, opened in 1994, was the first major step in the internationalisation of the BMW Group. The Spartanburg plant supplies the world markets with BMW X5 and BMW Z4 vehicles. It currently employs around 4,700 associates; more than 12,000 additional jobs have been created in the BMW plant's surroundings, with suppliers and service providers, for example.

sales have quadrupled in the United States in the last ten years. Today, the United States is the largest single market for the BMW Group, with sales of around 277,000 cars in 2003. The Spartanburg plant in South Carolina has contributed decisively to this development. Opened in 1994, the Spartanburg plant today produces the BMW Z4 and the BMW X5 exclusively for the world market. More than 166,000 of these BMW cars rolled out of the plant on the East Coast last year.

By integrating local suppliers, the BMW Group also benefits from purchasing opportunities in NAFTA countries. Applying this "natural hedging", the Company further reduces its exposure to fluctuations in the dollar exchange rate.

Time-to-market: simultaneous rather than sequential. Being competitive means offering the customer more and within an increasingly short time. Constant optimisation of product development processes contributes to accelerated series development. That is why the BMW Group has organised its development and operations along so-called strategic fields of innovation – with an interdisciplinary and interdepartmental approach, from the initial idea to its eventual application in future vehicle concepts. By working simultaneously across the board, development tasks can be solved much more quickly: series development from the initial idea to launch now takes about 30 months, that is 20 months less than it used to.

From a very early phase in product development, vehicle and production concepts are generated, their economic efficiency analysed and the necessary

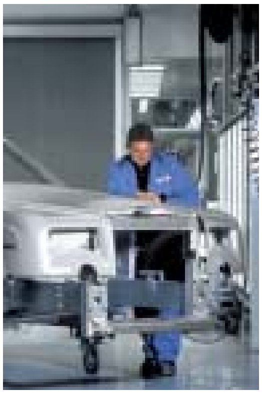
Car configuration on-screen. Cars are delivered quickly, on time and to each customer's specifications. This is an exciting challenge, because making cars to order is extremely complex. Theoretically, for example, 10^{17} different combinations are possible in the BMW 7 Series alone.

components and technologies pre-developed. The early phase of each new vehicle concept ends with final product, market, production and finance baselines being laid down.

In the product development process, all partners are integrated from the beginning. Since project progress flows directly into the "virtual car", down time and loss of momentum because of data collation is eliminated.

Time-to-customer: mastering complexity. Agility in development, production and sales is essential to the BMW Group's success. In this context, three questions are pivotal. How quickly can a vehicle be developed? How quickly can it be produced? How quickly can it be delivered to the customer? The BMW Group meets these challenges with its customer-oriented sales and production process. Basically, the process is not determined by the kind of vehicle that the BMW Group might want to build, but by the car that the customer would like and will order. The customer-oriented sales and production process was first introduced in the BMW 7 Series in 2001. Since then, all new models of the BMW and MINI brands have been integrated into this comprehensive new system.

The customer-oriented sales and production process has clear advantages for all parties involved. First of all, the dealer can help the customer put together the desired vehicle right at his desk, he can then directly book a slot in the production process and finally inform all units involved in production logistics. The bene-



Inspecting the surface quality of an aluminium space frame body. Each Rolls-Royce Phantom is the result of the handcrafting skills and technical expertise of a carefully selected team. The entire vehicle is replete with details that can only be achieved through meticulous handcrafting, supported by the dedicated use of ultramodern precision engineering.

fits for the customer are obvious: perfect pre-sales information and consideration of his individual wishes, as well as immediate confirmation of the delivery date, subject to current demand. From a customer perspective, the system's considerable flexibility is especially interesting. Individual changes, for example, in engine capacity, optional equipment, colour or interior can be accommodated up to ten working days before production begins. Each month the BMW Group records and processes an average of more than 120,000 of these customer changes for the BMW brand alone.

Quality without compromise. The BMW Group has set binding quality standards for all of its production processes worldwide. These ensure that the quality of each vehicle produced will always meet the same high standards, regardless of which plant it may have been manufactured in. Thus, quality plays a special role in the precision hand-building of the Rolls-Royce Phantom in Goodwood in the south of England. Here, truly exceptional motor cars are made according to the motto of Sir Henry Royce, "Take the best that exists and make it better". The key to success lies in the perfect interaction of handcrafting skills, the finest materials and manufacturing methods. Here, too, the BMW Group benefits from cooperation in its production network. For example, Rolls-Royce Motor Cars draws on the know-how of the aluminium competence centre in Dingolfing, where the sophisticated aluminium body of the Rolls-Royce Phantom is precisely hand-finished by experienced specialists.

Powder-based paint technology. In the Regensburg and Dingolfing plants, the BMW Group uses powder-based paint technology for the top coat. The paint shop in the new Leipzig plant will also be using this technology. While conventional clear paints contain up to 55% solvents, the use of these solvents can be reduced to zero with powder-based paint; neither water nor chemical cleaning agents are used.

Clean Production. Efficient use of all resources throughout the value chain is essential for the BMW Group's long-term economic success.

"Clean Production" refers to different measures in the field of sustainable vehicle production. Recycling systems, combined with state-of-the-art process engineering, significantly reduce energy consumption and wastewater. For example, the average wastewater per car produced in the BMW Group fell from an already low level of 1.3 cubic metres in 1996 to less than one cubic metre in 2003. In the same period, energy consumption per unit decreased by a good 20% as a result of consistently using heat recovery systems and energy-saving production technology, among others.

The BMW Group is the first and so far the only car manufacturer to have introduced uniform international environmental standards for all its production plants worldwide and, moreover, to have tailored its environmental management systems to meet the special requirements of each location. This claim is anchored in the BMW Group's international environmental guidelines, which are available on the Internet at www.bmwgroup.com under the heading "Responsibility".

The region's partner. In 2001, the BMW Group decided to build a production plant in the Leipzig/Halle region. In addition to employment in the BMW Plant Leipzig, several thousand other jobs will be created in the region, mainly in the supply and service sector.

Factory of the future. Agility, thinking and acting in networks, as well as close co-operation between company management and associates – these are the bases for the future BMW Plant Leipzig. The new plant will series-produce BMW 3 Series cars from 2005, increasing the BMW Group's overall production capacity.

The most modern methods are already being used for planning. For example, the production facilities and processes are being laid out and tested using computer-based simulation and virtual reality. This ensures that all the technical facilities will work together perfectly and that the flow of production and parts will run smoothly and efficiently from the very start. The latest simulation methods are also used to ensure the best possible ergonomic design of the workplaces.

The Leipzig plant provides for optimum communications as well as flexibility. For example, all production areas have room for extension, be it body shop, paint shop or assembly. All are grouped around a central building and open up opportunities for future growth.

Innovation generates growth. But what is an innovation? Something new, something that has never existed before? An outstanding technical achievement? Dictionaries define innovation as “an invention or the introduction of new methods or ideas”. The BMW Group’s engineers have added an essential component to the term of innovation: customer benefit. This is the basis and goal of every innovation introduced into the BMW Group’s vehicles. After all, a customer will only be willing to pay for technology if he can be convinced of its added value. Hence, innovations appreciated by the customer lie at the heart of the product value of automobiles of the BMW, MINI and Rolls-Royce brands.

In the BMW Group, a three-phase innovation management process ensures that innovations, new products and technologies find their way as quickly as possible out of the laboratories, workshops and test vehicles into the cars.

The BMW Group’s innovation management process begins at an early stage with “innovation research”. During this stage, engineers take stock of the latest technologies, which have been hatched either within the Company or in other industries, such as information technology. This is followed, at a second stage, by “innovation control”, which assesses all the new technologies with regard to customer benefit and market opportunities. If a new technology meets all the requirements, “innovation transfer management” then ensures that it is integrated into the vehicles and services of the BMW Group and is made available to customers as quickly as possible.

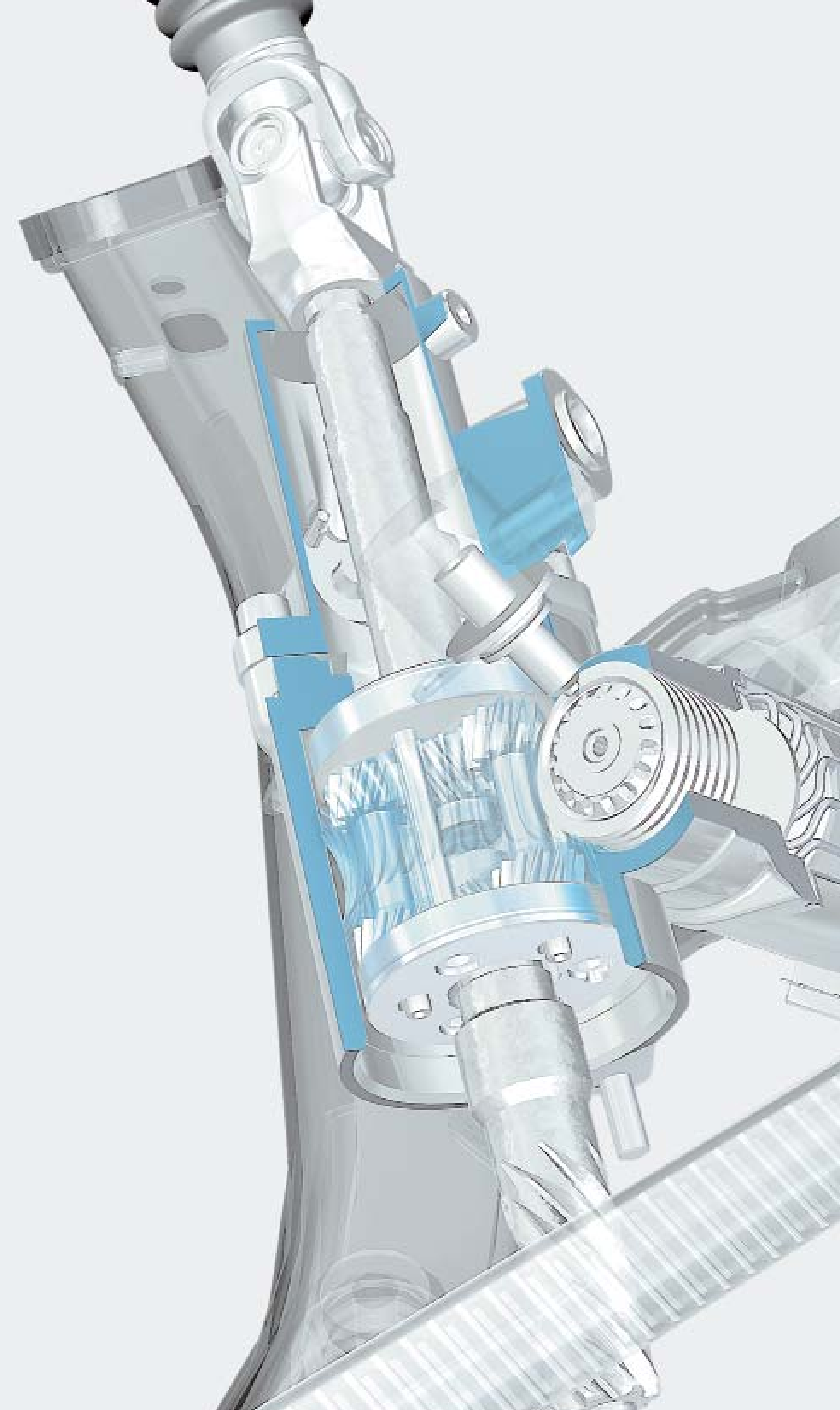
Central innovation management takes place at the BMW Group’s Research and Innovation Centre (FIZ) in Munich. The FIZ is strategically linked with other development centres that track down new and interesting trends worldwide and adapt them for automotive application. They include, for example, the BMW Technology Office in Palo Alto (Silicon Valley), BMW Group DesignworksUSA in Los Angeles, the BMW Technology Office in Tokyo, and BMW Car IT and BMW Group Research and Technology in Munich.

However, the contacts do not end at the company gates. Suppliers and universities are also integrated into the BMW Group’s network of know-how, ensuring a constant exchange of creative ideas.

In this, everyone working at the BMW Group shares a key idea: a passion for individual mobility, combined with the wish to constantly improve what is already good.

Detecting potentials. Shaping growth.

Driving innovation



BMW cars set standards in driving dynamics. The agility and cornering ability behind the slogan “Sheer driving pleasure” are among the most convincing sales arguments for a BMW. Therefore, each innovation that enhances these core characteristics keeps the brand on track for success.

Active Steering is one such innovation. For the first time, steering transmission adapts to the current speed. At high velocity, the steering will react more indirectly, ensuring a high level of directional stability. At lower speeds, it reduces steering effort, for example when parking or in slow city traffic. And on winding country lanes, drivers benefit from unique agility.

New ideas develop in teamwork – Colleagues meet regularly to exchange information and ideas.

Driving innovation

It takes courage to drive innovation forward. It takes a sense of responsibility and know-how. And it takes a sense both of timing and of what the motorist expects of a car in the future.

At the end of the 1990s, all these factors came together in Active Steering. The idea was not new at that time. An American professor had already patented the principle in 1990, but the time was not ripe for the development of an innovation from this idea. During development work for the new BMW 5 Series, all the factors fell into place that determine when new technologies of benefit to the customer should be introduced. One of the tasks of the BMW innovation management is to constantly monitor these factors.

In 1999, the Active Steering project was implemented. A team of mechanical and electrical engineers got together to form the core development team. Test models were designed, constructed, tested and refined. The challenge was how to enable the driver to learn intuitively about the new possibilities. How strongly and when should Active Steering intervene? How much correction does a BMW driver consider beneficial? And how much is sensible?

Strictly scientific measuring methods provided the basis for the initial application program developed by BMW engineers. The application program is the core of the Active Steering system, with which the BMW Group again demonstrates its technological lead.

In order to further advance the innovation, experts from all the relevant disciplines were consulted. For example, a team of psychologists from Würzburg University studied how a driver would react in the worst possible case – the failure of Active Steering in a random motoring situation. If he were simply to notice that the system has cut out then the driver would cope. However, if he were alarmed, he might react faultily. An entire series of tests with very different types of drivers showed unequivocally that every theoretically possible system failure lies well below a danger threshold.

[above] Test run in the laboratory – the Active Steering system's control unit clocks up many thousands of kilometres without moving an inch. Software and hardware only go into production when they have mastered every possible simulated situation without a hitch.
[below] CAD – a component is designed on the computer and optimised for assembly even before it is manufactured for the first time.

[top left] Diagnostics by laptop – all collected data is stored in the on-board electronics system, to be retrieved during or after the ride.
[top right] To the limit and beyond – the vehicles are put under far greater strain in test runs than they would ever encounter in road traffic. Careful inspections reveal and record how the materials behave.
[left] The testing grounds – the Active Steering system is put through its paces time and time again. Whether on the handling or high-speed track, the system is tested in every possible situation.

It was inside the Company that the innovative Active Steering system had to overcome the biggest hurdles. The BMW development team regularly builds so-called function vehicles that contain all the latest developments and, in particular, state-of-the-art technologies. The control software of the electronic systems of these prototypes is constantly updated, at the latest every three months. The cars are subjected to the most varied of driving regimes to let the engineers see whether they are on the right track. And also to let the market researchers see whether their forecasts are based on the right assumptions.

Experts from outside the Company are also involved. Not only the application program, but also the language in which the electronic components of the Active Steering system communicate with one another was subjected to exacting scientific analysis. There must be no misunderstanding because a car is not a PC and a steering assembly is not a computer game. That is why TÜV, Germany's renowned independent technical inspection company, was brought in to monitor the development process of the system's software.

The Active Steering system was subjected to a plethora of tests. It was examined, measured and analysed countless times. Every Friday evening, the development team sat down with the manager responsible for the development of the new BMW 5 Series for a critical appraisal. Soon the decision was made: Active Steering was to be included in the options list.

The new BMW 5 Series is creating a furore with its Active Steering system, which has meanwhile received several awards, including Germany's Industrial Innovation Award. This much-acclaimed innovation has aroused great interest among customers, 40% of whom now order their BMW 5 Series with Active Steering. The new system has also increased the value of the brand. And that is what the BMW Group understands by an innovation.

BMW brand

5 Series Limousine launched with numerous innovations. Initial series production of Active Steering. Aluminium/steel composite structure introduced to large series production. 5 Series Touring offers the perfect synthesis of dynamic performance, elegance and convenience. 6 Series Coupé continues the tradition of the luxury sports coupé. Powerful open-air driving pleasure in the 6 Series Cabrio with its innovative soft top. X3 with advanced all-wheel drive technology for superior agility.

R 1200 C Montauk extends the Cruiser range. R 1100 S BoxerCup Replika – the racing machine with a road licence. R 1200 GS continues the success story of large BMW enduros.

MINI brand

First diesel-engined MINI on the market. MINI Convertible – real four-seater with an innovative top and sliding roof function.

Rolls-Royce brand

Rolls-Royce Phantom – exceptional for the perfect balance of all its details. Combining excellence in both craftsmanship and engineering creates a unique automobile.

Brand BMW

3 Series

Limousine

316i
1,796 cc, 85 kw (115 bhp)

318i
1,995 cc, 105 kw (143 bhp)

320i
2,171 cc, 125 kw (170 bhp)

325i*
2,494 cc, 141 kw (192 bhp)

330i*
2,979 cc, 170 kw (231 bhp)

318d
1,995 cc, 85 kw (115 bhp)

320d
1,995 cc, 110 kw (150 bhp)

330d*
2,993 cc, 150 kw (204 bhp)

Coupé

318Ci
1,995 cc, 105 kw (143 bhp)

320Ci
2,171 cc, 125 kw (170 bhp)

325Ci
2,494 cc, 141 kw (192 bhp)

330Ci
2,979 cc, 170 kw (231 bhp)

320Cd
1,995 cc, 110 kw (150 bhp)

330Cd
2,993 cc, 150 kw (204 bhp)

Touring

316i
1,796 cc, 85 kw (115 bhp)

318i
1,995 cc, 105 kw (143 bhp)

320i
2,171 cc, 125 kw (170 bhp)

325i*
2,494 cc, 141 kw (192 bhp)

330i*
2,979 cc, 170 kw (231 bhp)

318d
1,995 cc, 85 kw (115 bhp)

320d
1,995 cc, 110 kw (150 bhp)

330d*
2,993 cc, 150 kw (204 bhp)

Compact

316ti
1,796 cc, 85 kw (115 bhp)

318ti
1,995 cc, 105 kw (143 bhp)

325ti
2,494 cc, 141 kw (192 bhp)

318td
1,995 cc, 85 kw (115 bhp)

320td
1,995 cc, 110 kw (150 bhp)

Cabrio

318Ci
1,995 cc, 105 kw (143 bhp)

320Ci
2,171 cc, 125 kw (170 bhp)

325Ci
2,494 cc, 141 kw (192 bhp)

330Ci
2,979 cc, 170 kw (231 bhp)

Z4

Z4 Roadster 2.2i
2,171 cc, 125 kw (170 bhp)

Z4 Roadster 2.5i
2,494 cc, 141 kw (192 bhp)

Z4 Roadster 3.0i
2,979 cc, 170 kw (231 bhp)

5 Series

Limousine

520i
2,171 cc, 125 kw (170 bhp)

525i
2,494 cc, 141 kw (192 bhp)

530i
2,979 cc, 170 kw (231 bhp)

545i
4,398 cc, 245 kw (333 bhp)

525d
2,497 cc, 130 kw (177 bhp)

530d
2,993 cc, 160 kw (218 bhp)

Touring

520i
2,171 cc, 125 kw (170 bhp)

525i
2,494 cc, 141 kw (192 bhp)

530i
2,979 cc, 170 kw (231 bhp)

540i
4,398 cc, 210 kw (286 bhp)

520d
1,951 cc, 100 kw (136 bhp)

525d
2,497 cc, 120 kw (163 bhp)

530d
2,926 cc, 142 kw (193 bhp)

Touring
new model, available from May 2004

525i
2,494 cc, 141 kw (192 bhp)

545i
4,398 cc, 245 kw (333 bhp)

525d
2,497 cc, 130 kw (177 bhp)

530d
2,993 cc, 160 kw (218 bhp)

6 Series

645Ci Coupé
4,398 cc, 245 kw (333 bhp)

645Ci Cabrio
4,398 cc, 245 kw (333 bhp)

7 Series

730i
2,979 cc, 170 kw (231 bhp)

735i
3,600 cc, 200 kw (272 bhp)

745i
4,398 cc, 245 kw (333 bhp)

760i
5,972 cc, 327 kw (445 bhp)

730Li
2,979 cc, 170 kw (231 bhp)

735Li
3,600 cc, 200 kw (272 bhp)

745Li
4,398 cc, 245 kw (333 bhp)

760Li
5,972 cc, 327 kw (445 bhp)

730d
2,993 cc, 160 kw (218 bhp)

740d
3,901 cc, 190 kw (258 bhp)

X3

X3 2.5i
2,494 cc, 141 kw (192 bhp)

X3 3.0i
2,979 cc, 170 kw (231 bhp)

X3 3.0d
2,993 cc, 150 kw (204 bhp)

X5

X5 3.0i
2,979 cc, 170 kw (231 bhp)

X5 4.4i
4,398 cc, 235 kw (320 bhp)

X5 4.8is
4,619 cc, 265 kw (360 bhp)
available in the USA from April 2004, in Europe from May 2004

X5 3.0d
2,993 cc, 160 kw (218 bhp)

M

M3 Coupé
3,246 cc, 252 kw (343 bhp)

M3 Cabrio
3,246 cc, 252 kw (343 bhp)

M3 CSL
3,246 cc, 265 kw (360 bhp)

Motorcycles

Scarver

F 650 CS
652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)

Enduro

F 650 GS
652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)

F 650 GS Dakar
652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)

R 1150 GS Adventure
1,130 cc, 62,5 kw (85 bhp)

R 1200 GS*
1,170 cc, 74 kw (100 bhp)

Roadster

R 850 R
848 cc, 52 kw (70 bhp) or 25 kw (34 bhp)

R 850 R Comfort
849 cc, 53 kw (70 bhp)

R 1150 R
1,130 cc, 62,5 kw (85 bhp)

R 1150 R Rockster
1,130 cc, 62,5 kw (85 bhp)

Cruiser

R 1200 C Classic
1,170 cc, 45 kw (61 bhp)

R 1200 C Independent
1,170 cc, 45 kw (61 bhp)

R 1200 C Montauk
1,170 cc, 45 kw (61 bhp)

R 1200 CL
1,170 cc, 45 kw (61 bhp)

Sports Bikes and Sports Tourer

R 1100 S
1,085 cc, 72 kw (98 bhp)

R 1100 S BoxerCup Replika
1,085 cc, 72 kw (98 bhp)

R 1150 RS
1,130 cc, 70 kw (95 bhp)

K 1200 RS
1,171 cc, 96 kw (130 bhp) or 72 kw (98 bhp)

K 1200 GT
1,171 cc, 96 kw (130 bhp) or 72 kw (98 bhp)

Tourer and Luxury Tourer

R 1150 RT
1,130 cc, 70 kw (95 bhp)

K 1200 LT
1,171 cc, 85 kw (116 bhp)

* available with all-wheel drive as an option

Revised March 2004

* in Germany available only with 72 kw (98 bhp)

Brand MINI

MINI One
1,598 cc, 66 kw (90 bhp)

MINI One D
1,364 cc, 55 kw (75 bhp)

MINI One Convertible
1,598 cc, 66 kw (90 bhp)

MINI Cooper
1,598 cc, 85 kw (115 bhp)

MINI Cooper Convertible
1,598 cc, 85 kw (115 bhp)

MINI Cooper S
1,598 cc, 120 kw (163 bhp)

BMW Group
2003

Brand Rolls-Royce

Rolls-Royce Phantom
6,749 cc, 338 kw (453 SAE/460 bhp)

BMW 5 Series Touring – the perfect synthesis of dynamic performance, elegance and convenience.

The 5 Series Touring with its highly variable luggage compartment is the balanced combination of sporting flair, elegance and convenience and is thus the ideal car for leisure, business and the family.

Pressing a button on the ignition key is all it takes to have the tailgate open automatically. The luggage compartment features a completely flat floor and is 1,110 millimetres wide, 787 millimetres high and up to 1,880 millimetres long. It has a volume of 500 litres (measured to bottom of windows) to 1,650 litres (with rear seats folded down and load area filled up to the car's ceiling). Of course the 5 Series Touring also features all the innovations and technical highlights of the 5 Series Limousine.

BMW 5 Series Limousine – sporty, cultivated and unmistakable. It is obvious at very first sight that the new BMW 5 Series Limousine with its elegant and powerfully styled body represents BMW's dynamic business class. The new saloon combines more space and comfort with less weight, lower fuel consumption and enhanced performance. Its sophisticated technical concept and the weight-saving aluminium/steel composite structure of its body give the BMW 5 Series its typical sporty, dynamic character.

The new 5 Series was launched in July 2003 with the 520i, 530i and 530d models; they were followed in the autumn by the 525i and 545i models. The BMW 5 Series engines are smooth-running, efficient power units with state-of-the-art technology. All models are fitted with a six-speed manual gearbox or six-speed automatic transmission. In the BMW 520i, 525i and 530i, straight-six engines with 125 kW/170 bhp, 141 kW/192 bhp and 170 kW/231 bhp respectively ensure dynamic performance. The BMW 525d and 530d have sporting engines with second-generation common rail diesel technology, developing a maximum output of 130 kW/177 bhp and 160 kW/218 bhp respectively. Both engines are equipped with particle filters as standard and meet the strict EU4 emission requirements. The most powerful model is the BMW 545i, driven by an 8-cylinder engine with 245 kW/333 bhp.

Acceleration from 0 to 100 km/h ranges from 9.0 seconds in the BMW 520i to 5.8 seconds in the 545i. The diesel engine in the 530d has a maximum torque of 500 Nm and accelerates from 0 to 100 km/h in 7.1 seconds.

The world's first Active Steering, available as option, offers a high standard of driving comfort. It adapts steering transmission to current driving speed. The driver benefits from reduced steering effort in the low to medium speed range and more indirect steering at higher speeds. The Head-Up Display is another highlight. This innovation projects important information such as speed or navigation instructions onto the windscreen, directly in the driver's line of vision. Adaptive headlights effectively illuminate the road ahead, including bends, and thus increase driving comfort and safety.

[1] BMW 6 Series Coupé continues the tradition of the luxury sports Coupés. Low-slung, long and wide, the new BMW 6 Series Coupé is a harmonious blend of stretched, classic proportions, flowing lines and elegant surfaces. The BMW 645Ci offers exclusive fittings, a striking design and, above all, dynamic performance and great motoring comfort.

The body's low weight and exceptional stiffness contribute to the outstanding motoring comfort, dynamic performance and agility of the BMW 6 Series Coupé. The luxury Coupé weighs only 1,690 kg thanks to an innovative combination of aluminium, steel and synthetic materials for the body.

The 4.4-litre 8-cylinder power unit develops 245 kW/333 bhp for sporty, dynamic performance and enables the Coupé to achieve a top speed of 250 km/h (electronically limited). The 6 Series Coupé takes only 5.6 seconds to accelerate from 0 to 100 km/h.

The all-aluminium chassis is equipped with electronic control systems such as Dynamic Stability Control (DSC), Dynamic Traction Control (DTC) and, as an option, the intelligent Dynamic Drive suspension system, which almost completely eliminates body roll.

The car's interior is also replete with high tech. For example, the 6 Series can be fitted, as an option, with BMW's Head-Up Display (projection of important driving information onto the windscreen).

[2] BMW 6 Series Cabrio – powerful open-air pleasure. The 6 Series Convertible with its striking elegant lines is a real eye-catcher thanks to its innovative soft top with a wide C-pillar. The glass rear window is vertical and heatable, and can be retracted electrically into the luggage area whether the roof is open or closed.

The top can even be opened and closed when driving off or in stop-and-go traffic at speeds of up to 30 km/h. The sound- and heat-insulating top dampens exterior noise just as effectively as it durably keeps out wind and weather. Of course the 6 Series Cabrio meets the highest safety requirements, including automatic roll-over protection, regardless of whether the top is open or closed.

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[1]


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M ZC 4168

BMW X3 – innovative all-wheel drive technology for outstanding agility. The BMW X3 combines the agility of a typical BMW with the great versatility of a Sports Activity Vehicle (SAV). One of the highlights of the new BMW X3 is the xDrive all-wheel drive system with an electronically controlled multi-plate clutch. This provides infinitely adjustable flow of power to the front axle, fully variable within fractions of a second. In extreme cases, front and rear axle can thus be completely disconnected or rigidly connected to one another. The system immediately recognises the need for a change in power distribution and responds extremely quickly. Thus, intervention by Dynamic Stability Control (DSC) can be delayed for much longer than in conventional all-wheel drive systems. This means greater agility and safety on the road and ensures better traction on unpaved or slippery terrain.

The modern design language of the new BMW X3, with its interplay of concave and convex surfaces, gives the vehicle its individual appearance. Details, such as the kidney grille and the twin headlights, emphasise that the X3 belongs to the BMW brand.

Elegant, versatile and superior. The elevated seating position and plenty of headroom give occupants both a feeling of spaciousness and an excellent overview of the traffic around them. The luggage compartment has a volume of at least 480 litres (to the luggage compartment cover). Folding down the back of the asymmetrically divided rear seat creates an almost flat surface, expanding the load area to a volume of 1,560 litres. Bulky items, such as a mountain bike, are easy to stow thanks to the wide one-piece tailgate and the low floor. Small items can be stowed tidily in a special compartment. The luggage space is also fitted, as standard, with a 12 volt socket for electrical appliances such as cooler boxes.

Safety plays a prominent role in the BMW X3. The functional lightweight construction of the all-steel monocoque body ensures optimum stiffness and safety. Sheet-steel doors with extra-strength hinges and locks protect occupants in the event of side collisions. Extra-strength steel diagonal door reinforcements take account of bumper heights varying from car to car. The BMW X3 has up to eight airbags: driver, front passenger, head protection and side airbags at the front are standard.

The lateral curtain airbag, designed to protect the heads of front and rear passengers, covers all side windows. The airbags on the driver and front passenger side open in stages, depending on the impact. Side impact airbags are available for the rear as option.

The BMW X3 is powered by a 2.5- or 3.0-litre straight-six engine, or a 3.0-litre diesel. The petrol engines develop a maximum output of 141 kW/192 bhp and 170 kW/231 bhp respectively, while the diesel engine provides 150 kW/204 bhp.

The BMW X3 2.5i accelerates from 0 to 100 km/h in 8.9 seconds, the X3 3.0i sprints from a standstill to 100 km/h in 7.8 seconds, and the X3 3.0d takes only one-tenth of a second more.

A drag coefficient of 0.35, which is low for a vehicle of this category, ensures both good performance and relatively good mileage, particularly at higher speeds. Very low lift coefficients on the front and rear axle also contribute to the vehicle's active safety even during manoeuvres of relevance to safety or quick changes of lane.


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[1]

[1] R 1200 C Montauk – the effortless way to cruise. The R 1200 C Montauk, the third model in the BMW Motorcycle Cruiser range, is a real cruiser without fairing. The front with its two vertically-arranged headlamps is particularly striking. The relatively small windshield attached to the handlebars takes substantial wind pressure off the rider.

The R 1200 C Montauk is powered by a boxer engine with 1,170 cc and develops 45 kW/61 bhp. Maximum torque of 98 Nm is achieved at as low as 3,000 rpm. Dual ignition offers the advantages of economical fuel consumption, enhanced engine response and reduced exhaust emissions. The inner structure of the exhaust silencer has been modified so that the R 1200 C Montauk produces that typical cruiser sound.

As in all boxer and K models, the front wheel of the R 1200 C Montauk is fitted with the EVO (Evolution) brake system as standard, offering truly outstanding brake performance. Braided steel hoses help provide a pressure point that is even more stable than before. The unique BMW Motorcycle Integral ABS (anti-lock braking) is available as an option in the fully integral version, in keeping with the cruiser's character. The system ensures that regardless of whether the hand brake lever or brake pedal is operated, braking power is always applied effectively to both wheels.

[2] BMW R 1100 S BoxerCup Replika – the racing machine with a road licence. The distinctive features of the R 1100 S BoxerCup Replika, the sportiest boxer, include dual ignition, a raised sports chassis and a sound-optimised exhaust silencer. Demand for the road version of the R 1100 S racing machine was so strong that the R 1100 S BoxerCup Replika had to be reissued for the 2004 season.

Like the racing machines of 2004, the R 1100 S BoxerCup Replika has a new three-colour paintwork. Other enhancements include the instruments' white dials, the high seat and mirrors that can be removed more easily for closed-circuit use than fairing-mounted mirrors. Engine output of 72 kW/98 bhp is the same as in the R 1100 S series.


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[2]

BMW R 1200 GS – more agile, more powerful and lighter. Featuring a wealth of technical refinements and weighing 30 kg less than its predecessor, the BMW R 1200 GS continues the success story of BMW's large enduros, which has been running for almost 25 years. The bike's new design stands for high quality and modern functionality combined with the sturdiness that is typical of enduros. The R 1200 GS not only comes into its own on long trips onroad, but is also surprisingly easy to ride offroad. Its characteristics are impressive handling, great directional stability and ample power reserves.

The 1,200 cc boxer engine has a maximum output of 74 kW/100 bhp. Sporting performance and riding comfort are not a contradiction in the R 1200 GS. The new boxer engine has a balance shaft to eliminate unpleasant vibrations. It is also the first motorcycle engine ever to feature an innovative system of knock control. This allows the engine to run on standard-grade petrol if the super unleaded, for which the engine is optimised, is not available when touring. Exhaust emission management with a three-way catalytic converter, which has been standard in all BMW motorcycles for years, was optimised for the R 1200 GS. Two oxygen sensors in the exhaust manifolds make for better control, thus further reducing emissions.

The running gear of the R 1200 GS is extra stiff and stable for outstanding directional stability and agility. BMW's unique Telelever has been further improved, rear wheel guidance with Paralever is all-new and, combined with a newly developed driveshaft, also significantly lighter in weight. The all-new six-speed gearbox with helical gears guarantees superior shift comfort and running smoothness such as has never been experienced in a boxer before.

Integral ABS (anti-lock braking) is available on the BMW R 1200 GS as an option, including partially integrated actuation. In this system, the brake lever activates both front and rear-wheel brakes, while the brake pedal only activates the rear brake.

The on-board electric network of the R 1200 GS is highly innovative for it employs electronics (CAN bus technology) that permit a complete range of diagnostic and other new functions. Standard equipment includes an electronic immobiliser with transponder which offers the same high level of security as in BMW cars.

[1] MINI One D – thrifty and nifty. The MINI One D combines the economic efficiency of a modern diesel engine with the typical design and go-kart-like handling of a MINI. Thus, the MINI One D appeals to a new group of customers, attracting, in particular, individuals who plays special importance on rational advantages, such as low operating costs, but do not want to forego the fun of driving which is typical of all models of the MINI brand.

The MINI One D accelerates from 0 to 100 km/h in 13.5 seconds and achieves a top speed of 165 km/h in sixth gear.

The lightweight, all-aluminium engine is compelling because of its running smoothness, low noise levels, fuel economy and low emissions. The compact 4-cylinder, 1.4-litre power unit develops an output of 55 kW/75 bhp. Maximum torque of 180 Nm, achieved at only 2,000 rpm, translates into ample pulling power. Standard Stability and traction control ASC+T makes sure that this powerful diesel is always able to build up full traction without the wheels spinning, leaving the driver firmly in control of his car. The direct injection diesel engine features second-generation common rail technology with turbocharger and intercooler. Engine noise inside the cabin barely differs from that of a petrol-driven model.

Fuel consumption averages 4.8 litres in the EU combined cycle, corresponding to CO_2 emissions of only 129 g/km. Depending on driving style and conditions, a MINI One D may travel up to 1,000 kilometres on a single tankful of 50 litres.

[2] MINI Convertible – a little closer to heaven. Whether open or closed, the MINI Convertible is a full four-seater and unmistakably a pure-blooded MINI. The top's fully automatic operation comes as standard and does not necessitate any manual unlocking. As the folding roof slides back, the roof posts are retracted and the rear side windows lowered, all automatically. Thanks to the complex but space-saving Z-fold, the soft top disappears behind the rear seats, eliminating the need for a cover.

[1]


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[2]

Extremely practical sliding roof function. The roof of the MINI Convertible slides back horizontally for the first 40 centimetres and can thus be operated just like a sunroof. This continuously variable opening function works at the press of a button and is unique in this vehicle segment. It is operable up to speeds of 120 km/h. When the roof is in sliding mode, the lateral rails remain in their final position against the A-pillar. Because the top slides open across its entire width, occupants will feel a little closer to heaven right away. The remote controls in the key operate not only the doors and windows, but also the top's sliding and retracting functions.

The MINI Convertible can be loaded with a total of 400 kilograms. When the top is closed, the luggage compartment has a volume of 165 litres. When the roof is open, the luggage compartment still takes 120 litres, and when the lockable rear-seat back is folded down, loading space increases to 605 litres. With the "Easy Load" system, the top can be lifted at the rear and the tailgate opened downwards, so that the opening is big enough for bulky items.

Since the roof of a convertible cannot absorb energy, the MINI Convertible's body platform and side sills were enlarged and reinforced. In the event of a head-on collision, their increased stiffness prevents the side sills from buckling. In addition to the large head-thorax airbags, extra crossarms and thicker sheet steel in critical areas provide excellent protection for occupants.

If the car overturns, the A-pillar with its integrated tube of extra-strength steel assumes a bearing function. At the rear, extra-strength aluminium tube roll bars with integrated head rests provide protection for passengers.

The new MINI Convertible will first be launched as a MINI One with 90 bhp and as a MINI Cooper with 115 bhp. A MINI Cooper S Convertible will be available at a later date. With its stiff body and chassis, the MINI Convertible – like the hardtop models – stands out with its great manoeuvrability and agility.

Rolls-Royce Phantom – the epitome of perfection.
“Strive for perfection in everything you do” – this quotation from Sir Henry Royce concisely expresses the aspiration of the Rolls-Royce brand to this day. Every Rolls-Royce Phantom embodies excellence in both craftsmanship and engineering skills. Thus, this great motor car is not just about the achievement of individual superlatives, but about the perfect balance of all details.

The Rolls-Royce Phantom has all the proportions of a classic Rolls-Royce: a long bonnet with a short front overhang, contrasting with a long rear overhang. The long wheelbase makes for a spacious interior and contributes decisively to motoring comfort. Despite the car’s impressive size, the aluminium space frame structure of the body weighs only 550 kg and offers exceptional body stiffness.

The unique performance of the power unit displays all the traditional characteristics and strengths of a classic Rolls-Royce engine. The engine is designed to deliver particularly uniform torque across the entire spread of revolutions, resulting in the brand’s typical effortless acceleration which can give occupants a sense of being wafted. This characteristic, known to enthusiasts as “waftability”, is the engine’s ability to deliver extremely high and uniform torque at all, and even at particularly low, engine speeds. The power unit is a naturally aspirated 12-cylinder V engine that was developed using cutting-edge technology. Displacement of 6.75 litres follows a decades-long Rolls-Royce tradition. The 338 kW/460 bhp unit develops 560 Nm at 1,000 rpm and maximum torque of 720 Nm at only 3,500 rpm.

Handcrafted masterpiece. The love of detail for which Rolls-Royce is renowned is particularly apparent in the car's interior. Around six times a year, the manager of interior wood trim personally visits his suppliers to select the veneers for the Rolls-Royce Phantom, thereby ensuring that only the highest quality veneers of the correct colour and grain characteristics are chosen. Each of the 60 wooden elements of the interior trim panels is made of a core wood and an aluminium substrate of up to 40 layers. As a result of this painstaking process, the panels are resplendent with a perfect finish and still perfectly protected against splintering in an accident. Every Rolls-Royce Phantom has its own special set of matching veneers, cut for a mirrored pattern to match from panel to panel across the car. Such details contribute to the motor car's distinctive personality.

The leather used in the Phantom is dyed in a newly developed colouring process in which the dye permeates the hide. This produces a supremely soft, natural finish, which will not fade or crack. In addition, each individual skin is examined by hand and inspected for blemishes. Then the patterns are made, using state-of-the-art laser technology, and stored as individual programs. The leather is cut with a conventional electric knife in order to ensure that the parts fit perfectly. Up to 450 leather parts are made this way for the Phantom's interior before the specialists take over.

In the new Phantom, Rolls-Royce Motor Cars in Goodwood continues the tradition of striving for perfection, based on the harmonious synthesis of craftsmanship and precision engineering, in keeping with the principles of Sir Henry Royce.

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Financial Calendar

Interim Report to 31 March 2004	5 May 2004
Annual General Meeting	13 May 2004
Interim Report to 30 June 2004	4 August 2004
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