BMW Group
Corporate Communications

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Statement by
Stefan Krause
Member of the Board of Management of BMW AG, Finance,
Telephone Conference Interim Report to 30 June 2003
7 August 2003

Ladies and gentlemen,

Welcome from my side, too, and a very good morning.

Dr. Panke has just described sales developments to you during the second quarter and first half of the year. The effects from the model cycle described at the May telephone conference have set in as anticipated, so our performance in the first half of the year corresponds to our expectations as discussed in May.

The profit of the first half of the year is below that of last year as expected since, a high level of expenditure for new product projects has been undertaken in this phase of the product and market initiative, covering the relevant structural and launch costs for the introduction of new models and the production start-up which this entails.

The decrease in automobile sales of the brand BMW as of June 2003 – an effect deriving from product cycles – has influenced the figures for revenue and profits.

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Now to the key performance figures of the second quarter and the first half of the year in more detail. Firstly, the Group figures:

In the first half of 2003, Group turnover was at 20.5 billion euros and thus 8.3 per cent below last year. Group turnover dropped in the second quarter as compared to last year by 11.7 per cent to 10.2 billion euros due to currency fluctuations and mix effects in vehicle sales.

The profit from ordinary activities decreased in the second quarter of 2003 as compared to last year by 7.2 per cent to 947 million euros. In the equivalent period last year, an profit from ordinary activities of some one billion euros (1,020 million euros) was achieved. Here, a measurement effect of derivative financial instruments had the effect of increasing the figure, which is reflected in the positive change in the financial result as compared to the last year. The profit before financial result dropped in the second quarter by 17.8 per cent to 875 million euros as expected. In the first half of the year, the profit from ordinary activities was 1.78 billion euros and is thus 12.5 per cent below last year's figure.

At Group level, the BMW Group achieved return on sales in the second quarter of 2003 of 9.2 per cent as compared to 8.8 per cent in the same quarter of last year. In this performance figure, the effect of the measurement of derivative financial instruments has also a positive effect. By comparison, return on sales based on profit before financial result decreased in the second quarter of 2003 to 8.5 per cent as compared to 9.2 per cent in the equivalent period last year.

Due to an increase in the tax rate from 38.3 per cent in the second quarter of 2002 to 40.0 per cent in 2003, the net profit in the second quarter of 2003 dropped by 9.7 per cent to 568 million euros. In the first half of 2003 the tax rate was 39.3 per cent.

In the second quarter of 2003, we have thus achieved earnings of 0.84 euros per common stock. In the six-month analysis, we have earnings per share of 1.60 euros.

Now to the development of the individual segments.

In deliveries of automobiles to costumers, we are approximately at the level of last year. Mainly due to currency developments and changes in the model mix, revenues in the Automobiles segment are 3.3 per cent below last year's figure at 9.6 billion euros. In the first six months, revenue dropped by 2.3 per cent to 19.0 billion euros. As part of the general increase in expenditure for the product and market initiative, research and development costs increased markedly in the second quarter by 18.9 per cent to 547 million euros from 460 million euros in the equivalent period of last year. In the first six months of the current year, research and development costs increased by 22 per cent to 986 million euros.

According to IAS, depreciation and amortisation of fixed assets begins with the production start of new models. In the second quarter, depreciation increased to 568 million euros and is thus 53 million euros above last year's figure, as well as 82 million euros above the first quarter of 2003.

Due to the continued high level of expenditure for the product and market initiative and above-mentioned effects, the profit from ordinary activities in the Automobiles segment decreased in the second quarter as compared to last year by 19.8 per cent to 768 million euros. In the first half of 2003 the segment profit dropped by 20.6 per cent to 1.49 billion euros.

The return on sales of the Automobiles segment is 8.0 per cent as of the second quarter of 2003. For the entire first half of 2003, we thus have return on sales of 7.8 per cent. This is still a very pleasing figure for us.

In the motorcycle business, we have seen an increase in sales in some markets despite generally declining tendencies worldwide. This was the case in the US, Great Britain, Spain and Switzerland, for example. In total, revenue in the motorcycle segment decreased in the second quarter by 6.3 per cent to 329 million euros. For the first half of 2003, this amounts to a decrease in revenue of 3.1 per cent to 633 million euros. The profit has fared well: in the motorcycle segment we achieved a profit from ordinary activities of 58 million euros and we are thus only just below last year's result of 59 million euros. The six-month analysis shows the segment profit for 2003 as 88 million euros - only just below last year's figure 89 million euros.

The financial services business has been able to continue successfully during the first half of 2003. Finance deals in customer business have developed very dynamically. In the first half of the year, the number of finance contracts with customers increased by 14.3 per cent.

The share of new financed or leased vehicles of the brands BMW and MINI increased from 35.1 per cent in the first half of 2002 to 39.4 per cent as of the end of June 2003. Here we are seeing varying trends in the US and Europe. American customers opted more commonly for leasing contracts, whilst European customers were more inclined to finance their automobile by means of credit.

As of the end of the first half of 2003, the business volume in the financial services segment was 8.4 per cent above the equivalent figure of last year at 27,493 million euros. Due to currency effects, however, revenue from the financial services segment decreased in the second quarter by 13.5 per cent and in the first half of 2003 by 10.9 per cent.

Due to the generally higher leasing penetration just mentioned, inter-group profit eliminations included in Reconciliations have increased. This effect was more than offset in the second quarter by gains from the above-mentioned positive effects from financial instruments.

Due to the expansion of the finance business with customers in general, we have extended risk provision and set up accruals accordingly.

The operating result from business activity in the Financial Services segment increased in the first half of the year by 26.4 per cent to 225 million euros, mainly due to decreased financing costs. In the second quarter, the segment result was 20.4 per cent above that of last year at 118 million euros.

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Based on operative figures, the first half year 2003 developed as planned. Group profit, adjusted by effects of the fair value assessments by financial instruments, is within our expectations.

Ladies and gentlemen, there you have the current business development. As Dr. Panke has just stated, we remain generally confident as far as the second half of the year is concerned. However, we do see certain impact from the financial side of the business which could influence the result within the current year.

Firstly, the effects of currency changes. As already reported, our strategy in hedging against currency risks means that we are virtually fully secured in the central currencies of the US dollar, the British pound and the Japanese yen. Hedging is less extensive in some smaller markets and currencies which are less important to our business activities. In some cases, we have not provided for the risk in currencies in which expenditure and returns are not in due proportion. Hedging would certainly not be worthwhile here.

Within the year, this could have a negative influence on the segment result if today's parameters were to remain in effect in the months to come.

A further effect derives from the fair value measurement of financial instruments. These measurements can influence the profit one way or the other according to the conditions imposed. In the second quarter, the influence on the profit was positive in Reconciliations.

This effect shall not be projected for the whole year in any case, since we cannot say today in which direction this position will develop until the end of the business year.

It is too early to predict in specific terms how the above-mentioned factors could affect the profit. It is also impossible for us to say today to what extent changes will occur in this area.

Ladies and gentlemen, thank you.

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