

# Annual Report 2002

## Applying strengths. Pursuing a distinctive course.



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Rolls-Royce  
Motor Cars Limited

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**BMW Group**

# Facts and figures

## BMW Group in figures

	1998	1999	2000	2001	2002	Change in %	
Vehicle production							
BMW	706,426	755,547	834,519	904,335	930,221	2.9	
MINI	–	–	–	42,395	160,037	277.5	
Motorcycles <sup>1)</sup>	60,152	69,157	93,608	100,213	97,553	– 2.7	
Deliveries to customers							
BMW	699,378	751,272	822,181	880,677	913,225	3.7	
MINI	–	–	–	24,980	144,119	476.9	
Motorcycles <sup>2)</sup>	60,308	65,168	81,263	95,327	103,020	8.1	
Workforce at end of year <sup>3)</sup>	118,489	114,952	93,624	96,263 <sup>4)</sup>	101,395	5.3	
in euro million	1998 HGB	1999 HGB	2000 HGB	2000 IAS	2001 IAS	2002 IAS	Change in %
Revenues	32,280	34,402	35,356	37,226	38,463	42,282	9.9
Capital expenditure	2,179	2,155	2,138	2,781	3,516	4,042	15.0
Depreciation and amortisation	1,859	2,042	2,322	2,435	2,159	2,143	– 0.7
Cash flow	2,479	2,807	3,198	3,779	4,202	4,374	4.1
Profit from ordinary activities	1,061	1,111	1,663	2,032	3,242	3,297	1.7
Net profit, – loss for the year	462	– 2,487 <sup>5)</sup>	1,026	1,209	1,866	2,020	8.3

1] including assembly of the F650 at Aprilia S.p.A. until 1999/since 2000 C1 production at Bertone

2] includes deliveries of C1 from 2000

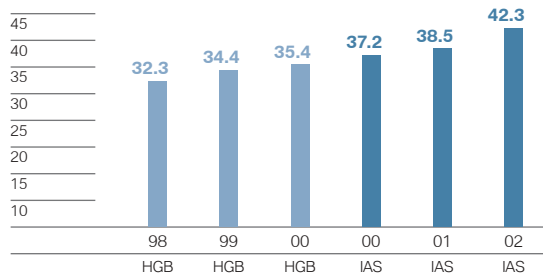
3] from 1998 figures exclude suspended contracts of employment, employees in the vacation phase of pre-retirement, low-income earners

4] before adjustment for disposals and transfers of group companies, the number of employees at 31.12.2001 was 97,275

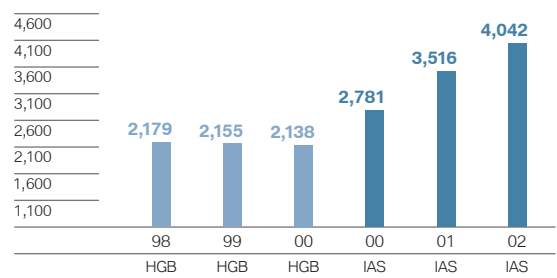
5] Net profit of euro 663 million before extraordinary result

**BMW Group Revenues**

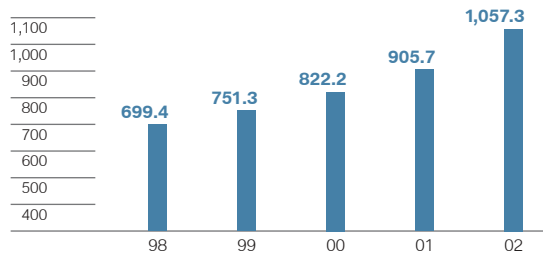
in euro billion

**BMW Group Capital expenditure**

in euro million

**BMW Group Deliveries of automobiles\***

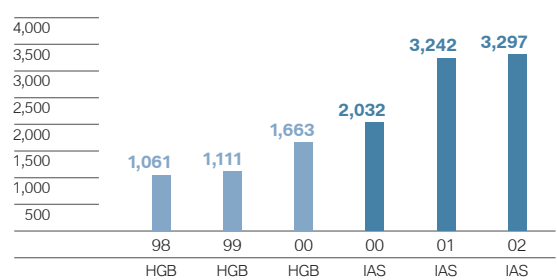
in thousand



\* adjusted for Rover/Land Rover

**BMW Group Profit from ordinary activities**

in euro million



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Volker Doppelgfeld  
Chairman of the Supervisory Board

The Supervisory Board regularly monitored the Board of Management during the financial year 2002. 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 as well as risk management issues.

The Supervisory Board has paid particular attention to the development and implementation of the Board of Management's premium brand strategy. World-wide demand for the cars of the BMW Group in the financial year 2002 outpaced demand in the market as a whole as well as in the entire premium segments. This success, achieved against the background of a subdued world economy and a modest development on the automobile markets, demonstrates the great importance of the premium brand strategy for the continuing successful development of the BMW Group. The Supervisory Board has encouraged the Board of Manage-

ment to consistently pursue this strategy. The Supervisory Board and the Board of Management have devoted particular attention during the year 2002 to the marketing of the MINI in its first full year on the market. The fact that sales of this brand are well above expectations demonstrate that the expansion of the product range, within the BMW Group's defined strategy, is on the road to success.

The Supervisory Board has also observed and supported the Board of Management during the planning phase up to assumption of responsibility for the manufacture and sale of Rolls-Royce motor cars from January 2003 onwards.

The Supervisory Board has also held extensive discussions with the Board of Management in connection with the new regulations issued by the EU Commission dated 31 July 2002 relating to the sale of vehicles. The new regulations, which are intended to open up and diversify the current distribution system, pose a challenge to the BMW Group and its dealers to maintain in the future a high quality of accessible services for all customers, meeting the premium brand assertions of the BMW Group and its dealers. The Supervisory Board is convinced that the BMW Group is well prepared for the framework now set out by the Commission.

Another focus of the joint consultations with the Board of Management was the long-term business development of the BMW Group and its business divisions. The Financial Services segment was also discussed in depth by the Supervisory Board.

The Company and Group financial statements were drawn up for the first time in 2001 in accordance with International Accounting Standards (IAS). In advance and in the Supervisory Board's approval of the financial statements at the beginning of 2002, the Supervisory Board deliberated the adoption of International Accounting Standards (IAS) for group reporting purposes. The Board of Management explained the impact of the adoption and the key conceptual differences between the accounting and financial reporting systems and their practical effects.

At the meetings in July and December, the Supervisory Board and the Board of Management discussed the subject of corporate governance, specifically, management based on principles of good corporate governance. The new framework and recommendations provided by the German Corporate Governance Code were analysed. Amongst other matters, the Supervisory Board laid down rules for the scope of information to be reported by the Board of Management and defined certain major transactions which require the approval of the Supervisory Board. In addition, the Supervisory Board set up an "Audit Committee" (Bilanzausschuss).

On 3 December 2002, the Supervisory Board and the Board of Management issued a compliance declaration pursuant to § 161 of the German Stock Corporation Act (AktG). The mandatory requirements of the German Corporate Governance Code are fulfilled; solely in the case of the purchase or sale of shares in BMW AG or derivative instruments relating to BMW AG by the members of the Management and Supervisory Boards are details published only in accordance with § 15 a of the German Securities Trading Act (WpHG), but not additionally in the notes to the Group financial statements. At the same time, the Board of Management and the Supervisory Boards of BMW AG approved the Corporate Governance Code of the BMW Group, based closely on the German Corporate Governance Code, and bringing together the principles of good corporate governance being practiced by the BMW Group. These principles are included in the Annual Report 2002.

The financial statements of Bayerische Motoren Werke Aktiengesellschaft and the Group financial statements for the year ended 31 December 2002 and the combined Company and Group Management Report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and issued with an unqualified audit opinion. The Audit Committee reviewed the financial statements on 28 February 2003. The Supervisory Board also examined the documents submitted by the Board of Management and discussed them with the Board of Management. The 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 13 March 2003 at which the financial statements were examined and reported on the main results of their audit. The Supervisory Board agrees with the result of the audit. The Supervisory Board approves the Company and Group financial statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2002 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 made by the Supervisory Board, no objections were made. The Supervisory Board thanked the Board of Management and all employees for another outstandingly successful year 2002.

The Presiding Board, which also acts as the Personnel Committee, convened at six meetings. The statutory Mediation Committee (§ 27 (3) of the Law on Worker Participation) did not need to convene during the financial year 2002.

On 30 November 2002, Günter Lorenz ceased to be member of the Board of Management and left the enterprise after 15 years of service for the BMW Group. The Supervisory Board thanked Mr. Lorenz for the services he has provided to the enterprise.

The term of office of Lodewijk C. van Wachem, who has been a member of the Supervisory Board since 1994, came to an end at the close of the Annual General Meeting. The Supervisory Board thanked Mr. van Wachem for the work he has performed in the Supervisory Board. In his place, Prof. Dr.-Ing. Joachim Milberg, whose mandate as Chairman of the Board of Management came to an end at the close of the Annual General Meeting, was appointed to the Supervisory Board by the shareholders at the Annual General Meeting on 16 May 2002. Prof. Milberg assumed the position as Chairman in a difficult period but succeeded, within a short space of time, in bringing the Group back on the road to success and laying the foundations for its premium brand strategy. The Supervisory Board thanked Prof. Dr.-Ing. Joachim Milberg for his valuable services to the Group as member and Chairman of the Board of Management and for his willingness to provide further services to the Group as a member of the Supervisory Board.

Gerhard Gutsmedl, who has been a member of the Supervisory Board since 1995, left the Supervisory Board with effect from 31 January 2003. The Supervisory Board thanked Mr. Gutsmedl for the work he has performed in the Supervisory Board.

Munich, 13 March 2003  
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 Member of the Board of  
Henkel KGaA

#### **Mandates\*\***

Degussa-Hüls AG  
Deutsche Lufthansa AG  
Deutsche Telekom AG (Chairman)  
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\***

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**

Deputy Chairman of the Board of Management  
of Allianz AG and Chairman of the Board of  
Management of Dresdner Bank AG

**Mandates\*\***

Advance Holding AG (Chairman)  
Fresenius Medical Care AG  
HeidelbergCement AG

Allianz Dresdner Asset Management GmbH  
BNP PARIBAS S.A.  
Dresdner Bank Luxembourg S.A. (Président)  
Dresdner Kleinwort Benson North America Inc.

**Hans Glas\***

Director of the Dingolfing plant

**Konrad Gottinger\***

Member of the Works Council, Dingolfing

**Gerhard Gutsmedl\***

(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

**Mandates\*\***

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

**Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h.**

**Joachim Milberg**

(from 16.05.2002)

Former Member of the  
Board of Management of BMW AG

**Mandates\*\***

Allianz Versicherungs-AG  
Royal Dutch Petroleum Company/Shell  
MAN AG

**Werner Neugebauer\***

Regional Executive Officer of IG Metall Bavaria

**Mandates\*\***

FAG Kugelfischer Georg Schäfer AG (Deputy  
Chairman)

**Dr.-Ing. Dieter Soltmann**

Former general partner of  
Spaten-Franziskaner-Bräu KGaA

**Mandates\*\***

Bankhaus Maffei & Co. KGaA  
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  
Hapag-Lloyd AG  
Hochtief AG  
Linde AG

**Lodewijk C. van Wachem**

(until 16.05.2002)

Chairman of the Supervisory Board of Royal Dutch  
Petroleum Company/Shell

**Mandates\*\***

ATCO Ltd.  
Philips Electronics N.V. (Chairman)  
Zurich Financial Services AG (Chairman)

**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 (from 16.05.2002)

**Ernst Baumann**

**Mandates\*\***

Krones AG

**Dr. Michael Ganai**

**Dr.-Ing. Burkhard Göschel**

**Stefan Krause**

(from 16.05.2002)

**Günter Lorenz**

(until 30.11.2002)

**Mandates\*\***

Gerling-Konzern Globale Rückversicherungs-AG  
Gerling-Konzern Versicherungs-Beteiligungs-AG

BMW FS Funding Corp.

BMW FS Receivables Corp.

**Prof. Dr.-Ing. Dr. h.c. Dr.-Ing. E.h.**

**Joachim Milberg**

(until 16.05.2002)

Chairman

**Dr.-Ing. Norbert Reithofer**

**Mandates\*\***

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 achieved important milestones in the implementation of its product and market offensive in 2002 thus laying the foundation for continued future success.

### Another successful year for the BMW Group in 2002

The BMW Group continued to develop successfully in 2002. Against the background of a difficult world-wide economic climate, car and motorcycle sales achieved by the BMW Group outperformed the overall market in almost all regions. As a consequence, revenues and earnings rose, again surpassing the previous year's record levels.

The group profit from ordinary activities rose during 2002 by 1.7% to euro 3,297 million. All lines of business contributed to this performance and all segments improved on their previous year's results. The pre-tax return on sales was 7.8% (2001: 8.4%).

The profit from ordinary activities of the Automobiles segment amounted to euro 2,883 million, 3.3% higher than in the previous year despite the current phase of high expenditure for the implementation of the product and market offensive.

The Motorcycles segment achieved a profit from ordinary activities of euro 60 million, an increase of 1.7% compared to the previous year.

The profit from ordinary activities of the Financial Services segment in 2002 amounted to euro 422 mil-

lion, an increase of 8.2% compared to the previous year.

Reconciliations to the Group profit from ordinary activities show net expenses of euro 68 million (2001: euro 1 million)

The net profit of the BMW Group increased in 2002 to euro 2,020 million, surpassing the previous year by 8.3%.

### Dividend at high level of previous year

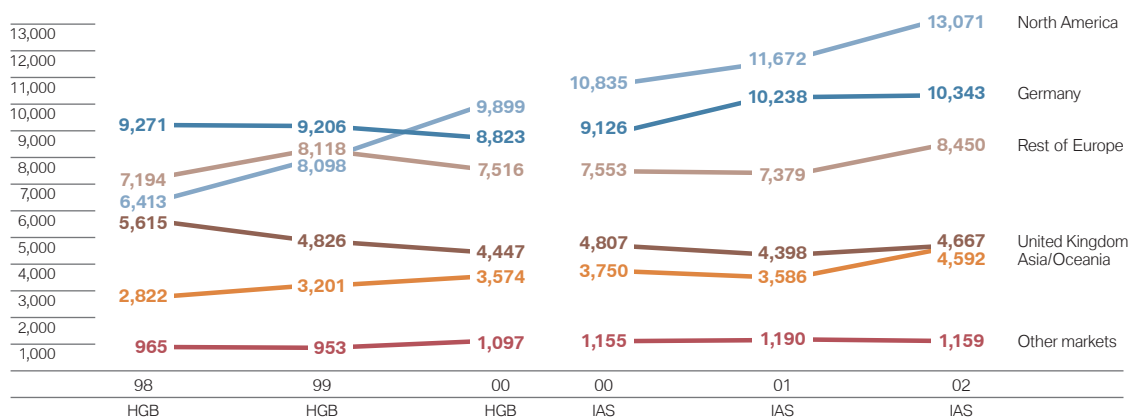
The Board of Management and the Supervisory Board propose to the Annual General Meeting to use the unappropriated profit available for distribution in BMW AG of euro 351 million to pay a dividend on the equity entitled to dividends (622.2 million common stock shares and 50.6 million preferred stock shares, each with a nominal value of euro 1) of euro 0.52 for each share of common stock (2001: euro 0.52) and euro 0.54 for each share of preferred stock (2001: euro 0.54).

### Revenues increased again

With total revenues of euro 42,282 million in 2002, the BMW Group achieved growth of 9.9%, a new record

### BMW Group Revenues by region

in euro million



Sales volume, revenues and earnings again above the previous year.

More than one million cars sold.

Further expansion of product range.

figure. All segments achieved growth in revenues. Revenues of the Automobiles segment rose by 13.8% to euro 38,179 million. The fine performance of the MINI, in particular, had a positive effect on revenues.

In the Motorcycles segment, revenues rose by 6.7% to euro 1,130 million.

The successful continuing growth of the Financial Services segment also increased revenues by 9.3% compared to the previous year, achieving euro 8,213 million.

### **Expansion of product and brand portfolio**

The BMW Group achieved further important milestones in 2002 in the implementation of its product and market offensive. The new BMW 7 Series was launched in the United Kingdom and other markets outside Europe, and the model range was completed with a new long wheelbase version and diesel versions. The BMW Z4 Roadster had its debut in the USA.

The MINI brand was launched in markets outside Europe, and the range expanded to include the high-performance MINI Cooper S model. More than 144,000 MINI brand cars were sold in 2002, a performance which went well beyond expectations and contributed significantly to the successful development of the BMW Group.

In addition, further foundations were laid in 2002 for the future expansion of the BMW Group product range, including preparations ahead of taking over the brand responsibility for Rolls-Royce motor cars. The BMW Group has thus made another important step in pursuit of its premium-brand strategy and has completed its brand portfolio in the absolute luxury segment.

### **Review: the car markets in 2002**

Following the downturn in 2001, global economic activity picked up slightly in 2002, although the acceleration generally expected for the second half of the year did not materialise. In addition, falls in equity prices and geopolitical tensions, including the related threat to oil prices, all had an increasingly negative impact on the economy.

The continued weak state of the global economy also influenced development in the majority of the world's automobile markets. The overall automobile market in the USA declined again slightly in 2002, albeit from a high level. The decline primarily affected US car manufacturers whereas sales of imported vehicles grew. In Western Europe, almost 3% fewer new cars were registered than in the previous year. Almost all markets experienced a downturn, including the important markets of Germany, France and Italy. Only the United Kingdom and some Scandinavian countries experienced growth.

Japan saw a moderate decline in the number of new car registrations in 2002. The Chinese market continued to grow, with new car registrations increasing well above the average. New registrations in Brazil, the most important South American market, fell sharply.

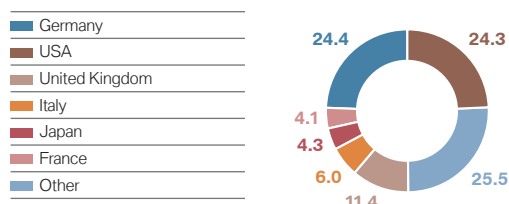
### **Strong growth for the BMW Group worldwide**

As in previous years, worldwide demand for the cars of the BMW Group in 2002 outpaced demand in the market as a whole as well as in the premium segments. The BMW Group was able to increase its market share in nearly all of the main automobile markets.

The market with the largest sales volume in 2002 remained Germany where the BMW Group was able to increase car sales by 5.0% compared to the previous year, and thus continue to perform well within an overall declining market. In total, the BMW Group delivered 258,170 cars to customers in Germany, comprising 235,149 BMW brand cars (-2.4%) and 23,021 MINI brand cars.

Sales of the BMW Group in other Western European countries climbed to 368,878 units, an increase of 19.7% compared to the previous year. This comprised 291,041 BMW brand cars (+1.0%) and 77,837 MINI brand cars. Growth was achieved in all of the major markets and was attributable, in particular, to the success of the MINI brand in its first full sales year. The United Kingdom saw a very strong performance with an increase of 33.0% to

#### BMW Group – key automobile markets 2002 as a percentage of sales volume



120,880 cars. Italy (+28.4 %), Spain (+22.8 %) and France (+16.3 %) also contributed to the very strong sales performance of the BMW Group.

The BMW Group was largely unaffected by the mainly negative trends on the East European markets and achieved satisfying growth rates in that region.

The BMW Group experienced its most successful year ever in the North American market. Of the 256,622 cars sold in the USA, the BMW and MINI brands accounted for 232,032 and 24,590 cars respectively. The volume of cars sold in the USA by the BMW Group in 2002 increased by 20.4 %. In Canada, the BMW Group sold 16,622 cars, a sales growth of 30.9 % compared to the previous year.

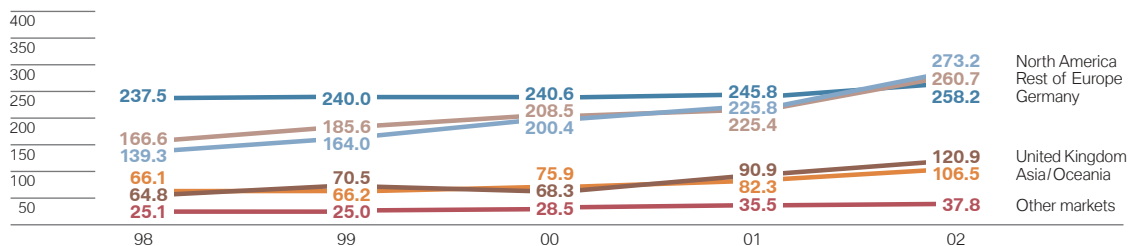
The BMW Group remains on growth course in Asia and the Pacific region. In Japan, the BMW Group achieved a strong sales volume increase of 26.3 %, attributable above all to the good performance of the MINI brand. Sales of the BMW Group in the rapidly growing Chinese markets rose by 41.4 % to 15,473 cars. A further Asian market with above-average growth rates in 2002 was South Korea, where the BMW Group sold 5,101 cars achieving a growth rate of 87.7 %.

#### BMW brand well above previous year's sales record

A total of 913,225 BMW cars were delivered to customers in 2002, 3.7 % more than in the previous year.

Sales of the BMW 3 Series, with five versions in all, rose to 561,249 units, a 5.1 % increase compared to the previous year. Never before have more BMW 3 Series been sold in a single year. In 2002, the BMW 3 Series Limousine accounted for the largest share with sales of 287,813 units (–3.7 %). Sales of the BMW 3 Series Coupé, at 71,856 units (–6.0 %), were slightly below the previous year's high level. The BMW 3 Series Touring version saw sales grow by 4.9 % to 81,457 vehicles. The fastest growth rate was achieved by the BMW 3 Series Compact version, sales of which more than doubled to 66,073 units. Sales of the BMW 3 Series Cabrio rose in

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



\*adjusted for Rover/Land Rover

MINI exceeds all expectations.  
 BMW 3 Series with record sales volume.  
 Demand for diesel models increases again.  
 Above-average growth in Asia.

2002 to 54,050 units, an increase of 11.9 % compared to the previous year.

The last BMW Z3 Roadster rolled off the production line at the Spartanburg plant at the end of June 2002. During the seven years of production, almost 300,000 of these vehicles were delivered to customers.

The new BMW Z4 was launched on the North American market in autumn 2002. Up to the end of 2002, more than 3,800 vehicles of this model were delivered to customers. The model will be launched on other markets in spring 2003.

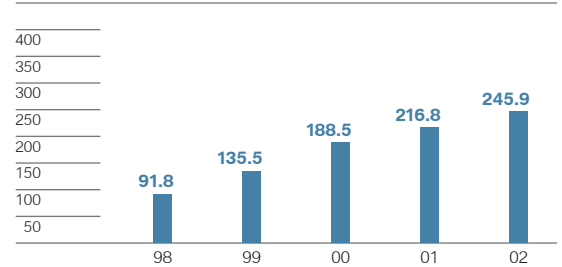
The BMW 5 Series achieved an above-average performance in relation to its product life cycle. Sales of 172,323 vehicles in 2002 were only 11.1 % below the previous year's level. Particular mention should be made of the sales performance in the USA where the BMW 5 Series still managed to achieve growth of 2.1 % in 2002.

Sales of the BMW X5 were also very positive. For the first time, more than 100,000 of these Sports Activity Vehicles were sold worldwide. Worldwide sales increased by 22.1 % to 100,906 units. The USA, with sales of 42,742 units (+5.2 %) was the strongest market for the BMW X5.

Demand for the new BMW 7 Series remains encouraging. In the first year after the model change, a total of 50,961 vehicles were sold. The sales volume of the new BMW 7 Series in the first full year of production was around 4 % better than that achieved by the predecessor model in the equivalent period.

In addition, 2,543 vehicles of the BMW 7 Series predecessor model were sold, so that the total sales volume of the BMW 7 Series was 53,504 units. This figure was achieved in spite of the fact that, in keeping with launch planning, only eight-cylinder petrol versions were available on the market throughout the greatest part of the reporting period. The top model, with a twelve-cylinder engine, has been introduced at the end of 2002. The introduction of the diesel versions in autumn 2002 is expected to generate further demand. In the last full year of availability

**Deliveries of BMW diesel automobiles**  
 in 1,000 units



of the predecessor model, more than 40 % of sales in Western Europe were diesels.

During 2002, 1,106 BMW Z8 cars, hand-finished at the BMW plant in Munich, were delivered to customers.

BMW diesel models have become increasingly popular over the years: the annual sales volume has increased by more than 150 % over the last five years, achieving 245,917 units in 2002. On a worldwide basis, almost 27 % of all BMW cars delivered in 2002 were powered by diesel engines.

In Europe, 45 % of all BMW customers chose a car with a diesel engine. In the case of the BMW X5, the percentage in Europe stood at 67 %.

### **MINI launched successfully on worldwide markets**

With the MINI brand, the BMW Group has successfully established a market position for a premium car in the small car sector. A total of 144,119 MINI cars were sold worldwide in 2002, well beyond the expectations of the BMW Group. Following the successful launch in markets outside Europe, MINI brand cars are now available in more than 70 markets around the world. The development in North America is particularly pleasing. After an excellent start in 2002, the USA, with sales of 24,590 cars, has already become the second most important sales market for the MINI brand cars after the United Kingdom. In the lead-up to the Detroit Auto Show this year, the



MINI Cooper won the North American Car of the Year Award 2003. This is one of the most sought-after accolades in the automobile industry, awarded to only one car each year for the whole North American region.

The sales performance of the MINI in the USA was only bettered in the United Kingdom, the home of the MINI, where 34,715 units were sold. The third strongest market was Germany, with 23,021 vehicles delivered to customers.

Demand for the MINI shows a clear trend towards the more powerful engine versions and optional equipment. The MINI Cooper leads the sales-mix with a share of approximately 56% of the MINI brand sales, followed by the MINI One with nearly 26% and the MINI Cooper S, only available since the middle of 2002, with more than 18%.

#### First Rolls-Royce Phantom delivered to customer

Since 1 January 2003, the BMW Group has taken over the brand responsibility for Rolls-Royce motor cars. The BMW Group acquired the rights to the Rolls-Royce brand four years ago and has, since then, developed a completely new Rolls-Royce which is now ready for series production. During 2001 and 2002, completely new manufacturing facilities were constructed and the headquarters of Rolls-Royce Motor Cars Ltd. was established in Goodwood in the south of England.

With the Rolls-Royce Phantom, the BMW Group is continuing a long-standing tradition of high quality at the very top-end of the range. From the beginning, the Rolls-Royce brand has stood for uncompromising technical solutions and for unparalleled standards in quality, finishing and choice of components and materials. With the Rolls-Royce Phantom, a car has been created, once again satisfying these aspirations in all respects.

#### BMW Motorcycles with tenth successive annual sales record

The Motorcycles segment increased its sales volume in 2002 by 8.1% and thus out-performed the

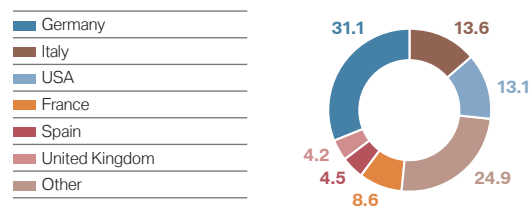
previous year's record for the tenth year in succession. A total of 103,020 units were sold, comprising 92,599 BMW motorcycles and 10,421 BMW C1. This positive performance was particularly supported by motorcycle sales in Italy (+27.2%, 12,910 units), France (+12.8%, 8,133 units) and Spain (+18.4%, 4,181 units). In Germany, the largest market for BMW motorcycles, a market share of over 18% was achieved. High growth rates were also achieved by the BMW Group outside Europe despite the generally negative environment in some markets.

The top-selling models in 2002 were those with boxer engines, in particular, once again, the R 1150 GS of which 18,085 units (including the Adventure version) were delivered to customers. Next was the R 1150 RT with 15,559 units sold and the single cylinder F 650 GS (including the Dakar version) which was chosen by 13,212 customers.

Business with public-sector authorities also progressed well with double-digit growth rates.

Motorcycle production at the Berlin plant rose to 93,010 units, a 2.8% increase against the previous year. In addition, a further 4,543 BMW C1 were manufactured by the BMW Group's Italian production partner, Bertone, up to the end of October 2002, when production was halted until further notice. The BMW Group had already decided in July 2002 that there would not be a successor to the BMW C1. Analyses carried out to support future

**BMW Group – key motorcycle markets 2002**  
as a percentage of sales volume



Rolls-Royce brand completes portfolio.  
Financial Services still on growth path.  
Motorcycles: market position further strengthened.

model decisions indicate that the expected sales volumes do not meet the requirements of the BMW Group.

### Financial Services continues positive development

The Financial Services segment continued its positive development in the financial year 2002. The business volume of the segment in 2002 amounted to euro 26.5 billion, 4.7% above the previous year's level of euro 25.3 billion.

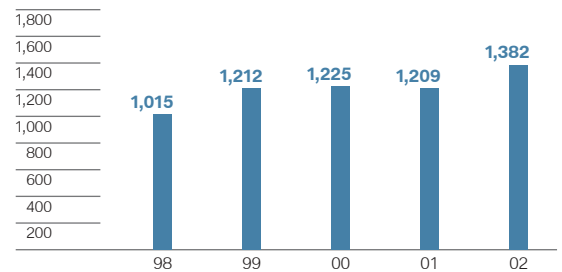
In new business, 1,382,148 contracts were signed in 2002, an increase of 14.3% compared to the previous year. Overall, the segment experienced a steady increase in financing contracts for new cars throughout the year.

Approximately 46% of new contracts related to customer business. 641,638 contracts were signed in 2002, 18.3% more than in the previous year. In dealer financing, the number of new contracts increased by 11.0% to 740,510 contracts.

Business growth was generated through both new vehicles financed or leased as well as an increase in the number of used vehicles financed.

36.1% of the new vehicles sold by the BMW Group worldwide were financed or leased in 2002 by the Financial Services segment. The highest rate for financing and leasing new cars was achieved on the North American market (44.9%), followed by South-East Asia (37.5%) and Europe (31.9%).

**Financial Services: New contracts signed**  
in 1,000 units



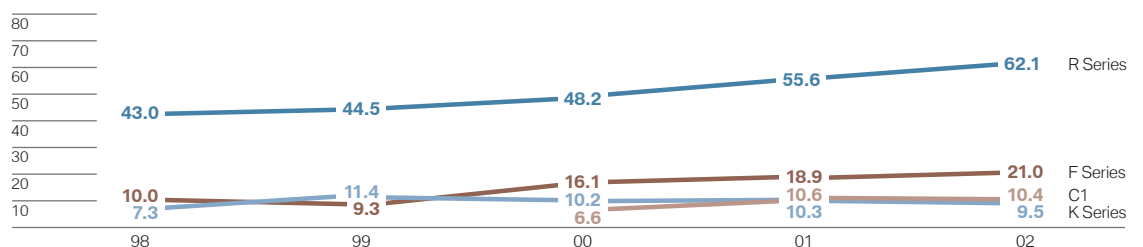
With a series of cooperation agreements in 2002, the Financial Services segment has laid the foundations for further expansion in Central and Eastern European markets.

For fleet management, new branches were set up during 2002 in France, Norway, Sweden and Spain.

The deposit business was strengthened in 2002 by the introduction of the BMW online call-deposits. Overall, the deposit volume amounted on average, worldwide, to euro 2,635 million and thus grew by 19.2% compared to the previous year.

Cash inflows to the investment funds offered by the BMW Bank continued to increase up to the end of 2002 despite the difficult market situation.

**Motorcycles segment: Deliveries by series**  
in 1,000 units



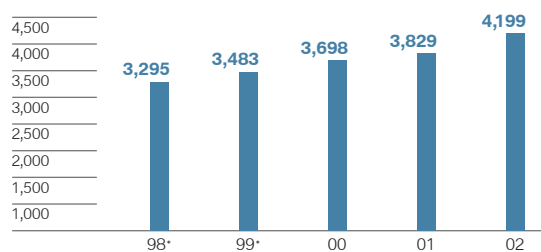
## More than 5,000 jobs created

As a result of the continuing product and market offensive, additional employees were recruited, mainly in development, production and sales departments. As at 31 December 2002, the BMW Group had a worldwide workforce of 101,395 employees. After adjusting for disposals and transfers of group companies, the equivalent headcount at the end of 2001 was 96,263 employees. The BMW Group has therefore effectively created 5,132 new jobs in 2002, an increase of 5.3%. Approximately three-quarters of the BMW Group workforce are employed in Germany. The headcount in Germany rose to 76,143, an increase of 4.5%. More than 500 employees have already been recruited for the BMW Leipzig plant in 2002. At present, they are being trained at other BMW Group plants for their new roles. The BMW Group will continue to need further qualified employees in 2003.

The BMW Group recruited another 370 apprentices in 2002, the total number of apprentices increasing by 9.7%. At present, almost 4,200 young people are learning a profession with the BMW Group.

People are the main factor behind the BMW Group's success. Satisfaction and motivation of

BMW Group apprentices at 31 December



\*excluding Rover Group apprentices

employees are crucial factors to maintain the high quality of work. In 2002, a survey "Changing the future together" was carried out in 28 countries to measure employee satisfaction. For the first time this survey covered all areas and functions of the Group and was carried out with questionnaires prepared in 17 languages with more than 100 local variations. The results of the survey indicate a very high level of employee satisfaction. The average response rate of 86% recorded a satisfaction ratio of over 91%. Of particular note was the finding that

BMW Group employees	31.12.2002	31.12.2001	Change in %
Automobiles*	93,216	89,292	4.4
Motorcycles	2,847	2,699	5.5
Financial Services	2,196	1,973	11.3
Other	3,136	3,311	-5.3
thereof			
Software	(1,093)	(1,247)	-12.3
Corporate	(73)	(48)	52.1
Other UK companies	(1,970)	(2,016)	-2.3
<b>BMW Group</b>	<b>101,395</b>	<b>97,275</b>	<b>4.2</b>
adjusted for disposals and transfers of group companies	101,395	96,263	5.3

\* After adjusting for disposals and transfers of group companies the headcount of the Automobiles segment as at 31 December 2001 was 88,280.

High degree of employee satisfaction.  
 Number of apprentices increased again.  
 Production at full capacity utilisation.

over 94 % of employees have a very strong identification with the BMW Group and its products. This survey, performed every two years, forms the basis of a continual improvement process. The objective is to strengthen the BMW Group's position as one of the world's most attractive employers.

In addition to state and company pension schemes, BMW AG offers employees in Germany the chance, since 2002, to participate in two other models. Employees can elect to convert a part of their remuneration into pension benefits either through a state subsidised scheme (the so-called "Riester" model) or on the basis of a scheme which is not state subsidised (a deferred remuneration model). Since all employees can choose each year whether and in which scheme they wish to participate, pension benefits can be tailored to the individual life and financial situation of each employee.

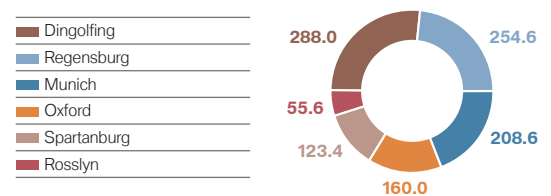
#### Over one million cars manufactured

The BMW Group again increased automobile production in 2002 and, with 1,090,258 vehicles manufactured, exceeded the previous year by 15.2 %. This includes 930,221 BMW cars (+2.9%) manufactured in the Munich, Dingolfing, Regensburg, Spartanburg and Rosslyn plants as well as in the Group's assembly plants worldwide. In addition, 160,037 MINI brand cars were manufactured at the Oxford plant where the BMW Group used the flexible work-time models during the first full year of production to meet the strong demand.

The manufacturing network of the BMW Group proved its continuing strength in 2002 with the production launch of the BMW Z4, the MINI Cooper S and the long wheelbase version of the BMW 7 Series and the preparation for series production of the Rolls-Royce Phantom and five new engines. The production start of the new BMW Z4 deserves particular mention, with the daily plant production capacity reached in only three months.

The first-rate quality of the BMW Group's production network was confirmed once again in June

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



2002 by the result of the J.D. Power and Associates study. The award for the best car plant in Europe/Africa, the Plant Award in Gold, went to the BMW plant in Rosslyn, South Africa. In addition, the Munich plant was awarded the Silver Plant Award, following on from the Gold Award it had already won in 2001.

New manufacturing facilities and headquarters for Rolls-Royce Motor Cars Ltd. were completed in 2002 in Goodwood, England. After an initial start-up phase, this plant will have a capacity to manufacture more than 1,000 Rolls-Royce limousines per year.

At the BMW plant at Spartanburg, production capacity for the BMW X5 was increased by 16 %, and, for the first time, more than 100,000 vehicles of this model were manufactured in a single year.

After preparation of the building site in Leipzig, the ceremonial ground-breaking took place for the new BMW plant at the beginning of May 2002. Construction is progressing in line with plan so that series production will commence, as planned, in spring 2005.

In 2002, the BMW plant in Munich celebrated 50 years of automobile production. In 1952 only 49 cars of the famous "Baroque Angel" BMW 501 were initially produced, together with 28,000 motorcycles. Today, a workforce of more than 6,800 employees manufactures around 208,000 cars each year.

### **Further expansion of customer-orientated sales and production processes**

The BMW Group's production network is characterised by agility, the ability to respond quickly and flexibly within a changing framework. In 2002, the customer-orientated sales and production process (KOV) was further expanded and implemented, for example at the Spartanburg plant for the start of production of the new BMW Z4. Together with an online ordering system, the KOV allows a further reduction of the internal processing time. A large number of customers and dealers use this facility to individually configure and change the specification of the vehicles already within the production systems right up to the start of the actual production process. Up to 120,000 changes are processed each month on a worldwide basis.

### **Project-related cooperation agreements**

As well as expanding its own production network, the BMW Group is also making increased use of external resources by links with business partners. The BMW Group is focusing on a number of specific project-related partnerships. In 2002, agreement was reached with PSA Peugeot Citroën for the development of small petrol engines which will be used in future versions of the MINI cars. Other partnerships are in place, for instance, with Toyota (diesel engines for the MINI brand cars) and Magna Steyr Fahrzeugtechnik in Graz (BMW X3).

### **Capital expenditure increased significantly**

In 2002, the BMW Group invested euro 3,184 million in property, plant and equipment and intangible assets. In addition, euro 858 million of expenditure for development have been recognised as assets in accordance with IAS, so that total capital expenditure amounted to euro 4,042 million. This 15.0% total increase in capital expenditure compared to the previous year, reflects the fact that the BMW Group is now in the decisive phase of the implementation of its product and market offensive.

Including development costs recognised as assets, the investment rate (i.e. capital expenditure as a percentage of group revenues), increased in 2002 to 9.6% and is thus above the highest previously recorded ratio of 9.1% in 2001.

In 2002, the BMW Group invested particularly in comprehensive modifications and extensions at the Dingolfing plant, where production of the new BMW 5 Series will commence in 2003. At the same time, there was on-going capital expenditure for expansion and further technological improvements at the other BMW Group manufacturing plants.

By investing heavily in 2002 and 2003, the BMW Group is establishing the foundation for future growth and for the Group's success in the coming years. In particular, in the Automobiles segment the BMW Group is making considerable efforts in preparing the launch of new models and ensuring that the BMW Group maintains its technological and innovative lead. In addition, resources are being invested to expand production capacity and extend market presence.

As in past years, the BMW Group financed capital expenditure entirely out of cash flow. The latter increased in 2002 by 4.1% to euro 4,374 million.

### **Extensive preparation for new models**

Research and development activities of the BMW Group in 2002 were dominated by the implementation of the product and market offensive. Extensive preparations were made for new models, some already launched in 2002 and others being launched in the course of 2003 and 2004.

Production of four new products started in 2002, the BMW Z4, the BMW 7 Series long wheelbase version, the MINI Cooper S and preparation of the series production of the Rolls-Royce Phantom. The BMW Z4 represents the first time, by means of continuous process optimisation, that a product has been developed through to the series stage in only 30 months.

Two diesel versions of the BMW 7 Series were also successfully launched. Two newly developed

Capital expenditure financed fully out of cash flow. BMW Group focusing on project-related cooperation arrangements.  
Research and development with numerous innovations. BMW Group receives the Outstanding Corporate Innovator Award 2002.

engines are thus available for the BMW 7 Series: a six-cylinder and an eight-cylinder diesel engine. Using the latest common-rail technology, fuel is injected into the combustion chamber of the engine at a pressure of 1,600 bar, allowing it to be diffused even more efficiently than before. The result is higher performance and lower fuel consumption. The new BMW twelve-cylinder engine will, for the first time ever, combine a direct injection fuel system with the fully variable VALVETRONIC valve control system.

In 2003 – in addition to the Rolls-Royce Phantom which has already been presented – the new BMW 5 Series, the 6 Series Coupé, the BMW X3 and the 7 Series security vehicle will all be added to the product range. Updated versions of the BMW 3 Series Coupé, Cabrio and Compact models will also be presented. In addition, a diesel version of the MINI brand will be launched. These new models and model revisions involve a total of ten production start-ups in 2003. Never before have there been so many launches in the history of the BMW Group.

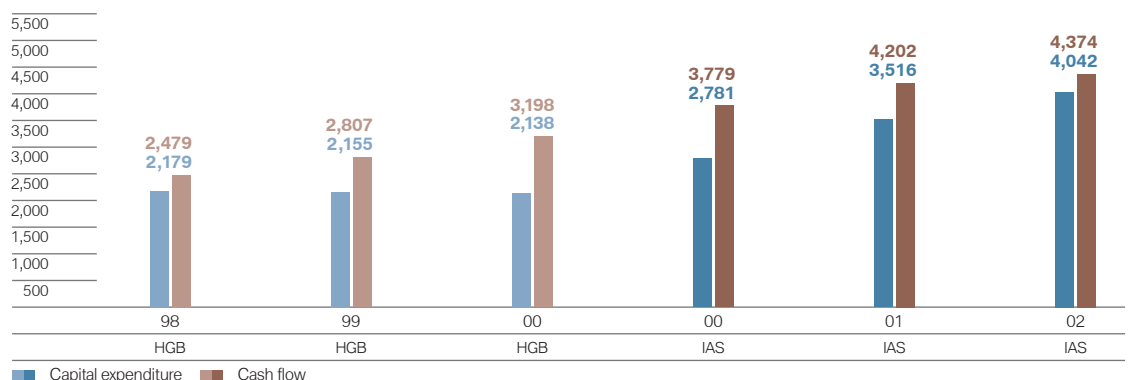
### First class innovation management

The BMW Group received the Outstanding Corporate Innovator (OCI) Award 2002 for its innovative strength and sustained growth with successful products. The OCI award is presented annually by the American Product Development & Management Association, PDMA. This award is considered by experts to be one of the highest accolades for innovation management and was presented for the first time in its 15-year history to a non-American enterprise.

### Trend towards mechatronics

Electronic control systems and software are becoming increasingly important in the automobile industry. This also requires further development in the core research and development skills of the BMW Group. The BMW Car IT is already working on the relevant technology for future models. The use of mechatronics increasingly involves the extension or replacement of mechanical systems with electronics and software. Electronic systems allow systems within a vehicle to be networked and furnished with additional performance. One example of this, almost ready for series production, is the Active Steering, combining conventional mechanical steering with elements of a steer-by-wire system.

**BMW Group Capital expenditure and cash flow**  
in euro million



### **Increased safety and efficiency in traffic systems as a whole**

The BMW Group is conducting research into systems which optimise the interaction between driver, car and environment in traffic situations. These activities are combined within ConnectedDrive. Under this concept, Telematic systems, online systems and driver assistance systems are all linked with one another to increase the safety and efficiency of traffic systems as a whole. The vision of the BMW Group for congestion-free traffic is for better information, fewer accidents and less traffic delays.

Intelligent lighting systems are a good example of ConnectedDrive functions. The brake-force display system, for instance, can change the intensity and size of the brake lights based on the actual deceleration of the vehicle. Other examples are adaptive headlights and pixel headlights.

### **Worldwide innovation network**

Worldwide, the BMW Group has more than 8,000 employees working in research and development, the majority at the Research and Development Centre (FIZ) in Munich, that has now reached maximum spatial capacity. For this reason, a new building complex is currently being constructed adjacent to the existing FIZ buildings. This continues the underlying FIZ concept of short distances between teams working on vehicle development and model design, as well as encouraging networking between different divisions and departments. Further stages of expansion are planned.

The research and development teams of the BMW Group work closely together in a worldwide innovation network to identify new trends and customer needs, working also within the sales markets. In addition to the BMW Group Research and Technic Centre (ZT) and the BMW Car IT in Munich, the BMW Group also has two technology offices in Palo Alto/California and Tokyo. Two further locations are based in California: the design studio DesignworksUSA and the BMW Engineering and Emissions Control Test Center.

### **Purchasing: obtaining the benefits of a global procurement market**

As a result of the first full year of production of the MINI, the volume of purchases in Western Europe and South America accelerated in 2002. Furthermore, the BMW Group consistently took advantage of the benefits of local pricing in Central and Eastern Europe. The purchase of production materials from this region increased at a greater pace compared to the previous year.

The BMW Group is also striving for greater integration of local suppliers into the BMW Group's production network, during the expansion into the growth markets in the Asian region.

In particular, the growth potential of the Chinese market and the future commitment of the BMW Group in a joint venture to manufacture cars in China provide an opportunity for the BMW Group purchasing to develop local supplier markets and to utilise these markets as part of the supply and production network of existing plants.

### **Expansion of supplier relationship management**

In conjunction with its E-business activities, the BMW Group is continuing to integrate development partners and suppliers into its work processes. The focus is on improving the compatibility of processes involving other external enterprises and on facilitating the establishment and management of networks within the Group.

Online links to suppliers have significantly improved the availability and quality of data exchanged with suppliers. This also allows greater scope for analysis, facilitating monitoring processes and enabling the Group to identify technical, financial or logistical discrepancies at an early stage. This ensures timely implementation of any necessary control measures.

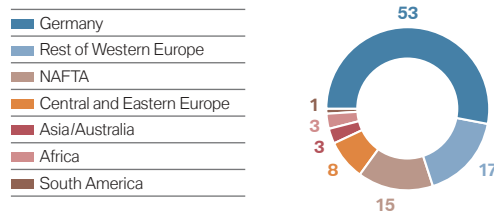
### **Further extension of sales network**

The BMW Group is present in more than 130 countries with 27 own sales companies and a dealer



Expansion of the Research and Development Centre.  
Online link with suppliers extended.  
New sales company in Warsaw.

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



network consisting of more than 2,000 independent companies operating at approximately 3,000 locations. In order to take full advantage of the market potential in Poland, the BMW Group established its own sales company in Warsaw in June 2002.

The MINI dealer network was expanded in 2002 to more than 1,400 dealerships located in some 70 countries.

In 2002, the Group began to build up the sales network for the Rolls-Royce brand, some 60 dealership agreements being signed by the end of the year.

The new Block Exemption Regulation (BER) for motor vehicle sales, passed by the EU Commission in July 2002, creates particular challenges for the automobile industry in Europe. The change of legal framework will require the restructuring of the BMW Group's European sales network. This restructuring was started in October 2002 and is based on the following underlying principles:

- The BMW Group continues to attach high priority to brand exclusivity.
- The BMW Group is committed to implementing a selective sales system, so that it can continue to ensure the high standards of support and service. Strong and independent dealers will continue to be the foundation of the BMW Group's sales network.
- The harmonisation of price and bonus systems by the BMW Group will guarantee uniform competitive conditions applying to all dealers throughout Europe.

This consistent strategy strengthens confidence within the sales organisation. It is laying the foundations for growth-oriented investment in hardware and software by sales partners.

### Further developing environmental standards

The BMW Group is committed to compliance with the highest environmental standards. In this respect, the Group has adopted an all-embracing approach: all stages in the life cycle of a vehicle are measured from an environmental perspective and optimised accordingly. The various operations of the enterprise, beginning with parts and product design at the research and development stage, moving on through production, sales and service and ending with the recycling of used vehicles, are all included in the environmental management system.

Since 1999, all locations in the worldwide production network of the BMW Group use an environmental management system certified to ISO 14001 level and participate in the European Eco-Management Audit Scheme (EMAS II) with the aim of improving environmental protection at an operational level. In 2002, the EMAS-certified assembly and component plants in Berlin, Dingolfing, Landshut, Munich, Regensburg (including Wackersdorf), Eisenach and Steyr all issued detailed environmental declarations. These declarations, similar to the BMW Group Sustainable Value Report (which will be published again in summer 2003) provide detailed information on progress made in environmental protection.

The BMW Group's commitment to environmentally compatible production was emphasized in September 2001 by signing the "Cleaner Production Declaration" of the United Nations' environmental programme. Progress in production processes continued to contribute to a trend of more efficient utilisation of resources and lower emissions. Energy consumption in 2002 increased in the short-term, partly as a result of the continued changeover to more environmentally compatible water and powder-based paint technologies. The improved energy mix, however, i.e. the environmentally compatible energy



sources used, meant it was possible to a large extent to avoid a corresponding increase in CO<sub>2</sub> emissions.

The new BMW Leipzig plant, which is planned to start production in 2005, will comply with the very latest environmentally compatible production standards. Heat recycling will, for example, ensure particularly economical production. The paint shop will utilise water-based systems. Final paint layers will be applied using only powder-based paint techniques.

### Reducing greenhouse gas emissions

One of the main objectives of product development is the on-going reduction of consumption and emissions. The BMW Group is committed to developing efficient engine technologies and new concepts with regard to intelligent lightweight construction. The voluntary commitment given by the German Automobile Industry Association (VDA) to reduce the fuel consumption of German manufacturers by an average of 25 % in the period from 1990 to 2005 was already achieved by the BMW Group in 2002.

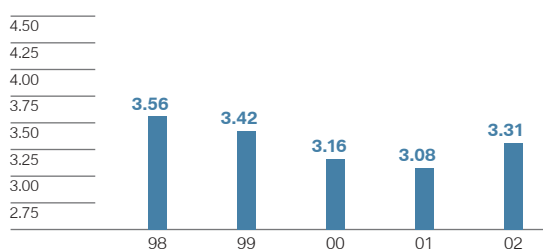
The European Automobile Manufacturers Association (ACEA) has given a voluntary commitment to reduce CO<sub>2</sub> emissions in the fleet of all European manufacturers to 140 g/km by the year 2008, equivalent to an average consumption of less than 6 litres per 100 kilometres. This represents a reduction of 25 % compared to the base year 1995. For the pur-

poses of ACEA monitoring, a target corridor of 165 to 170 g/km was fixed as the interim target for the year 2003. The automobile industry managed to achieve this level already by 2001 for the new car fleet in Europe. The BMW Group is working on advanced technologies in order to be able to fulfil its part of the commitment for 2008.

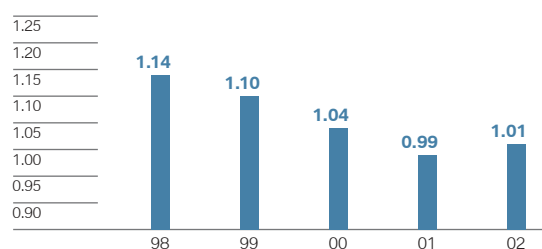
The BMW Group has been long committed to developing hydrogen technology as an alternative concept of propulsion. BMW CleanEnergy, a BMW Group initiative, uses liquid hydrogen as fuel and the combustion engine as the source of power. Greenhouse gas emissions can be significantly reduced when the hydrogen is generated from renewable sources of energy. Series development of a hydrogen vehicle has commenced for the current BMW 7 Series. The first hydrogen-fuelled vehicles will be delivered to customers during the life of the current BMW 7 Series.

The CleanEnergy WorldTour, with which the BMW Group is endeavouring to attract partners to implement a hydrogen society, continued successfully in 2002, participating in the UN World Summit in Johannesburg, and visiting London and Montreal. At the latter location, the BMW Group was presented the "Robert M. Zweig Memorial Public Education and Outreach Award" by the US American National Hydrogen Association and a further award from the International Association for Hydrogen.

**Energy consumed per unit produced**  
in MWh



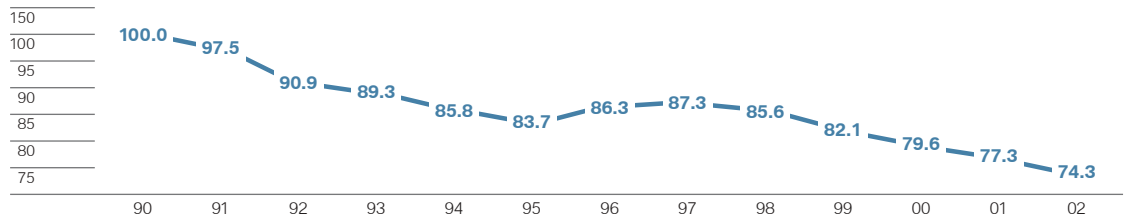
**CO<sub>2</sub> emissions per unit produced**  
in tons



BMW Group committed to hydrogen technology as an alternative concept of propulsion. Series development of a hydrogen-fuelled car for the current BMW 7 Series has commenced. Further expansion of recovery and recycling system.

#### 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)



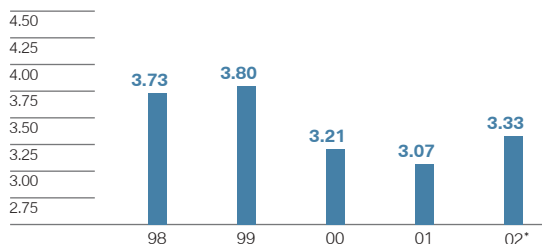
#### Implementation of the EU end-of life vehicle directive

In order to protect natural resources, thinking in terms of resources recycling is paramount to the BMW Group. As a result of its early involvement in recycling activities, the BMW Group can build on a comprehensive recycling concept and is thus best prepared for the EU end-of life vehicle directive. The EU directive requires car manufacturers to take back, free of charge, all products registered for the first time after 1 July 2002. From 2007 onwards, this requirement is extended to all vehicles, irrespective of manufacture date. In order to comply with these statutory requirements, the BMW Group is setting up a recovery and recycling system throughout Germany with over 90 recycling partners and 100 recovery centres. Following the EU directive, this

network will be rolled-out in stages to the rest of Europe. Even now, all models manufactured by the BMW Group can be almost completely and economically recycled.

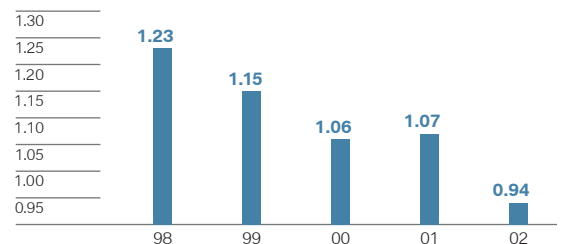
The BMW Group Recycling and Dismantling Centre is continually optimising the necessary processes. From the earliest product development stage, detailed targets are factored into parts design with the aim of achieving optimal recycling levels. Knowledge is constantly passed on to the recycling companies via an international database maintained by numerous car manufacturers. The objective is to create both ecological and economical systems. The BMW Group is already using high-quality recycled materials in the production process.

#### 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)



## Risk management in the BMW Group

As an enterprise with worldwide operations, the BMW Group faces a variety of risks. The Board of Management and Supervisory Board are regularly informed about risks which have a significant impact on business development. Business risks are only accepted when they lead to growth in the value of the business and their potential impact is controllable.

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 characterised by the following processes:

- Decisions are made after consideration of in-depth project analyses which clearly present individual opportunities and risks. 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 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 compared to targets and highlight any changes affecting the market and competitors. By monitoring critical success factors on a continual basis, unfavourable developments are identified at an early stage thus allowing appropriate counter-measures to be implemented.
- Overall risk management is supervised by the corporate controlling department and is reviewed by the independent auditors and the Group's internal audit department for its appropriateness and effectiveness. A network of risk managers have been appointed throughout the Group who perform regular risk reviews in order to identify and analyse all signifi-

cant risks. The results of the review are summarised in a separate risk report presented to the Board of Management.

- By regular exchange of experiences with other enterprises, the BMW Group is constantly ensuring that innovative techniques and ideas flow into the BMW Group's risk management system.

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. These are:

### Risks relating to economic factors

- The strong growth of the BMW Group achieved on all major international markets means that global key data such as the development of currency parities and financial markets are very significant. The BMW Group mitigates these risks by intensive monitoring of the markets and by the use of hedging instruments. 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.
- An escalation in the global political tensions could have a negative impact on the oil price and the economic situation as a whole, which, in turn, would

have a negative impact on the business development of the BMW Group.

#### **Specific industry risks**

- In 2002, the EU end-of life vehicle directive was enacted into law in all countries of the European Union, coming into force in Germany on 1 July 2002. The BMW Group has recognised provisions in the balance sheet to cover the obligations relating to the risk of collection, treatment and recovery of all end-of life vehicles sold by the BMW Group to date. Provisions are also being recognised on an on-going basis for new vehicles sold, i.e. vehicles sold after 1 July 2002. In addition, the BMW Group is well prepared to recover end-of life vehicles as a result of its activities in vehicle recycling and the progress made in “Design for Recycling”.
- 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<sub>2</sub> emissions set high demands on engine and product development.
- The tax changes proposed by the German Government, in particular the tax treatment of company cars, could have a negative impact on car sales of the BMW Group in Germany.
- The decision of the EU Commission relating to the new Block Exemption Regulation for the sales distribution of motor vehicles will require substantial legal and structural changes to the current sales distribution system. The BMW Group has initiated measures, including the restructuring of sales distribution networks, in order to both counter the risks for sales and brand positioning and to avoid any possible negative impact on the high quality, safety and environmental standards of the BMW Group.

#### **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 help to reduce operating risks.
- 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.

#### **Risk from sales financing**

- A major part of the financing and leasing 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.
- 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 growth of the leasing business leads to an increase in the number of vehicles returned to the BMW Group at the end of lease contracts which must be sold. Changes in residual values of vehicles of the BMW Group on the used car markets are therefore constantly monitored and forecast. Provisions are recognised to cover identified risks. The risk is also reduced by measures taken in the life cycle management and management of used car markets at an international level, which have led to generally stable residual values of vehicles of the BMW Group.
- 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.
- The BMW Group responds to operating risks in sales financing by setting up a new process which records and values these 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.

#### **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. A high level of employee satisfaction and a low level of employee fluctuation also help to minimise the risk of know-how drift.
- The exposure of the BMW Group to pension risks is small. 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 obligations for active employees from the former Rover/Land Rover activities were transferred to the pension funds of Rover and Land Rover in 2002.

Pension entitlements in the USA and the remaining pension obligations in Great Britain are funded mainly by fixed-income securities with a high level of creditworthiness and equity shares. Overall, this reduces the risk of a possible shortfall in coverage as a result of weak stock markets. Pension fund shortfalls outside the IAS 19 (Employee Benefits) corridor are minimal. Shortfalls are being recognised over a period up to 15 years. In 2003, the shortfall of the Group's pension funds will result in an additional expense of approximately euro 9 million.

#### **IT risks**

In 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 secure use of information systems apply throughout the Group.

Amongst the technical measures taken are 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.

### **Inconsistent markets in 2003**

Given the current tense global political situation and trends on the capital markets, it is difficult to predict that the world economy will experience a perceptible and sustainable recovery. The BMW Group believes that a dynamic change will not occur until the second half of the year at the earliest. This forecast, however, is subject to a high degree of uncertainty and is based on a stabilisation of the worldwide political situation.

The BMW Group believes that the USA will see a modest economic upswing in 2003 which should then accelerate in the course of the year. A similar development is expected in Western Europe, but with less growth momentum.

The prospects for South-East Asia are generally favourable. It is uncertain, however, to what extent the slow economic recovery in the USA and Europe will curb the upswing in this region. The BMW Group expects weak economic growth in Japan in 2003. The economic situation in Latin America is likely to remain tense in view of the on-going crises there.

Against this background, the automobile markets will not perform consistently in 2003. In line with the general expectations of the sector, the BMW Group believes that premium segments will again do better than mass volume segments.

### **The BMW Group in 2003**

In 2003, the BMW Group will achieve important milestones in its product and market offensive. The Group will unveil more new products in 2003 than in any previous year.

The prelude to this was provided at the beginning of the year by the new Rolls-Royce Phantom. With the Rolls-Royce brand, the BMW Group has rounded off its product range in the absolute luxury segment and completed the expansion of its brand portfolio.

A diesel version will be launched for the MINI brand in Europe in 2003.

For the BMW brand, the new BMW 5 Series will be launched in 2003. In addition, the BMW Z4 will be introduced in Europe and Asia and three up-dated BMW 3 Series versions will be launched during the first quarter of 2003. Furthermore, two new models will be presented towards the year-end, the BMW X3 and the BMW 6 Series Coupé. The BMW 5 Series Touring, the BMW 6 Series Cabrio and the new BMW 1 Series will follow in 2004 along with other products.

By expanding the product range so significantly and increasing its market presence, particularly in the Asian region, the BMW Group is laying the foundation for continuing success. This expansion, accompanied by corresponding levels of expenditure for the future, is taking place over a comparatively short period of time and will shape the financial year 2003. The BMW Group will again prove its strength and versatility as it moves through a period of transition into a new order of magnitude.

In the light of the tense global political situation, it is difficult at the beginning of 2003 to make a definite forecast about business development. On the assumption that the situation stabilises, the BMW Group anticipates that all brands will achieve sales volume increases in 2003. The exceptionally high level of spending on the product and market offensive mainly affects the Automobiles segment, which is thus facing particularly high levels of expenditure in 2003. At group level, however, the BMW Group will strive to match the level of earnings achieved in 2002.

**BMW stock in 2002. BMW stock unable to escape the general downward trend during a poor year for the stock markets. The price of BMW stock nevertheless performed better than the DAX-30 and CDAX Automobile Index.**

After falls in the DAX in 2000 and 2001, the year 2002 also failed to meet investors' hopes. For the first time in its history, the DAX finished with a loss for three years in succession. Not a single DAX-30 enterprise was able to achieve a share price gain in 2002.

After market price increases in the first quarter, during which the DAX reached its highest level for the year at 5,462.55 points, the DAX fell in the course of the year to reach a low of 2,597.88 points at the beginning of October. This was followed by a technical rally taking the index back to around the 3,000 point level. The DAX closed on 30 December 2002 at 2,892.63 points, 43.9% below the closing level of 28 December 2001.

Automobile stocks, represented by the CDAX Automobile Index, were unable to escape this general trend. Due to positive company results and improved prospects for the US sales market, the CDAX Automobile Index performed better than the DAX. After reaching a high for the year of 448.52 points on 27 May 2002, a downturn set in. The automobile sector index closed on 30 December at 262.89 points, just above the year's low (recorded on the

previous day) and 30.7% below the closing level at the end of the previous year.

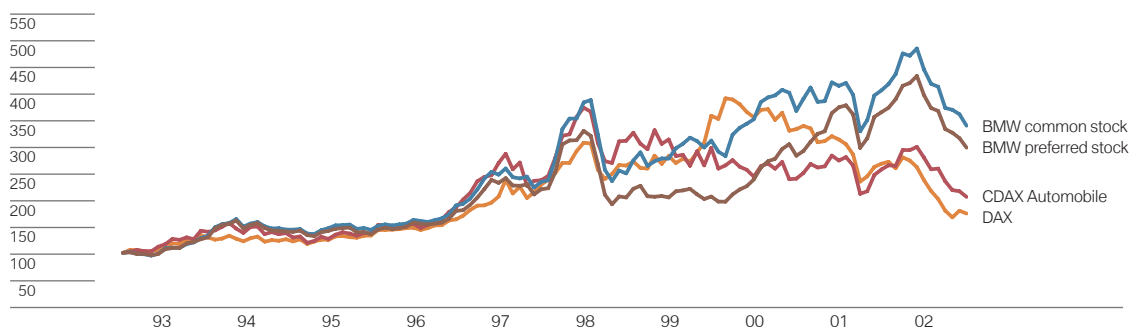
In 2002, BMW common stock performed better than both the DAX and the CDAX Automobile Index, but nevertheless suffered losses in the course of the year. After the announcement of strong sales and earnings figures for the first half of 2002, the stock showed a small gain over the 2001 closing price. During the second half of 2002, however, the price of the BMW common stock fell as a result of general worries about the state of the economy.

After reaching a new all-time high of euro 47.50 on 17 May, the stock closed on 30 December at euro 28.95, just above the year's low and 26.8% below the closing level at the end of 2001.

**BMW Group again included in Dow Jones Sustainability Indices**

For the fourth time in succession, the BMW Group was included in 2002 in the group of leading global sustainability indices of Dow Jones, STOXX Limited and SAM Group. In the industry ratings published at the beginning of September 2002, the BMW Group achieved second place in the worldwide automobile

**Development of BMW stock compared to stock exchange indices**  
(Index: January 1993 = 100)





BMW stock	1998	1999	2000	2001	2002	
Common stock						
Number of shares in 1,000	23,932	622,228	622,228	622,228	622,228	
Stock exchange price in euro <sup>1)</sup>						
Year-end closing price	25.17	30.65	34.75	39.55	28.95	
High	38.71	32.00	41.05	41.65	47.50	
Low	17.99	23.04	23.48	24.01	28.00	
Preferred stock						
Number of shares in 1,000	1,815	48,460	49,598	50,638	51,468	
Stock exchange price in euro <sup>1)</sup>						
Year-end closing price	14.75	14.00	20.00	26.25	19.00	
High	25.08	16.81	22.40	27.30	31.95	
Low	11.01	12.35	11.75	16.11	18.50	
	1998 HGB	1999 HGB	2000 HGB	2000 IAS	2001 IAS	2002 IAS

1) closing prices at 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

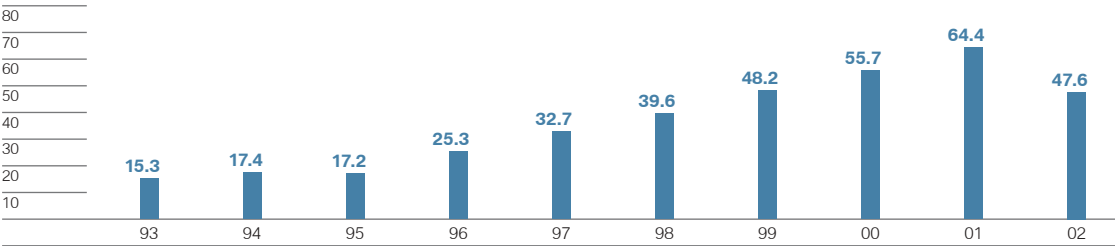
8) earnings per share in accordance with IAS 33 for common and preferred stock shares

industry and is thus one of the leading enterprises in sustainable activities in the sector. This ranking is carried out annually and measures economic, ecological and social criteria. The study covers the 2,500 largest enterprises of the Dow Jones Global Index, based on market capitalisation.

**Expansion of online information**

In 2002, the BMW Group further expanded the range of information available on the internet. Investor Relations ([www.bmwgroup.com/ir](http://www.bmwgroup.com/ir)) was for example expanded to include corporate governance, directors' dealings and current analyst recommendations.

**Development in value of a BMW stock investment** in euro thousand  
Investment of euro 10,000 at 1.1.1993, including dividends and proceeds from subscription rights, values at end of year



### Background

The German Corporate Governance Code Commission appointed by the German Government presented its Corporate Governance Code on 26 February 2002. In addition, the Transparency and Disclosure law (TransPuG) came into effect on 25 July 2002. This law requires the Management and Supervisory Boards of companies listed in Germany to make a declaration once a year about whether the German Corporate Governance Code has been complied with. Companies affected are also required to state which of the recommendations of the Code have not been applied.

### Information about the BMW Group

Bayerische Motoren Werke Aktiengesellschaft (also abbreviated to BMW AG) was founded in 1916. The Company's registered office is located in Munich and the Company is registered with the District Court of Munich (Registrar of Companies) under the number HRB 42243. The object of the Company is the manufacture and sale of engines and all vehicles equipped with engines. The Company's financial year corresponds to the calendar year. BMW stock comprises bearer shares each with a nominal value of euro 1. The Board of Management is appointed by the Supervisory Board. The Supervisory Board consists of twenty members. Ten members of the Supervisory Board are elected by the shareholders and ten members are elected by employees.

The designation BMW Group covers BMW AG and its subsidiaries.

### Corporate Governance in the BMW Group

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 will contribute significantly to an enhancement of the financial markets in Germany, in particular for foreign investors.

We are certain that the implementation of the code in Germany will establish standards for corporate governance which address the interests of shareholders and other parties interested in the performance of the enterprise. The German Corporate Governance Code is particularly suited to achieve this objective.

We 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. In addition, the BMW Group has appointed a coordinator for all issues relating to corporate governance who reports directly and regularly to the Board of Management and Supervisory Board.

The full text of the Corporate Governance Code of the BMW Group is provided on the following pages. The code can also be obtained, along with other shareholder information, on the internet under [www.bmwgroup.com/ir/](http://www.bmwgroup.com/ir/).

Of course, exemplary corporate governance is not achieved solely by conforming with rules, no matter how important and appropriate they are. Rules can only provide a framework for good and responsible corporate governance. Ultimately, it is a question of promoting trust both in and within the enterprise.

For the BMW Group, corporate governance is therefore 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 not new for 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. And furthermore: trust in others, responsibility for one's actions and transparency have long been the core pillars of our corporate culture. This corporate culture is a vital factor for the success of the BMW Group, both now and in the future.

## Declaration of compliance with the German Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft made the following declaration on 3 December 2002 in accordance with § 161 of the German Stock Corporation Act (AktG) with regard to the recommendations of the German Corporate Governance Code Commission: The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft hereby declare that the recommendation of the German Corporate Governance Code Commission, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with, with the following divergence to section 6.6 of the German Corporate Governance Code:

The purchase or sale of shares in BMW AG or derivative instruments relating to BMW AG by the members of the Board of Management and the Supervisory Board are published in accordance with § 15 a of the German Securities Trading Act, but are not additionally disclosed in the notes to the Group financial statements.

Reason for the divergence:

We consider that the interests of our shareholders and other stakeholders are assured by publishing the relevant details on a timely and up-to-date basis in the BMW Group homepage on the Internet in accordance with § 15 a of the German Securities Trading Act. Each notification is reported on the internet site for at least 30 days.

The purchase or sale of shares in BMW AG by the members of the Board of Management and the Supervisory Board are only relevant for shareholders and other stakeholders at the date of the transactions. A list showing transactions, which are several months old, does not provide any additional informational value and does not, in our opinion, achieve any purpose.

Munich, December 2002

**Bayerische Motoren Werke**  
Aktiengesellschaft

The Supervisory Board      The Board of Management

### The Corporate Governance Code for the BMW Group

On 3 December 2002, the Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft approved the Corporate Governance Code for the BMW Group which is based closely on the German Corporate Governance Code. In line with the German Corporate Governance Code, it covers the statutory framework and the specific standards of good and responsible corporate governance applied by the BMW Group.

### 1. Shareholders and the General Meeting of BMW AG

#### 1.1 Shareholders of BMW AG

The ordinary and preferred shareholders exercise their rights at the General Meeting.

Each share of common stock in BMW AG carries one vote. There are no shares with multiple voting rights, preferential voting rights (golden shares) or maximum voting rights.

#### 1.2 The General Meeting of BMW AG

The Management Board submits the Annual Financial Statements and the Consolidated Financial Statements to the General Meeting. The General Meeting resolves on the appropriation of net profit and the discharge of the acts of the Board of Management and the Supervisory Board. It elects the shareholders' representatives to the Supervisory Board and the auditors.

The General Meeting also resolves on amendments to the Articles of Association and significant corporate measures such as the conclusion of Control and Profit and Loss Transfer Agreements, the issue of new shares, convertible bonds or bonds with warrants and the authorization to purchase own shares.

As a general rule, when new shares are issued, shareholders have pre-emptive rights corresponding to their share of the equity capital.

Each shareholder of BMW AG is entitled to participate in the General Meeting, to take the floor

on matters on the agenda and to submit relevant questions and proposals.

The Chairman of the Supervisory Board chairs the meeting and provides for the expedient running of the General Meeting.

#### 1.3 Invitation to the General Meeting of BMW AG, proxies

The shareholders' General Meeting will be convened by the Board of Management at least once a year at which stage the agenda of the meeting is made known. Shareholders who, together, hold 5% of the share capital are entitled to demand the convening of further shareholders' meeting and the extension of the agenda. The extension of the agenda can also be demanded by shareholders who, together, hold shares with a par value of € 500,000 or more. The Board of Management will present the reports and documents required by law, including the Annual Report, and arrange for them to be distributed to shareholders upon request. The reports and documents will also be published on the BMW Group Internet site ([www.bmwgroup.com](http://www.bmwgroup.com)) together with the agenda.

BMW AG will inform all domestic and foreign shareholders, shareholders' associations and financial services providers, who have requested such notification during the preceding 12 months, that the General Meeting has been convened and will distribute the documents relating to the invitation to the meeting. On request, these documents will also be distributed via electronic channels.

BMW AG will facilitate the personal exercising of shareholders' voting rights. BMW AG will also assist the shareholders in the use of proxies. The Board of Management will arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative will also be reachable during the General Meeting.

## **2. Cooperation between the Board of Management and Supervisory Board of BMW AG**

The Board of Management and the Supervisory Board cooperate closely and in a spirit of trust to the benefit of the enterprise.

The Board of Management runs the business and bears responsibility for managing the group. It coordinates the group's strategic approach with the Supervisory Board and, at regular intervals, discusses the current state of strategy implementation with the Supervisory Board.

The Supervisory Board has stipulated that transactions of fundamental importance require the approval of the Supervisory Board. This includes decisions or measures which are of fundamental strategic significance.

The provision of sufficient information to the Supervisory Board is the joint responsibility of the Board of Management and the Supervisory Board.

The Board of Management of BMW AG informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to the group with regard to planning, business development, risk situation and risk management. The Board of Management points out deviations of actual business development from previously formulated plans and targets, indicating the reasons for such deviations.

The BMW Supervisory Board has laid down detailed instructions covering the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by law, the Board of Management submits its reports to the Supervisory Board in writing. Documents required for decisions, in particular the Annual Financial Statements, the Consolidated Financial Statements and the Auditors' Report, will be sent to the members of the Supervisory Board, to the extent possible, in due time before the relevant meeting.

Good corporate governance requires an open discussion both within the boards and between the boards. Full confidentiality is of paramount importance. When the services of staff members are

called upon, the members of the two boards are responsible for ensuring that the relevant staff members observe the requirement of confidentiality.

The representatives of the shareholders and of the employees prepare the Supervisory Board meetings separately, and if need be, together with members of the Board of Management.

When necessary, the Supervisory Board of BMW AG meets without the Board of Management.

In the event of a takeover offer, the Board of Management and Supervisory Board will submit a statement of their reasoned position so that the shareholders can make an informed decision on the offer.

After the announcement of a takeover offer, the Board of Management will not take any actions outside the ordinary course of business that could prevent the success of the offer unless the Board of Management has been authorised by the General Meeting or the Supervisory Board has given its approval. In making their decisions, the Board of Management and the Supervisory Board are obliged to act in the best interests of the shareholders and of the enterprise.

In appropriate cases, the Board of Management will convene an extraordinary General Meeting at which shareholders can discuss the takeover offer and decide on corporate actions.

The Board of Management and the Supervisory Board are required to comply with the rules of proper corporate governance. If they violate the due care and diligence owed by prudent and conscientious board members, they are liable to BMW AG for damages.

The provision of loans by BMW AG or group subsidiaries to members of the Board of Management and the Supervisory Board or their relatives requires the approval of the Supervisory Board.

The Board of Management and the Supervisory Board will report each year in the Annual Report on the group's corporate governance. This includes an explanation of any deviations from the recommendations of the German Corporate Governance Code.

### **3. The Board of Management of BMW AG**

#### **3.1 Tasks and responsibilities**

The Board of Management is responsible for independently managing the enterprise. In doing so, it is obliged to act in the enterprise's best interests and undertakes to increase the sustainable value of the enterprise.

The Board of Management develops the enterprise's strategy, coordinates it with the Supervisory Board and ensures its implementation.

The Board of Management ensures that all provisions of law are abided by and works to achieve their compliance throughout the group.

The Board of Management ensures appropriate risk management and risk controlling throughout the group.

#### **3.2 Composition and compensation of the Board of Management**

The Board of Management consists of several persons with one chairman. The allocation of areas of responsibility and the cooperation within the Board of Management is regulated by specific terms of reference.

Compensation of the members of the Board of Management is determined by the Supervisory Board based on performance criteria. Criteria for determining the appropriateness of compensation are, in particular, the tasks of each member of the Board of Management, an assessment of performance of those tasks as well as the economic situation, performance and outlook of the BMW Group taking into account the competitive environment.

The compensation of the members of the Board of Management comprises fixed and variable components. Variable compensation includes annually-payable components linked to business performance.

Compensation of the members of the Board of Management will be reported in the notes to the Consolidated Financial Statements subdivided according to fixed and performance-related components.

#### **3.3 Conflicts of interest**

During their period of employment for BMW AG, members of the Board of Management are subject to a comprehensive non-competition obligation.

Members of the Board of Management and employees may not, in connection with their work, demand nor accept from third parties payments or other advantages for themselves or for any other person nor grant third parties unlawful advantages.

Members of the Board of Management are bound by the enterprise's best interests. No member of the Board of Management may pursue personal interests in his decisions or take advantage of business opportunities intended for the enterprise.

All members of the Board of Management must disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management thereof. All transactions between the enterprise and members of the Board of Management as well as persons they are close to or companies they have a personal association with must comply with standards customary in the sector. Important transactions require the approval of the Supervisory Board.

Members of the Board of Management may only undertake ancillary activities, in particular Supervisory Board mandates outside the BMW Group, with the approval of the Supervisory Board.

### **4. The Supervisory Board of BMW AG**

#### **4.1 Tasks and responsibilities**

The task of the Supervisory Board is to advise regularly and supervise the Board of Management in the management of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group.

The Supervisory Board appoints and dismisses the members of the Board of Management. Together with the Board of Management, it ensures that there is long-term successor planning. The Supervisory Board has delegated the preparation of appointments to the Board of Management to a committee, which also determines the terms and conditions of employment contracts including compensation.

For first-time appointments the maximum possible appointment period of five years is not the general rule. A re-appointment prior to one year before the end of the appointment period with a simultaneous termination of the current appointment only takes place under special circumstances. An age limit for members of the Board of Management has been specified.

The Supervisory Board has issued Terms of Reference for itself.

#### **4.2 Tasks and authorities of the Chairman of the Supervisory Board**

The Chairman of the Supervisory Board coordinates work within the Supervisory Board and chairs its meetings.

The Chairman of the Supervisory Board also chairs the committees that handle contracts with members of the Board of Management and prepares the Supervisory Board meetings.

The Chairman of the Supervisory Board maintains regular contact with the Board of Management, in particular, with the Chairman of the Board of Management and consults on the strategy, business development and risk management of the BMW Group. The Chairman of the Supervisory Board is informed by the Chairman of the Board of Management without delay of important events which are essential for an assessment of the situation and development of the enterprise as well as for the management of the enterprise. The Chairman of the Supervisory Board then informs the Supervisory Board and, if required, convenes an extraordinary meeting of the Supervisory Board.

#### **4.3 Formation of committees**

The Supervisory Board has set up committees with sufficient expertise based on the specific requirements of the BMW Group. Such committees serve to increase the efficiency of the Supervisory Board's work and the handling of complex issues. The committee chairpersons report regularly to the Supervisory Board on the work of the committees.

The Supervisory Board has set up an "Audit Committee" (Bilanzausschuss) which handles, in particular, issues of accounting and risk management

as well as auditor independence, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.

#### **4.4 Composition and compensation of the Supervisory Board**

For nominations for the election of members of the Supervisory Board, care is taken that the Supervisory Board is composed, at all times, of members who have the required knowledge, abilities and expert experience to complete their tasks properly and who are sufficiently independent. Regard is also given to international activities of the BMW Group, potential conflicts of interest and the age limit stipulated for members of the Supervisory Board.

In order to ensure that the Supervisory Board can supervise and advise the Board of Management independently, not more than two former members of the Board of Management may be members of the Supervisory Board. Supervisory Board members may not exercise directorships or similar positions or advisory tasks for important competitors of the BMW Group.

All members of the Supervisory Board of BMW AG must ensure that they have sufficient time to perform their mandate. If members of the Supervisory Board of BMW AG are members of the Board of Management of a listed company, they may not accept more than four additional Supervisory Board mandates in listed companies. Supervisory Board mandates in subsidiaries of the company where the Supervisory Board member of BMW AG is a member of the Board of Management are not included in this maximum number.

The compensation of the members of the Supervisory Board is specified in the Articles of Association of BMW AG and takes into account the responsibilities and scope of tasks of the members of the Supervisory Board as well as the economic situation and performance of the BMW Group. Chairmanship and deputy chairmanship of the Supervisory Board including chairmanship of and membership in committees are taken into account. Members of the Supervisory Board receive fixed as well as performance-related compensation.



Compensation paid or advantages extended by BMW AG to the members of the Supervisory Board for services provided individually, in particular, for advisory or agency services, will be disclosed separately in the Notes to the Consolidated Financial Statements.

If a member of the Supervisory Board takes part in less than half of the meetings of the Supervisory Board in a financial year, this will be noted in the Annual Report.

#### **4.5 Conflicts of interest**

Each member of the Supervisory Board is bound by the enterprise's best interests. The members of the Supervisory Board may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise.

Each member of the Supervisory Board will inform the Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners.

In its report, the Supervisory Board will inform the General Meeting of any conflicts of interest which have occurred and how they were handled. Material conflicts of interest and those which are not merely temporary in nature will result in the termination of the mandate of the relevant Supervisory Board member.

Advisory and other service agreements and contracts for work between BMW AG and a member of the Supervisory Board require the approval of the Supervisory Board.

#### **4.6 Examination of efficiency**

The Supervisory Board of BMW AG will examine the efficiency of its activities on a regular basis.

### **5. Transparency**

The Management Board of BMW AG will disclose without delay any new facts which have arisen within the BMW Group's field of activity and which are not known publicly, if such facts, owing to their impact on the asset and financial situation of the group or on general business development, could substantially influence the price of BMW AG stock.

As soon as BMW AG becomes aware of the fact that any party acquires, exceeds or falls short of 5%, 10%, 25%, 50% or 75% of the voting rights in the Company by means of a purchase, sale or any other manner, the Board of Management will disclose this fact without delay.

BMW AG treats all shareholders in respect of the provision of information equally. All new facts made known to financial analysts and similar addressees by BMW AG will also be disclosed to the shareholders by the Company without delay.

The company uses suitable communication media, such as the Internet, to inform shareholders and investors in a prompt and uniform manner.

It is a requirement that the purchase or sale of shares in BMW AG or derivative instruments relating to BMW AG by members of the Board of Management and the Supervisory Board is reported to BMW AG without delay where the value of the transactions with BMW AG stock exceeds € 25,000 in 30 days. BMW AG will publish the fact without delay in an appropriate electronic information system or, at a minimum, in a journal generally used to publish statutory stock market information.

The shareholdings, including derivatives, held by individual members of the Board of Management and the Supervisory Board will be reported in the Notes to the Consolidated Financial Statements where these directly or indirectly exceed 1% of the stock issued by BMW AG. If the entire holdings of all members of the Board of Management and Supervisory Board exceed 1% of the stock issued by BMW AG, the total amount will be disclosed separately for the Board of Management and the Supervisory Board.

As part of the group's regular information policy, the dates of essential regular publications (including the Annual Report, interim and quarterly reports, General Meeting) will be published sufficiently in advance in a "financial calendar".

Information published by BMW AG about the BMW Group will also be accessible via the BMW Group's Internet site. Publications are also available in English.

## **6. Financial Reporting and Audit**

### **6.1 Financial Reporting**

Shareholders and third parties are mainly informed by the Consolidated Financial Statements. During the financial year, information is provided in the form of interim reports. The group financial statements and interim reports are drawn up in accordance with internationally accepted accounting principles. For corporate law purposes (calculation of dividend, shareholder protection), Annual Financial Statements are drawn up in accordance with national regulations (German Commercial Code) which also form the basis for taxation.

The Consolidated Financial Statements are drawn up by the Board of Management and examined by the group auditor and the Supervisory Board. The Consolidated Financial Statements are made publicly accessible within 90 days of the end of the financial year; interim reports are made publicly accessible within 45 days of the end of the reporting period.

BMW AG publishes a list of companies in which it has a shareholding that are not of minor importance to the group. The list includes the name and registered office of each company, the amount of shareholding, the amount of equity and the net profit/loss for the past financial year.

Details of relationships with shareholders considered to be related parties pursuant to the applicable accounting regulations are provided in the Consolidated Financial Statements.

### **6.2 Audit**

Prior to submitting a proposal for election, the Supervisory Board or the "Audit Committee" (Bilanzausschuss) will obtain a statement from the proposed auditor stating whether there are any professional, financial and other relationships between the auditor, its executive bodies and its employees on the one hand, and the BMW Group and members of its executive bodies on the other hand, that could call its independence into question. The Supervisory Board is also responsible for ensuring that this statement also includes the extent to which other services were performed by the auditor for the BMW Group during

the past year, in particular in the field of consultancy, or which are contracted for the following year.

The Supervisory Board arranges for the auditor to inform the Chairman of the Supervisory Board resp. of the "Audit Committee" (Bilanzausschuss) immediately of any grounds for disqualification or impartiality arising during the audit, unless such grounds are eliminated.

The Supervisory Board commissions the auditor to carry out the audit, concludes a fee agreement and arranges for the auditor to report without delay on all facts and events arising during the performance of the audit which are relevant to the tasks of the Supervisory Board.

The Supervisory Board arranges for the auditor to inform it and/or include details in the auditor's long-form report of facts which come to light during the audit, which could entail the Board of Management and Supervisory Board making an incorrect assertion in their statement on the German Corporate Governance Code.

The auditor takes part in the Supervisory Board's deliberations on the Annual Financial Statements and Consolidated Financial Statements and reports on the essential results of its audit.

Munich, 3 December 2002

**Bayerische Motoren Werke**  
Aktiengesellschaft

The Supervisory Board      The Board of Management

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## BMW Group Financial Analysis

### Group Income Statement

in euro million	4th quarter 2002	4th quarter 2001	2002	2001
Revenues	9,944	9,986	42,282	38,463
Cost of sales	-7,169	-7,495	-31,542	-28,727
<b>Gross profit</b>	<b>2,775</b>	<b>2,491</b>	<b>10,740</b>	<b>9,736</b>
Sales and administrative costs	-1,273	-1,183	-4,903	-4,647
Research and development costs	-732	-715	-2,011	-1,663
Other operating income and expenses	-129	-40	-448	-70
<b>Profit before financial result</b>	<b>641</b>	<b>553</b>	<b>3,378</b>	<b>3,356</b>
Financial result	-64	-15	-81	-114
<b>Profit from ordinary activities</b>	<b>577</b>	<b>538</b>	<b>3,297</b>	<b>3,242</b>
Income taxes	-251	-231	-1,277	-1,376
Minority interest	0	0	0	0
<b>Net profit</b>	<b>326</b>	<b>307</b>	<b>2,020</b>	<b>1,866</b>

### Income Statement for the year-ended 31 December 2002

The BMW Group recorded a net profit of euro 2,020 million for the financial year 2002, an 8.3 % improvement over the previous year. The post-tax return on sales was 4.8 % (2001: 4.9 %). Earnings per share of common stock were euro 3.00 (2001: euro 2.78 ).

Total revenues of the BMW Group rose by 9.9 %. Revenues of the Automobiles, Motorcycles and Financial Services segments increased by 11.6 %, 6.9 % and 8.7 % respectively. Revenues of other group companies fell by 42.9 %, mainly due to the fact that the previous year's figures included revenues

of the supplier plant Powertrain Ltd., Bracknell, which was sold in 2001. Revenue growth was achieved in all regions. Revenues increased by 1.0 % in Germany, 11.4 % in the rest of Europe, 11.1 % on the American continent and 24.1 % in the other markets Africa, Asia, Oceania.

The increase in cost of sales, at 9.8 %, was lower than that of revenues. Within cost of sales, the cost of materials increased less than, whilst warranty and goodwill expenses increased more than, the increase in revenues. The gross profit improved by 10.3 % compared to the previous year and represented 25.4 % (2001: 25.3 %) of revenues.

More than one million cars sold.  
 Sales volume, revenues and earnings again above the previous year.  
 Highest-ever levels of expenditure for the future.  
 All segments achieved record results.

Sales and administrative costs increased by 5.5%, also less than the increase in revenues. They represent 11.6% of revenues. In the previous year, the ratio had been 12.1% as a result of expenses for the launch of the new BMW 7 Series and the MINI.

Research and development expenditure has again increased sharply as a result of the continuing product offensive. In total, these expenses increased by 20.9% compared to the previous year. The research and development costs include depreciation and disposals of euro 536 million (2001: euro 443 million) on development costs recognised as assets. Research and development costs as a percentage of revenues was 4.8% (2001: 4.3%). Total research and development costs in the financial year amounted to euro 2,333 million (2001: euro 1,885 million). They comprise additions to capitalised development costs plus research and development expenses less depreciation and disposals of capitalised development costs.

Net operating expenses increased by euro 378 million compared to the previous year. This was mainly due to the sharp decrease in other operating income. The previous year's figure included a one-off gain on the sale of land not required for operational purposes (euro 75 million), reimbursed value added tax (euro 62 million) and gains relating to marketable

securities (euro 55 million). In addition, expenses for write-downs within other operating expenses increased by euro 171 million in the year under report. This increase was mainly attributable to the higher level of residual value risks relating to leasing activities. Against this, impairment losses on intangible assets fell by euro 69 million.

The financial result improved by 28.9% compared to the previous year. As a result of the strength of the euro against most of the main currencies, losses on derivative financial instruments not designated as fair value or cash flow hedges, fell sharply. The financial result includes write-downs on marketable securities of euro 22 million (2001: euro – million).

The profit from ordinary activities improved by 1.7% against the previous year. After adjustment for the one-off gain of euro 75 million in the previous year on the sale of land not required for operational purposes, the profit from ordinary activities improved by 4.1%. The pre-tax return on sales was 7.8% (2001: 8.4%). As a consequence of the lower income tax expense (down 7.2%), the effective tax rate for the year fell by 3.7 percentage points to 38.7%. This is due to the fact that income tax expenses in the previous year included write-downs on deferred tax assets.

## Segment revenues

in euro million	4th quarter 2002	4th quarter 2001	2002	2001
Automobiles	9,356	8,969	38,179	33,542
Motorcycles	242	212	1,130	1,059
Financial Services	1,834	1,784	8,213	7,514
Reconciliations	-1,488	-979	-5,240	-3,652
<b>BMW Group</b>	<b>9,944</b>	<b>9,986</b>	<b>42,282</b>	<b>38,463</b>

## Segment results

in euro million	4th quarter 2002	4th quarter 2001	2002	2001
Automobiles	480	452	2,883	2,792
Motorcycles	- 21	- 19	60	59
Financial Services	132	119	422	390
Reconciliations	- 14	- 14	- 68	1
<b>Profit from ordinary activities</b>	<b>577</b>	<b>538</b>	<b>3,297</b>	<b>3,242</b>

The Automobiles segment sold more than one million cars. This represents an increase of 16.7% over the previous year. Total revenues of the segment rose by 13.8%. Revenues increased by 2.3% in Germany, 16.4% in the rest of Europe, 15.9% on the American continent and 26.2% on the other markets Africa, Asia and Oceania. The profit from ordinary activities amounted to euro 2.9 billion. Despite the continuing high level of expenditure for the product offensive and significantly lower other operating income in the financial year 2002, the segment exceeded the previous year's result by euro 0.1 billion.

Revenues of the Motorcycles segment increased by 6.7% compared to the previous year. The profit from ordinary activities improved yet again compared to the previous year, this time by 1.7%. The success of the boxer models contributed to this performance.

Revenues of the Financial Services segment increased by 9.3%. The profit from ordinary activities improved by 8.2% compared to the previous year, a very satisfying performance. The growth was attributable above all to increased business volume and a continuing fall in financing costs.

Reconciliations to the Group profit from ordinary activities show net expenses of euro 68 million. The net result of Reconciliations fell by euro 69 million compared to the previous year. This is due to the higher level of eliminations of inter-segment profit on leased products, caused by the higher volume of financial services business.

### Income statement for the fourth quarter 2002

The net profit of the BMW Group in the fourth quarter 2002 increased by 6.2%, a significant improvement over the same period in the previous year.

Revenues of the BMW Group in the fourth quarter 2002 were at a similar level to the previous year. Cost of sales, however, fell by 4.3% compared to the equivalent period in the previous year. This decrease was mainly due to the fact that cost of sales in the fourth quarter 2001 included a one-off expense of euro 144 million as a result of a revision of warranty rates. Overall, gross profit improved by 11.4% against the same period last year. The gross profit percentage improved by 3.0 percentage points compared to the fourth quarter 2001 and stood at 27.9%.

Sales and administrative costs went up by 7.6% compared to the fourth quarter 2001. As in the previous year, the increase in the fourth quarter was considerably higher than the increase for the full year. Research and development costs were 2.4% above the very high level in the same period last year. The higher amount of net operating expenses was attributable to the fact that other operating income was lower in the fourth quarter 2002 than in same period in 2001.

The higher level of net financial expenses was due to write-downs on marketable securities in the light of the current stock market situation.

The profit from ordinary activities for the fourth quarter was 7.2% above the same period in 2001. The income tax expense increased by 8.7% and gave rise to an effective tax rate for the quarter of 43.5% (2001: 42.9%). The generally high effective tax rates in both fourth quarters were attributable, in 2001, to write-downs on deferred tax assets and, in 2002, to the reduction of deferred tax assets following the utilisation of tax loss carryforwards by BMW AG.

Revenues of the Automobiles segment in the fourth quarter 2002 increased by 4.3% compared to the equivalent period in 2001. The profit from ordinary activities rose by 6.2% due to lower warranty expenses.

Revenues of the Motorcycles segment increased by 14.2% compared to the fourth quarter of the previous year. The loss for the quarter in the Motorcycles segment was caused by seasonal factors and was similar to the same period in the previous year.

The Financial Services segment increased revenues by 2.8% and profit from ordinary activities by 10.9% compared to the fourth quarter 2001. The improvement in the result is also attributable to the fact that a higher level of provisions for residual value risks was recorded in the fourth quarter of the previous year.

Net expenses shown in Reconciliations to the Group profit from ordinary activities were at a similar level to the previous year.

### **Analysis of the balance sheet structure**

The balance sheet total of the BMW Group increased by 8.3% to euro 55.5 billion. The main factors behind this increase on the assets side of the balance sheet were the increased level of property, plant and equipment (+16.6%), inventories (+15.5%), receivables from sales financing (+12.0%) and other receivables (+43.9%). On the equity and liabilities side of the balance sheet, the main changes occurred in equity (+28.8%), provisions (+12.3%), liabilities from deposit-taking (+44.2%), liabilities from commercial papers (+103.6%) and deferred tax liabilities (+338.8%). Due to the strong euro, currency fluctuations reduced the balance sheet total by around euro 3.1 billion.

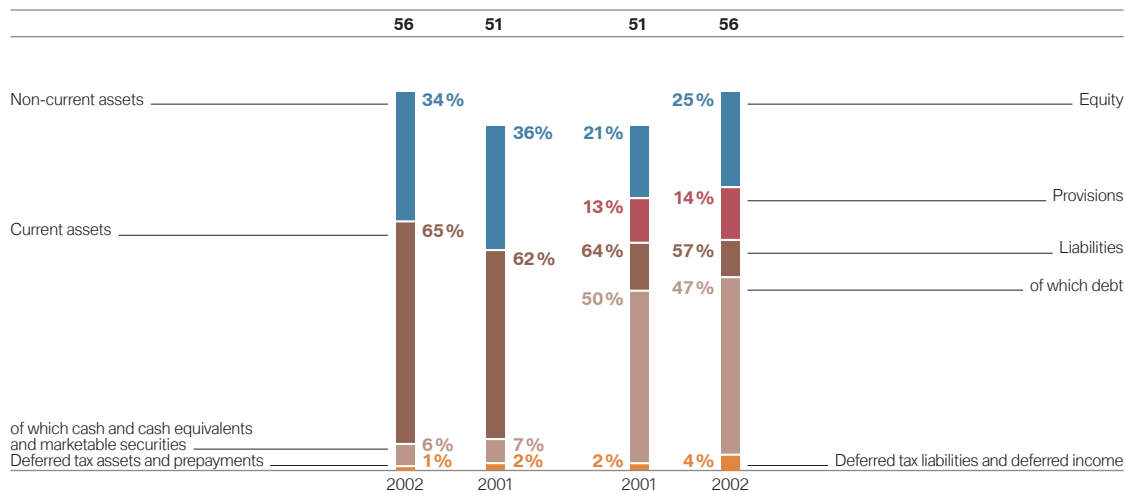
Intangible assets increased by 13.3% to euro 2.7 billion. Within intangible assets, capitalised development costs increased by 14.1% to euro 2.6 billion. Development costs recognised as assets during the financial year 2002 amounted to euro 0.8 billion (+29.0%). Depreciation and disposals amounted to euro 0.5 billion (+21.0%). The total carrying amount of property, plant and equipment went up by 16.6% to euro 8.6 billion. This was mainly due to increased capital expenditure of BMW AG, the Steyr engine plant and the Goodwood production plant. In total, euro 3.1 billion was invested in property, plant and equipment (+16.9%). Total depreciation and disposals amounted, as in the previous year, to euro 1.9 billion. Capital expenditure on intangible assets and on property, plant and equipment totalled euro 4.0 billion (+15.0%). As in the previous year, this was financed fully out of cash flow. Capital expenditure as a percentage of revenues was 9.6% (2001: 9.1%).

Financial assets decreased by 36.6% to euro 0.5 billion. This was attributable mainly to the fair value



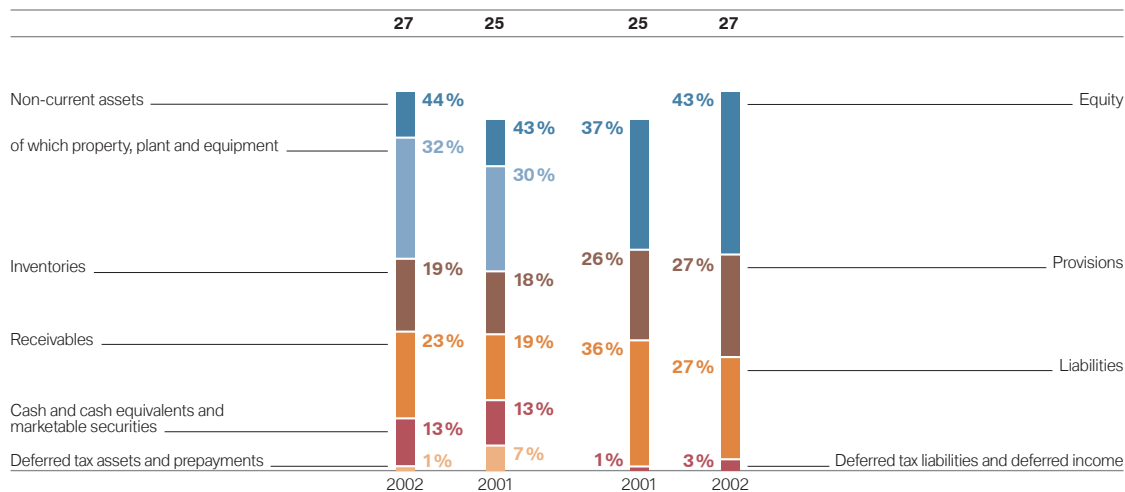
### Balance sheet structure Group

in euro billion



### Balance sheet structure Industrial operations

in euro billion



measurement of the investment in Rolls-Royce plc, London, and the dividend payment made by Rover Finance Holdings Ltd., Guildford, a group company accounted for using the equity method.

The total carrying amount of leased products fell by 11.3% to euro 7.0 billion due to exchange rate changes. Excluding the effect of exchange rate changes, leased products would have been euro 1.2 billion higher at 31 December 2002.

Inventories increased by 15.5% to euro 5.2 billion. This increase was attributable to the general increase in business.

Trade receivables fell in almost all of the subsidiaries. They amounted to euro 1.8 billion, 14.8% lower than at the end of the previous year.

Receivables from sales financing increased by 12.0% to euro 19.5 billion as a result of the expansion of business. Of this amount, customer and dealer financing accounted for euro 14.9 billion (+13.3%) and finance leases accounted for euro 4.6 billion (+8.3%).

Other receivables increased by 43.9% to euro 6.1 billion. This was due primarily to the increased fair values of derivative financial instruments.

Cash and cash equivalents increased by 2.8% to euro 3.4 billion. The composition of cash and cash equivalents has again changed to include a higher proportion of short-term securities held as a liquidity reserve.

Deferred tax assets fell by 76.7% to euro 0.2 billion as a result of the use of tax loss carryforwards by BMW AG and BMW Manufacturing Corp., Wilmington, Del., and the reduction in the fair values of derivative financial instruments.

Within the equity and liabilities, group equity increased by 28.8% to euro 13.9 billion. The main contributing factors were the group net profit for the year of euro 2.0 billion and the positive impact from the fair value measurement of financial instruments of euro 1.4 billion. The issue of employee shares increased shareholders' equity by euro 18 million. The payment of the dividend for the financial year 2001 and exchange rate changes reduced equity by euro 359 million. The equity ratio of the BMW Group rose by 4.0 percentage points to 25.0%. The equity ratio for industrial operations was 43.1% compared to 37.0% at the end of the previous year. The equity ratio for financial operations improved by 1.0 percentage points to 9.4%.

Provisions recognised in the balance sheet increased by 12.3% to euro 7.7 billion. The higher level of additions to provisions resulted above all in other provisions and was attributable to the increase in the volume of business and higher personnel obligations.

There was only a minimal increase in debt of 2.3% to euro 26.3 billion. Within the amount disclosed as debt, other debt was reduced whilst commercial paper debt increased.

At euro 3.1 billion, trade payables were in line with the previous year.

Other liabilities fell by 38.9% to euro 2.5 billion as result of the favourable development of the fair values of derivative financial instruments.

The favourable development of the fair values of derivative financial instruments is also the main reason for the sharp increase in deferred tax liabilities from euro 0.3 billion at the end of 2001 to euro 1.5 billion at the end of 2002.

## **Explanatory comments on the cash flow statement**

For the year under report, the cash flow statement has been expanded to show the cash flows of the industrial and financial operations.

The cash flow statement shows the sources and application of cash flows for the financial years 2002 and 2001, classified into cash flows from operating, investing and financing activities.

Using the net profit for the year as the starting point, the cash flows from operating activities are computed 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 in the financial year 2002 generated a cash inflow of euro 7.3 billion (2001: euro 5.9 billion). Cash outflows relating to the Rover disengagement of euro 0.2 billion (2001: euro 0.9 billion) have been allocated in the cash flow statement to investing activities.

The cash outflow from investing activities amounted to euro 9.7 billion, an increase of euro 3.6 billion compared to the previous year. The higher cash outflow resulted mainly from the sig-

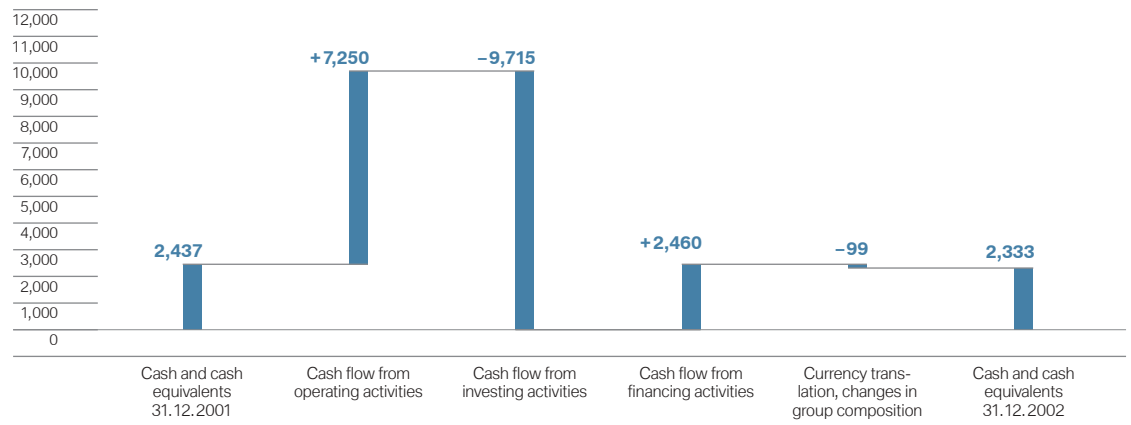
nificant increase of financial services business. The cash outflow in this area was euro 3.7 billion greater than in the previous year. This was due partly to the general expansion of business and partly to the fact that in the previous year the net investment in financial services activities fell noticeably as a result of discontinuing the financing of Rover and Land Rover vehicles. Capital expenditure on property, plant and equipment and intangible assets resulted in an additional cash outflow of euro 0.5 billion compared to the previous year. The cash outflow in connection with the Rover disengagement was euro 0.7 billion lower than in the previous year. Cash inflow from operating activities covered 74.6% (2001: 96.9%) of the cash outflow from investing activities. The higher coverage in the previous year was due to the lower net investment in financial services activities.

The cash flow statement for industrial operations shows that the cash inflow from operating activities exceeded the cash outflow from investing activities by 7.2% (2001: shortfall of 0.3%).

The cash flow from financing activities of the BMW Group gave rise to a cash inflow of euro 2.7 billion in comparison to 2001, to refinance sales financing activities.

# Change in cash and cash equivalents

in euro million



After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group amounting to euro –99 million (2001: euro –45 million), the individual cash flows resulted in a decrease in cash and cash equivalents of euro 104 million (2001: decrease of euro 490 million).

Net interest-bearing assets (cash and cash equivalents and marketable securities less debt) relating to industrial operations increased by euro 164 million to euro 1.7 billion.

## BMW Group Financial figures

		2002	2001
Gross Margin	%	25.4	25.3
EBITDA Margin	%	13.1	14.3
EBIT Margin	%	8.0	8.7
Pre-tax return on sales	%	7.8	8.4
Post-tax return on sales	%	4.8	4.9
Pre-tax return on equity	%	30.6	34.4
Post-tax return on equity	%	18.8	19.8
Equity ratio	%	25.0	21.0
Equity as a percentage of non-current assets (excluding leased products)	%	117.4	102.0
Equity as a percentage of non-current assets	%	73.7	58.3
Cash inflow from operating activities	in euro million	7,250	5,892
Cash outflow from investing activities	in euro million	9,715	6,079
Internal financing capability	%	74.6	96.9
Net interest bearing assets of industrial operations	in euro million	1,680	1,516

## BMW Group Group and sub-group Income Statements

in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2002	2001	2002	2001	2002	2001
Revenues	[8]	42,282	38,463	39,706	35,318	8,476	8,162
Cost of sales	[9]	-31,542	-28,727	-29,952	-26,837	-7,061	-6,855
<b>Gross profit</b>		<b>10,740</b>	<b>9,736</b>	<b>9,754</b>	<b>8,481</b>	<b>1,415</b>	<b>1,307</b>
Sales and administrative costs	[10]	-4,903	-4,647	-4,571	-4,315	-544	-528
Research and development costs	[11]	-2,011	-1,663	-2,011	-1,663	-	-
Other operating income and expenses	[12]	-448	-70	-146	228	-321	-315
<b>Profit before financial result</b>		<b>3,378</b>	<b>3,356</b>	<b>3,026</b>	<b>2,731</b>	<b>550</b>	<b>464</b>
Financial result	[13]	-81	-114	-53	-34	-19	-72
<b>Profit from ordinary activities</b>		<b>3,297</b>	<b>3,242</b>	<b>2,973</b>	<b>2,697</b>	<b>531</b>	<b>392</b>
Income taxes	[14]	-1,277	-1,376	-1,173	-1,195	-180	-145
Minority interest	[15]	0	0	-	-	0	0
<b>Net profit</b>		<b>2,020</b>	<b>1,866</b>	<b>1,800</b>	<b>1,502</b>	<b>351</b>	<b>247</b>
<b>Earnings per share of common stock</b> in euro	[16]	3.00	2.78				
<b>Earnings per share of preferred stock</b> in euro	[16]	3.02	2.80				

1) before consolidation of transactions between the sub-groups

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

<b>Assets</b> in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2002	2001	2002	2001	2002	2001
Intangible assets	[19]	2,741	2,419	2,730	2,397	11	18
Property, plant and equipment	[20]	8,578	7,355	8,544	7,327	34	28
Financial assets	[21]	498	786	463	752	35	34
Leased products	[22]	7,012	7,908	188	145	8,559	9,521
<b>Non-current assets</b>		<b>18,829</b>	<b>18,468</b>	<b>11,925</b>	<b>10,621</b>	<b>8,639</b>	<b>9,601</b>
Inventories	[23]	5,197	4,501	5,191	4,497	6	4
Trade receivables	[24]	1,818	2,135	1,678	1,868	140	267
Receivables from sales financing	[24]	19,493	17,398	–	–	19,493	17,398
Other receivables	[24]	6,056	4,208	4,570	2,871	3,761	4,011
Marketable securities	[25]	1,105	907	1,105	882	0	25
Cash and cash equivalents	[26]	2,333	2,437	2,256	2,373	77	64
<b>Current assets</b>		<b>36,002</b>	<b>31,586</b>	<b>14,800</b>	<b>12,491</b>	<b>23,477</b>	<b>21,769</b>
<b>Deferred tax assets</b>	[14]	<b>192</b>	<b>825</b>	<b>249</b>	<b>1,651</b>	<b>–852</b>	<b>–1,524</b>
<b>Prepayments</b>	[27]	<b>488</b>	<b>380</b>	<b>143</b>	<b>38</b>	<b>345</b>	<b>342</b>
<b>Total assets</b>		<b>55,511</b>	<b>51,259</b>	<b>27,117</b>	<b>24,801</b>	<b>31,609</b>	<b>30,188</b>
Total assets adjusted for asset backed financing transactions		51,002	44,861	–	–	27,100	23,790

1) before consolidation of transactions between the sub-groups

<b>Equity and liabilities</b> in euro million	Notes	Group		Industrial operations <sup>1)</sup>		Financial operations <sup>1)</sup>	
		2002	2001	2002	2001	2002	2001
Subscribed capital		674	673				
Capital reserve		1,954	1,937				
Revenue reserves		11,075	9,405				
Accumulated other equity		168	-1,245				
<b>Equity</b>	[28]	<b>13,871</b>	<b>10,770</b>	<b>11,694</b>	<b>9,179</b>	<b>2,957</b>	<b>2,526</b>
<b>Minority interest</b>	[28]	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>
Pension provisions	[29]	2,257	2,046	2,242	2,034	15	12
Other provisions	[30]	5,409	4,778	5,095	4,466	355	346
<b>Provisions</b>		<b>7,666</b>	<b>6,824</b>	<b>7,337</b>	<b>6,500</b>	<b>370</b>	<b>358</b>
Debt	[31]	26,262	25,665	1,681	1,739	24,581	23,926
Trade payables	[32]	3,069	3,015	2,740	2,744	329	271
Other liabilities	[33]	2,487	4,068	2,970	4,396	1,792	2,346
<b>Liabilities</b>		<b>31,818</b>	<b>32,748</b>	<b>7,391</b>	<b>8,879</b>	<b>26,702</b>	<b>26,543</b>
<b>Deferred tax liabilities</b>	[14]	<b>1,492</b>	<b>340</b>	<b>477</b>	<b>123</b>	<b>915</b>	<b>138</b>
<b>Deferred income</b>	[34]	<b>664</b>	<b>577</b>	<b>218</b>	<b>120</b>	<b>665</b>	<b>623</b>
<b>Total equity and liabilities</b>		<b>55,511</b>	<b>51,259</b>	<b>27,117</b>	<b>24,801</b>	<b>31,609</b>	<b>30,188</b>
Total equity and liabilities adjusted for asset backed financing transactions		51,002	44,861	-	-	27,100	23,790

1) before consolidation of transactions between the sub-groups



## BMW Group Group and sub-group Cash Flow Statements

in euro million	Notes	2002	Group 2001
Net profit		2,020	1,866
Depreciation of leased products		2,167	1,807
Depreciation and amortisation of other non-current assets		2,149	2,162
Change in provisions		924	9
Rover disengagement		174	1,017
Change in deferred taxes		993	700
Other non-cash income and expense items		1	275
Gain/loss on disposal of non-current assets and marketable securities		1	-63
Undistributed profits from associated companies		-17	-
Changes in current assets and liabilities			
Change in inventories		-810	-855
Increase in receivables		-749	-609
Change in liabilities		397	-417
<b>Cash inflow from operating activities</b>	[37]	<b>7,250</b>	<b>5,892</b>
Investment in intangible assets and property, plant and equipment		-3,951	-3,449
Proceeds from the disposal of intangible assets and property, plant and equipment		111	276
Loans paid out to Phoenix Consortium		-92	-275
Other payments relating to the Rover disengagement		-82	-597
Investment in financial assets		-62	-79
Proceeds from the disposal of financial assets		66	22
Dividends paid by associated companies		104	-
Investment in leased products		-5,741	-4,598
Disposals of leased products		3,298	3,136
Additions to receivables from sales financing		-32,463	-29,028
Payments received on receivables from sales financing		29,391	28,647
Investment in marketable securities		-334	-209
Proceeds from marketable securities		40	75
<b>Cash outflow from investing activities</b>	[37]	<b>-9,715</b>	<b>-6,079</b>
Proceeds from issue of capital stock		18	24
Payment of dividend for the previous year		-350	-310
Proceeds from issue of bonds		3,721	3,792
Repayment of bonds		-2,924	-4,020
Internal financing of financial operations		-	-
Change in debt		-545	-1,162
Change in commercial papers		2,540	1,418
<b>Cash outflow/inflow from financing activities</b>	[37]	<b>2,460</b>	<b>-258</b>
<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>	[37]	<b>-99</b>	<b>-45</b>
<b>Changes in cash and cash equivalents</b>		<b>-104</b>	<b>-490</b>
Cash and cash equivalents as at 1 January		2,437	2,927
<b>Cash and cash equivalents as at 31 December</b>	[37]	<b>2,333</b>	<b>2,437</b>

Industrial operations		Financial operations		
2002	2001	2002	2001	
1,800	1,502	351	247	Net profit
7	16	1,784	1,816	Depreciation of leased products
2,129	2,151	20	11	Depreciation and amortisation of other non-current assets
890	124	41	-127	Change in provisions
174	1,017	-	-	Rover disengagement
696	423	373	241	Change in deferred taxes
46	-1	-45	276	Other non-cash income and expense items
1	-64	-	1	Gain/loss on disposal of non-current assets and marketable securities
-17	-	-	-	Undistributed profits from associated companies
				Changes in current assets and liabilities
-808	-867	-2	12	Change in inventories
-886	-223	-362	-635	Increase in receivables
521	226	423	-342	Change in liabilities
<b>4,553</b>	<b>4,304</b>	<b>2,583</b>	<b>1,500</b>	<b>Cash inflow from operating activities</b>
-3,927	-3,430	-24	-19	Investment in intangible assets and property, plant and equipment
110	276	1	-	Proceeds from the disposal of intangible assets and property, plant and equipment
-92	-275	-	-	Loans paid out to Phoenix Consortium
-82	-597	-	-	Other payments relating to the Rover disengagement
-50	-60	-12	-19	Investment in financial assets
57	9	9	13	Proceeds from the disposal of financial assets
104	-	-	-	Dividends paid by associated companies
-232	-198	-5,509	-4,400	Investment in leased products
182	91	3,230	3,133	Disposals of leased products
-	-	-32,463	-29,028	Additions to receivables from sales financing
-	-	29,391	28,647	Payments received on receivables from sales financing
-334	-209	-	-	Investment in marketable securities
15	75	25	-	Proceeds from marketable securities
<b>-4,249</b>	<b>-4,318</b>	<b>-5,352</b>	<b>-1,673</b>	<b>Cash outflow from investing activities</b>
18	24	-	-	Proceeds from issue of capital stock
-350	-310	-	-	Payment of dividend for the previous year
73	-	3,648	3,792	Proceeds from issue of bonds
-	-	-2,924	-4,020	Repayment of bonds
-51	398	51	-398	Internal financing of financial operations
81	45	-626	-1,207	Change in debt
-187	500	2,727	918	Change in commercial papers
<b>-416</b>	<b>657</b>	<b>2,876</b>	<b>-915</b>	<b>Cash outflow/inflow from financing activities</b>
				<b>Effect of exchange rate and changes in composition of group on cash and cash equivalents</b>
<b>-5</b>	<b>-33</b>	<b>-94</b>	<b>-12</b>	
<b>-117</b>	<b>610</b>	<b>13</b>	<b>-1,100</b>	<b>Changes in cash and cash equivalents</b>
2,373	1,763	64	1,164	Cash and cash equivalents as at 1 January
<b>2,256</b>	<b>2,373</b>	<b>77</b>	<b>64</b>	<b>Cash and cash equivalents as at 31 December</b>

## 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	
<b>31 December 2000</b>	<b>672</b>	<b>1,914</b>	<b>7,849</b>	<b>-261</b>	<b>-23</b>	<b>-719</b>	<b>9,432</b>
Subscribed capital increase out of authorised capital	1	-	-	-	-	-	1
Additional paid-in capital on preferred stock	-	23	-	-	-	-	23
Dividends paid	-	-	-310	-	-	-	-310
Translation differences	-	-	-	-165	-	-23	-188
Financial instruments	-	-	-	-	-92	38	-54
Net profit 2001	-	-	1,866	-	-	-	1,866
<b>31 December 2001</b>	<b>673</b>	<b>1,937</b>	<b>9,405</b>	<b>-426</b>	<b>-115</b>	<b>-704</b>	<b>10,770</b>
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
<b>31 December 2002</b>	<b>674</b>	<b>1,954</b>	<b>11,075</b>	<b>-541</b>	<b>-314</b>	<b>1,023</b>	<b>13,871</b>

# BMW Group

## Notes to the Group Financial Statements

### Accounting principles and policies

[1] Basis of preparation The consolidated financial statements of BMW AG ("BMW Group financial statements" or "Group financial statements") at 31 December 2002 have been drawn up in accordance with the standards valid on the balance sheet date issued by the International Accounting Standards Board (IASB), London. All mandatory interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), were also applied.

In order to improve clarity, various items are aggregated in the balance sheet and income statement. These items are disclosed and analysed separately in the Notes.

In order to support the sale of 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, also 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 is included in revenues and cost of sales. 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 accord-

ance with the recognition and measurement principles of the IASB standards as if they were two separate groups. This information is provided on a voluntary basis and has not been audited by the Group auditors.

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 which have been legally sold remain in the Group financial statements. 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 2002 totalled euro 4.5 billion (2001: euro 6.4 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 2002, drawn up in accordance with §292a 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](http://www.bmwgroup.com/ir).

[2] Consolidated companies

The BMW Group financial statements include, in addition to BMW AG, all material subsidiaries, 18 special securities funds and 17 trusts 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 2002 as follows:

	Germany	Foreign	Total
Included at 31.12.2001	29	105	134
Included for the first time in 2002	5	20	25
No longer included in 2002	–	5	5
<b>Included at 31.12.2002</b>	<b>34</b>	<b>120</b>	<b>154</b>

86 subsidiaries (previous year: 89) 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 not material.

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 1.1% (2001: 1.8%).

In addition, one associated company and two joint ventures have been consolidated using the

equity method. Four (2001: three) 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

Oy BMW Suomi AB, Helsinki, BMW Norge AS, Oslo, Alphabet Austria Fuhrparkmanagement GmbH, Salzburg, BMW Financial Services Scandinavia AB, Solna, BMW Manufacturing (Thailand) Co., Ltd., Bangkok and BMW (Thailand) Co., Ltd., Bangkok,

have all been consolidated for the first time from 1 January 2002.

In Spain, the lease business of BMW Financial Services Iberica, E.F.C., S.A., Madrid, was transferred to the newly incorporated company BMW Renting

Iberica S.L., Madrid. In Mexico, the financing business of the sales company BMW de Mexico, S.A. de C.V., Mexico City, was transferred to the newly incorporated company BMW Financial Services de Mexico S.A. de C.V., Mexico City. These two new companies have also been consolidated in the BMW Group financial statements.

In addition, eight financing companies were consolidated for the first time.

BMW Servizi Logistici s.r.l., Milan, was merged with BMW Italia S.p.A., Milan. In addition, softlab

Japan Corp., Tokyo, and softlab S.A., Madrid, were sold and are therefore no longer group companies.

The group reporting entity also changed by the first-time consolidation of five special investment funds and four trusts and the deconsolidation of two trusts.

All 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 the equity is allocated, on the basis of the group's shareholding, to the identifiable assets and liabilities of the subsidiary when it 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 written off 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 prepared 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 single 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 significant currencies have moved against the Euro as follows:

	Closing rate		Average rate	
	31.12.2002	31.12.2001	2002	2001
US Dollar	1.04	0.88	0.95	0.90
British Pound	0.65	0.61	0.63	0.62
South African Rand	9.02	10.53	9.90	7.70
Japanese Yen	123.96	115.48	118.08	108.73

#### [6] Accounting principles

The single entity financial statements of BMW AG and of its subsidiaries in Germany and elsewhere have been prepared using uniform accounting policies in accordance with IAS 27. Discrepancies in the accounting policies of associated companies have not been adjusted where the amounts involved are negligible.

**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. With effect from 2002, revenues on long-term construction work in accordance with IAS 18 (Revenue) and IAS 11 (Construction Contracts) are no longer recognised by reference to the stage of completion (percentage of completion method), since the effect on the income statement is not material for the BMW Group. Revenues and expenses in this case are recognised when sales invoices are

raised. Revenues also include lease rentals and interest income from financial services.

Income on assets for which a group company retains a repurchase commitment (buy-back contracts) are not recognised until the assets have finally left the Group. These assets are included in inventories until that date.

**Cost of sales** comprises the cost of manufacturing products which have been sold and the acquisition cost of purchased merchandise. It includes 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 costs which are directly attributable to the leasing business and interest expense arising from the refinancing of financial services.

**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 stock. 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 self-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 purchase or production 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 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 and indirectly, to the development process. 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 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 costs.

Non-current assets also include assets relating to **leasing**. 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) contain 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 inception at their fair value 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 products 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 of an asset (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.

Investments in non-consolidated subsidiaries and in other companies which are disclosed within **non-current financial assets** are stated at cost, unless a different fair value for the investment is available.

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

For non-current marketable securities and loans, it is necessary under IAS 39 (Financial Instruments: Recognition and Measurement) to differentiate between securities which are held for trading, securities which are available for sale and securities which are held to maturity. The BMW Group has no securities which are held for trading. Securities which are available for sale are measured at their market price and unrealised gains and losses are, as a general principle, recognised directly in equity (net of deferred taxes). If a market price is not available, the fair value of available-for-sale securities is

measured applying normal measurement methods on the basis of market information available at the reporting date. Financial assets which are held to maturity are measured at amortised cost or their impaired value if applicable. Purchases and sales of financial assets are accounted for on the basis of the settlement date.

In the case of non-current financial assets, an assessment is made on a regular basis in accordance with IAS 39 whether there is any objective evidence that a financial asset or group of assets may be impaired. An impairment loss is recognised if any such evidence exists. If a loss was previously recognised directly in equity, the accumulated net loss is removed from equity and recognised in net profit.

**Inventories** of raw materials, supplies and goods for resale are shown as a general rule at the lower of average acquisition cost and net realisable value. In some locations, the FIFO method (first-in first-out) is applied.

Work in progress and finished goods are stated at manufacturing cost, comprising all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. These include production-related depreciation and an appropriate proportion of administrative and social costs.

Financing costs are not included in acquisition or manufacturing costs.

Write-downs are made to cover risks arising from slow-moving items or obsolescence. Lower values are applied at the balance sheet date to reflect the net realisable value where appropriate.

**Receivables and other current assets** are stated at their nominal value or at cost, less appropri-

ate allowances for identifiable risks. Receivables with maturities of over one year which bear no or lower than market interest rate are discounted. An allowance based on past experience is recognised to take account of general credit risk.

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 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.

Current **marketable securities** comprise available-for-sale securities which are measured at their market value. If a market price is not available, the fair value is measured by applying normal measurement methods on the basis of market information available at the reporting date. Unrealised gains and losses are recognised directly in accumulated other equity (net of deferred taxes) until they are realised.

If there is objective evidence which indicates that an asset may be impaired on a lasting basis, the impairment loss is recognised as an expense in the income statement. If a loss was previously recognised directly in equity, the accumulated net loss is removed from equity and recognised in net profit.

In accordance with IAS 12 (Income Taxes), **deferred tax assets and liabilities** are recognised on all temporary differences between the tax and balance sheet values 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 this 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, the portion exceeding 10% of the obligations is recognised over the average remaining working lives of the employees. All elements of the pension provisions, including the interest component, are allocated to the functional positions of 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 pending 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.

**Liabilities** are stated at their nominal value or repayment amount. 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 the IASB standards re-

quires management to make certain assumptions and estimates that effect 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 economic useful lives, the recognition and measure-

ment of provisions and the recoverability of future tax benefits. Actual amounts could in certain cases differ from these assumptions and estimates. Where new information becomes available, differences are reflected in the income statement.

[7] New accounting rules

In February 2001, the IASB issued IAS 41 (Agriculture), which is mandatory with effect from 1 January 2003. This Standard will not have any impact on the BMW Group financial statements.

In May 2002, the IASB published changes to IAS 19 which are intended to prevent the situation where the performance of an enterprise is affected solely because of actuarial losses leading to accounting gains and actuarial gains leading to accounting losses relating to pension plans. These changes, which are mandatory from 1 January 2003, have been applied on a voluntary basis in the financial year 2002. There was no effect on the Group financial statements.

In May 2002 the IASB published its "Exposure Draft of Proposed Improvements to International Accounting Standards". This envisages that the revised standards will become effective from 1 January 2003. Although the draft encourages earlier adoption, the project is still at the consultation stage

and is not likely to be completed, under the current plan of the IASB, until the second quarter of 2003.

The revised drafts of IAS 32 and IAS 39, "Exposure Draft of Proposed Amendments to IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement", published by the IASB in June 2002, are also still at the consultation stage. It is not yet known when these proposals will take effect.

In addition, the following SIC Interpretations became effective during the financial year: SIC-28 (Business Combinations – Date of Exchange and Fair value of Equity Instruments), SIC-30 (Reporting Currency – Translation from Measurement Currency to Presentation Currency), SIC-32 (Intangible Assets – Web Site Costs), SIC-33 (Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests). These Interpretations do not have any material impact on the BMW Group financial statements.

## BMW Group

### Notes to the Group Financial Statements

### Notes to the Income Statement

**[8] Revenues** An analysis of revenues by business segment and geographical region is shown in the segment infor-

mation on pages 98 to 101. Revenues by activity comprise the following:

in euro million	2002	2001
Sales of products and related goods	34,603	31,222
Income from lease instalments	2,610	2,505
Sale of products previously leased to customers	3,320	2,851
Interest income on loan financing	1,264	1,277
Other income	485	608
	<b>42,282</b>	<b>38,463</b>

The use of the percentage of completion method has been discontinued from the beginning of 2002 since the effect on the income statement is not material. In the previous year, revenues of euro 61 million were recognised on services and customer-specific

production contracts in conjunction with long-term contracts in progress. The aggregate amount of profits recognised in the previous year on long-term contracts in progress amounted to euro 16 million and accumulated costs of euro 40 million.

**[9] Cost of sales** Cost of sales in the financial year 2002 do not include any impairment losses (2001: euro 26 million). Interest expense on refinancing the entire financial services business of euro 1,012 million (2001: euro

1,162 million) is included in cost of sales. In addition, public sector subsidies in the form of reduced taxes on assets and consumption-based taxes amounted to euro 18 million (2001: euro – million).

**[10] Sales and administrative costs** Sales costs amount to euro 4,331 million (2001: euro 4,104 million). These comprise mainly marketing, advertising, sales personnel, outward freight and group communication costs.

Administrative costs amount to euro 572 million (2001: euro 543 million). These comprise the costs of centralised departments which are not attributable to production or sales functions.

**[11] Research and development costs** Research and development costs of euro 2,011 million (2001: euro 1,663 million) comprise all research costs and development costs not recognised as

assets as well as amortisation and disposals of capitalised development costs of euro 536 million (2001: euro 443 million).

[12] Other operating income and expenses

in euro million	2002	2001
Income from the release of provisions	237	312
Exchange gains	175	253
Gains on the disposal of non-current assets	21	120
Income from the reversal of write-downs	173	197
Income from non-core business	254	249
Sundry operating income	480	732
<b>Other operating income</b>	<b>1,340</b>	<b>1,863</b>
Expenses from additions to provisions	332	430
Exchange losses	97	174
Expenses for write-downs	695	524
Sundry operating expenses	664	805
<b>Other operating expenses</b>	<b>1,788</b>	<b>1,933</b>
<b>Other operating income and expenses</b>	<b>- 448</b>	<b>- 70</b>

Other operating income includes public sector grants of euro 11 million (2001: euro 23 million).

Other operating income in the previous year included a one-off gain from the sale of land not required for operational purposes (euro 75 million), reimbursed value added taxes (euro 62 million) and gains relating to marketable securities (euro 55 million). The lower level of exchange gains on currency transactions (down by euro 78 million) is matched by a similar decrease in exchange losses on currency transactions included in other operating expenses.

Other operating expenses comprise all expenses not attributable to functional positions as well as an insignificant amount of amortisation on goodwill

arising on the consolidation of subsidiaries. In the previous year, public sector subsidies in the form of reduced taxes on assets and consumption-based taxes amounted to euro 24 million.

The increase in expenses for write-downs included in other operating expenses is attributable to the higher level of residual value risks relating to leasing business. Sundry operating expenses include an impairment loss of euro 16 million (2001: euro 85 million) recorded on intangible assets, which is presented in Reconciliations in the segment information. In the previous year, this line item also included expenses incurred for various restructuring measures of euro 51 million.

## [13] Financial result

in euro million	2002	2001
Income from investments	14	35
– thereof from subsidiaries: euro 1 million (2001: euro 11 million)		
Income from associated companies	20	–
Expenses from loss transfers	1	3
Write-downs on investment in subsidiaries	6	3
<b>Result on investments</b>	<b>27</b>	<b>29</b>
Other interest and similar income	625	823
– thereof from subsidiaries euro 22 million (2001: euro 21 million)		
Interest and similar expenses	617	781
– thereof to subsidiaries euro 3 million (2001: euro 3 million)		
Expense from reversal of discounting of provisions	71	65
Write-downs on non-current loans and current marketable securities	22	–
<b>Net interest expense</b>	<b>– 85</b>	<b>– 23</b>
Expense from fair value measurement of financial instruments	23	120
<b>Other net financial expenses</b>	<b>– 23</b>	<b>– 120</b>
<b>Financial result</b>	<b>– 81</b>	<b>– 114</b>

Income from investments arises principally from the investment in Rolls-Royce plc, London, and from subsidiaries.

Income from associated companies includes the equity results of Rover Finance Holdings Ltd., Guildford, and of the joint venture TRITEC Motors Ltda., Campo Largo.

Write-downs on non-current financial assets and current marketable securities, disclosed in accordance with §298 para. 1 and §275 para. 3 of the German Commercial Code, amounted in total to

euro 28 million (2001: euro 3 million). As a result of the current situation on the capital markets, impairment losses on current marketable securities were recognised amounting to euro 22 million (2001: euro – million).

Within other net financial expenses, 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.

## [14] Income taxes

Income taxes comprise the following:

in euro million	2002	2001
Current tax	324	678
Deferred tax	953	698
	<b>1,277</b>	<b>1,376</b>

The reduction in current taxes is mainly attributable to a change in legislation in the USA ("Job Creation and Worker Assistance Act of 2002") which allows, in particular, increased depreciation for tax purposes and an extended carryback of tax losses for offset against taxable profits of earlier years. Deferred taxes increased accordingly since the tax benefits give rise to temporary differences which result in an increase in deferred tax liabilities. The increase in the deferred tax expense is also attributable to the continued use of tax loss carryforwards, mainly in BMW AG.

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. Following the tax reform in Germany which became effective on 1 January 2001, the corporation tax rate is 25%, irrespective of whether profits are retained or distributed. 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 38.9%

(2001: 38.9%). The tax rates for companies outside Germany range from 10% to 42% (2001: 10% to 42.5%). As a result of changed tax rates, in particular the increase in German corporation tax from 25% to 26.5% for the year 2003, the deferred tax expense went up by euro 7 million. In the previous year, the deferred tax expense was reduced by euro 10 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 as defined by IAS 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies). Deferred taxes were not recognised on retained profits in foreign subsidiaries of euro 9.0 billion (2001: euro 7.9 billion), 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 following positions:

in euro million	Deferred tax assets		Deferred tax liabilities	
	2002	2001	2002	2001
Intangible assets and property, plant and equipment	1,424	1,464	3,732	3,859
Financial assets	1	27	2	52
Current assets	601	1,555	3,687	2,755
Tax loss carryforwards	1,556	2,263	–	–
Provisions	1,387	1,213	714	536
Liabilities	2,592	2,395	400	433
Consolidations	1,099	942	120	98
	8,660	9,859	8,655	7,733
Write-downs	–1,305	–1,641	–	–
Netting	–7,163	–7,393	–7,163	–7,393
	<b>192</b>	<b>825</b>	<b>1,492</b>	<b>340</b>



The carrying value of deferred tax assets is reduced when recoverability is uncertain. In determining the level of the write-downs, all positive and negative factors concerning the likely existence of sufficient taxable profit in the future are taken into account. These estimates can change depending on the actual developments. Write-downs include euro 293 million (2001: euro 425 million) on tax loss carryforwards and euro 489 million (2001: euro 523 million) on losses on disposals (so called "capital losses") in Great Britain, which can only be set off against capital gains, but not against trading profits. In addition, there is a write-down of euro 523 million (2001: euro 653 million) on deferred tax assets relating to capital allowances in Great Britain which is shown above in intangible assets and property, plant and equipment. There are no longer any write-downs of deferred tax assets arising on consolidation proce-

dures (2001: euro 40 million). Of the euro 336 million reduction in write-downs, euro 99 million is attributable to exchange rate changes.

Equity is reduced at the balance sheet date by deferred tax liabilities of euro 1,042 million (2001: euro 44 million) recognised directly in equity. This was the result of the positive market value changes of derivative financial instruments.

The actual tax expense for the financial year 2002 of euro 1,277 million (2001: euro 1,376 million) is euro 6 million lower (2001: euro 115 million higher) than the expected tax expense of euro 1,283 million (2001: euro 1,261 million) which would theoretically arise if the tax rate of 38.9% (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	2002	2001
<b>Expected tax expense</b>	<b>1,283</b>	<b>1,261</b>
Variances due to different tax rates	- 98	- 94
Tax reductions (-)/tax increases (+) as a result of non-taxable income and non-deductible expenses	65	82
Tax expense (+)/benefits (-) for prior periods	32	24
Other variances	- 5	103
<b>Actual tax expense</b>	<b>1,277</b>	<b>1,376</b>

Other variances in the previous year related mainly to write-downs on deferred tax assets.

[15] Minority interest The minority interest in profit amounting to euro 0.201 million (2001: euro 0.211 million) relates to Euro Lloyd Reisebüro GmbH, Cologne.

[16] Earnings per share

		2002	2001
Net profit for the year after minority interest	euro million	2,020	1,866
Profit attributable to common stock	euro million	1,867.0	1,727.3
Profit attributable to preferred stock	euro million	153.0	138.7
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	50,638,232	49,597,812
<b>Earnings per share of common stock</b>	euro	<b>3.00</b>	<b>2.78</b>
<b>Earnings per share of preferred stock</b>	euro	<b>3.02</b>	<b>2.80</b>
<b>Dividend per share of common stock</b>	euro	<b>0.52</b>	<b>0.52</b>
<b>Dividend per share of preferred stock</b>	euro	<b>0.54</b>	<b>0.54</b>

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 the prior year.

[17] Other disclosures to the income statement

The income statement includes the following amounts of material and personnel costs:

in euro million	2002	2001
<b>Material costs</b>		
Raw materials, supplies and purchased goods for resale	21,189	20,010
Purchased services	1,049	868
	<b>22,238</b>	<b>20,878</b>
<b>Personnel costs</b>		
Wages and salaries	5,541	5,134
Social security, retirement and welfare costs	1,047	945
– thereof for retirement costs: euro 603 million (2001: euro 560 million)		
	<b>6,588</b>	<b>6,079</b>

The average number of employees during the year was:

	2002	2001
Wage earners	54,013	53,437
Other employees	40,697	37,687
	<b>94,710</b>	<b>91,124</b>
Apprentices	3,768	3,512
	<b>98,478</b>	<b>94,636</b>

## BMW Group

### Notes to the Group Financial Statements

### Notes to the Balance Sheet

#### [18] Analysis of changes in Group non-current assets

in euro million	Acquisition and manufacturing costs					31.12.2002
	1.1.2002	Translation differences	Additions	Reclassifications	Disposals	
Development costs	4,034	–	858	–	557	4,335
Other intangible assets	524	–6	65	–	125	458
<b>Intangible assets</b>	<b>4,558</b>	<b>–6</b>	<b>923</b>	<b>–</b>	<b>682</b>	<b>4,793</b>
Land, titles to land, buildings, including buildings on third party land	4,418	–125	194	137	41	4,583
Plant and machinery	13,885	–298	1,664	420	538	15,133
Other facilities, factory and office equipment	1,814	–66	297	16	177	1,884
Advance payments and construction in progress	814	–14	964	–573	15	1,176
<b>Property, plant and equipment</b>	<b>20,931</b>	<b>–503</b>	<b>3,119</b>	<b>–</b>	<b>771</b>	<b>22,776</b>
Investments in subsidiaries	139	–3	51	–	49	138
Investments in associated companies	134	–5	17	–	104	42
Investments in other companies	520	–	1	–	–	521
Non-current marketable securities	34	–4	10	–	9	31
Other non-current loans receivable	47	–6	–	–	8	33
<b>Financial assets</b>	<b>874</b>	<b>–18</b>	<b>79</b>	<b>–</b>	<b>170</b>	<b>765</b>
<b>Leased products</b>	<b>9,492</b>	<b>–1,378</b>	<b>4,155</b>	<b>–</b>	<b>3,859</b>	<b>8,410</b>
<b>Non-current assets</b>	<b>35,855</b>	<b>–1,905</b>	<b>8,276</b>	<b>–</b>	<b>5,482</b>	<b>36,744</b>

1] includes impairments of euro 16 million

2] fair value measurement changes recognised directly in accumulated other equity

1.1.2002	Depreciation and amortisation			31.12.2002	Net book values	
	Translation differences	Current year	Disposals		31.12.2002	31.12.2001
1,758	–	534	555	1,737	2,598	2,276
381	–4	63 <sup>1)</sup>	125	315	143	143
<b>2,139</b>	<b>–4</b>	<b>597</b>	<b>680</b>	<b>2,052</b>	<b>2,741</b>	<b>2,419</b>
1,806	–33	144	9	1,908	2,675	2,612
10,424	–191	1,165	492	10,906	4,227	3,461
1,346	–39	237	160	1,384	500	468
–	–	–	–	–	1,176	814
<b>13,576</b>	<b>–263</b>	<b>1,546</b>	<b>661</b>	<b>14,198</b>	<b>8,578</b>	<b>7,355</b>
8	–1	6	–	13	125	131
–	–	–	–	–	42	134
79	–	174 <sup>2)</sup>	–	253	268	441
–	–	–	–	–	31	34
1	–	–	–	1	32	46
<b>88</b>	<b>–1</b>	<b>180</b>	<b>–</b>	<b>267</b>	<b>498</b>	<b>786</b>
<b>1,584</b>	<b>–204</b>	<b>579</b>	<b>561</b>	<b>1,398</b>	<b>7,012</b>	<b>7,908</b>
<b>17,387</b>	<b>–472</b>	<b>2,902</b>	<b>1,902</b>	<b>17,915</b>	<b>18,829</b>	<b>18,468</b>

**[19] Intangible assets**

Intangible assets comprise mainly capitalised development costs on vehicle and engine projects as well as subsidies for tooling costs, licences, purchased development projects and software. Changes in in-

tangible assets during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

**[20] 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 non-current assets on pages 74 and 75.

Property, plant and equipment includes leased plant and machinery and other equipment amounting to euro 421 million (2001: euro 480 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 200 million (2001: euro 252 million), run for periods up to 2013, after which the leases may be extended for one year periods. 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 194 million (2001: euro 194 million), runs until 2018 and may then be extended for one year periods. A purchase option was not agreed.

Minimum lease payments of the relevant leases are as follows:

in euro million	31.12.2002	31.12.2001
<b>Total of future minimum lease payments</b>		
due within one year	83	63
due between one and five years	344	312
due later than five years	692	724
	<b>1,119</b>	<b>1,099</b>
<b>Interest portion of future minimum lease payments</b>		
due within one year	17	12
due between one and five years	86	70
due later than five years	232	268
	<b>335</b>	<b>350</b>
<b>Present value of future minimum lease payments</b>		
due within one year	66	51
due between one and five years	258	242
due later than five years	460	456
	<b>784</b>	<b>749</b>

[21] 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 74 and 75.

Additions to investments in subsidiaries relate to share capital increases for the companies BMW Financial Services Korea Co., Ltd., Seoul, Designworks/USA, Inc., Newbury Park, Cal., BMW Acquisitions Ltda., São Paulo, Westchester BMW, Inc., Wilmington, Del., Alphabet Fleet Services Espana S.L., Madrid, Alphabet Belgium N.V., Bornem, and BMW Leasing de Mexico S.A. de C.V., Mexico City.

Disposals of investments in subsidiaries result from the initial consolidation of BMW Financial Services Scandinavia AB, Solna, BMW (Thailand) Co., Ltd., Bangkok, and BMW Manufacturing (Thailand) Co., Ltd., Bangkok.

Investments in associated companies comprise primarily the Group's interest in Rover Finance Holdings Ltd., Guildford, accounted for using the equity method, and the joint venture TRITEC Motors Ltda., Campo Largo. The assets and liabilities as well as income and expense items of the joint venture TRITEC Motors Ltda., Campo Largo, are not material to the respective positions in the BMW Group financial statements. The amount shown as a disposal of investments in associated companies relates to distributions by Rover Finance Holdings Ltd., Guildford.

Write-downs on investments in other companies in the year under report relate to shares in Rolls-Royce plc, London, which were written down to their market value at 31 December 2002. The write-down was recognised directly in accumulated other equity.

[22] 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 3,425 million (2001: euro 3,736 million) from non-cancellable operating leases fall due as follows:

in euro million	31.12.2002	31.12.2001
within one year	1,782	2,076
between one and five years	1,643	1,640
later than five years	–	20
	<b>3,425</b>	<b>3,736</b>

Contingent rents of euro 4 million (2001: euro 15 million), based principally on the distance driven, were recognised in income.

Changes in leased products during the year are shown in the analysis of changes in Group non-current assets on pages 74 and 75.

[23] Inventories Inventories comprise the following:

in euro million	31.12.2002	31.12.2001
Raw materials and supplies	547	563
Work in progress, unbilled contracts	773	737
Finished goods	3,174	2,582
Goods for resale	701	617
Advance payments to suppliers	2	2
	<b>5,197</b>	<b>4,501</b>

The increase in finished goods and goods for resale is attributable to the expansion of business following the market launches of the MINI and the new BMW 7 Series.

At 31 December, inventories measured at their net realisable value amounted to euro 286 million

(2001: euro 162 million) and are included in total inventories of euro 5,197 million (2001: euro 4,501 million). Amounts recognised as income from the reversal of write-downs were not significant.

[24] Receivables and other assets

in euro million	31.12.2002	31.12.2001
Trade receivables	1,818	2,135
– thereof with a maturity of more than one year: euro 14 million (2001: euro – million)		
Receivables from sales financing	19,493	17,398
– thereof with a maturity of more than one year: euro 13,052 million (2001: euro 10,988 million)		
Other receivables	6,056	4,208
– thereof with a maturity of more than one year: euro 2,455 million (2001: euro 501 million)		
	<b>27,367</b>	<b>23,741</b>

**Receivables from sales financing**

Receivables from sales financing comprise euro 14,847 million (2001: euro 13,108 million) for loan

financing and operating leases and euro 4,646 million (2001: euro 4,290 million) for finance leases. Finance leases are analysed as follows:

in euro million	31.12.2002	31.12.2001
Gross investment in finance leases		
due within one year	1,968	1,645
due between one and five years	3,298	3,129
due later than five years	20	35
	<b>5,286</b>	<b>4,809</b>
Present value of future minimum lease payments		
due within one year	1,755	1,461
due between one and five years	2,873	2,802
due later than five years	18	27
	<b>4,646</b>	<b>4,290</b>
<b>Unrealised interest income</b>	<b>640</b>	<b>519</b>

The amount of contingent rents recognised as income, generally relating to the distance driven, was not material. Write-downs on finance leases amount-

ing to euro 87 million (2001: euro 73 million) were calculated and recognised on the basis of specific credit risks.

### Other receivables

Other receivables comprise the following:

in euro million	31.12.2002	31.12.2001
Receivables from subsidiaries	938	805
– thereof with a maturity of more than one year: euro 92 million (2001: euro 87 million)		
Receivables from associated and other companies in which an investment is held	166	250
– thereof with a maturity of more than one year: euro – million (2001: euro – million)		
Miscellaneous assets	4,952	3,153
– thereof with a maturity of more than one year: euro 2,363 million (2001: euro 414 million)		
	<b>6,056</b>	<b>4,208</b>

Receivables from subsidiaries include trade receivables of euro 99 million (2001: euro 177 million) and financial receivables of euro 839 million (2001: euro 628 million). The increase in receivables from

subsidiaries is attributable primarily to financing the expansion of non-consolidated subsidiaries.

Miscellaneous assets comprise mainly the fair values of derivative financial instruments amounting



to euro 2,278 million (2001: euro 992 million) and tax receivables of euro 932 million (2001: euro 447 million). Miscellaneous assets also include the present value of the receivable, due on 30 June 2005, from Ford Motor Company, Dearborn, Mich., relating to the sale of Land Rover amounting to euro 807 million (2001: euro 738 million). The increase in the fair values of derivative financial instruments is attributable mainly to favourable fair value changes of cur-

rency hedges. The increase in tax receivables relates primarily to the Job Creation and Worker Assistance Act of 2002 in the USA, which allows, in particular, increased depreciation for tax purposes and an extended carryback of tax losses for offset against taxable profits of earlier years. In addition, as in the previous year, this position includes receivables from employees, receivables from credit card business and interest receivable.

[25] Marketable securities

Current marketable securities comprise:

in euro million	31.12.2002	31.12.2001
Stocks	348	278
Investment funds	62	24
Fixed income securities	626	542
Notes receivable	–	5
Sundry marketable securities	69	58
	<b>1,105</b>	<b>907</b>

The contracted maturities of debt securities are as follows:

in euro million	31.12.2002	31.12.2001
Fixed income securities		
due within 3 months	4	9
due later than 3 months	622	533
Notes receivable		
due within 3 months	–	–
due later than 3 months	–	5
Sundry marketable securities		
due within 3 months	37	25
due later than 3 months	32	33
	<b>695</b>	<b>605</b>

[26] Cash and cash equivalents	Cash and cash equivalents of euro 2,333 million (2001: euro 2,437 million) comprise cash on hand, deposits at the Bundesbank and cash at bank, all with a maturity of under three months.
[27] Prepayments	Prepayments of euro 488 million (2001: euro 380 million) relate mainly to prepayments of interest, development costs not eligible for capitalisation as non-current assets, insurance premiums and rent. Prepayments of euro 363 million (2001: euro 225 million) have a maturity of less than one year.
[28] Equity	The Group Statement of Changes in Equity is shown on page 58. both positive and negative goodwill arising on the consolidation of group companies prior to 31 December 1994.

#### **Number of shares issued**

At 31 December 2002, issued BMW AG common stock was divided, as in the previous year, into 622,227,918 shares with a nominal value of one euro. Issued BMW AG preferred stock was divided into 51,467,627 (2001: 50,638,232 ) non-voting shares, with a nominal 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.

At the Annual General Meeting held on 18 May 1999, authorised capital was created with a total nominal amount of euro 5 million for the issuance of 5 million preferred shares. During the financial year 2002, this was used for the subscription of 829,395 (2001: 1,040,420 ) employee shares. The authorised capital can be issued up to 1 May 2004. At 31 December 2002, euro 0.8 million (2001: euro 1.6 million) of the authorised capital was outstanding.

#### **Capital reserves**

The capital reserves comprise additional paid-in capital on the issue of shares. The addition to capital reserves of euro 17 million (2001: euro 23 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

#### **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 the fair value of financial instruments recognised directly in equity. Accumulated other equity includes deferred tax liabilities of euro 628 million (2001: deferred tax assets of euro 414 million) which have been recognised directly in equity.

#### **Minority interest**

Minority interest in the share capital of subsidiaries amounts to euro 0.258 million (2001: euro 0.252 million) and relates to Euro Lloyd Reisebüro GmbH, Cologne.

#### **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 351 million will be proposed to the Annual General Meeting for distribution. The proposed dividend payment will give rise to a tax reduction of euro 50 million (2001: euro 58 million) which will reduce the tax expense in the financial year 2003. Tax reduction benefits of euro 83 million (2001: euro 133 million), arising under the old income tax system, can be realised by BMW AG during the transition period of 15 years on dividends paid out.

## [29] 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 their similar nature, the obligations of BMW Group companies in the U.S. for post-employment medical care are also disclosed as pension provisions. The provision for these other post-employment benefit obligations amounts to euro 19 million (2001: euro 21 million) and is measured, like 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 7% p.a. (2001: 5% p.a.). The expense for medical care costs in the financial year 2002 amounted to euro 2 million (2001: 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 11 million (2001: euro 8 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, funded by employee contributions. The main funded plans of the BMW Group are in Great Britain, the USA, Switzerland, the Netherlands and Japan.

Defined benefit pension obligations are computed on an actuarial basis. 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 Great Britain (GB) and in the other countries:

in % 31 December	Germany		GB		Other countries	
	2002	2001	2002	2001	2002	2001
Discount rate	5.8	6.0	5.4	5.8	5.8	5.9
Salary level trend	3.5	3.5	3.3	3.5	3.5	3.7
Pension level trend	2.0	2.0	2.4	2.5	2.1	2.5

The salary level trend refers to the expected rate of salary increases which are 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 reduced by the plan assets. Where the

plan assets exceed the pension obligations, the surplus amount is recognised in accordance with IAS 19 as an asset under miscellaneous assets. Where the plan assets do not cover the pension obligations, the net liability is disclosed under pension provisions.

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 plan 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 31 December	Germany		GB		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Present value of pension benefits covered by accounting provisions	2,186	1,902	–	–	73	66	2,259	1,968
Present value of funded pension benefits	–	–	5,329	6,746	209	192	5,538	6,938
Defined benefit obligation	2,186	1,902	5,329	6,746	282	258	7,797	8,906
Fair value of fund assets	–	–	4,722	6,504	144	151	4,866	6,655
Net obligation	2,186	1,902	607	242	138	107	2,931	2,251
Surplus of fund assets (–)	–	–	–	–	–	–	–	–
Actuarial gains (+) and losses (–) not yet recognised	–69	43	–617	–309	–52	–30	–738	–296
Income (+) or expense (–) from past service cost not yet recognised	–	–	–	–	–3	–	–3	–
Amount not recognised as an asset because of the limit in IAS 19.58	–	–	–	–	23	23	23	23
<b>Balance sheet amount at 31. 12.</b>	<b>2,117</b>	<b>1,945</b>	<b>–10</b>	<b>–67</b>	<b>106</b>	<b>100</b>	<b>2,213</b>	<b>1,978</b>
thereof pension provision	2,117	1,945	33	–	107	101	2,257	2,046
thereof pension asset (–)	–	–	–43	–67	–1	–1	–44	–68

The level of the pension obligations differ 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 Great Britain thus contain contributions made by the employee.

In the financial year 2002, pension obligations relating to employees transferred to the Phoenix Consortium and Ford Motor Company in conjunction with the Rover Group disengagement were settled. Following the transfer of the obligations and the relevant fund assets, pension obligations and fund assets both fell by euro 1,338 million. At the date of the transfer, pension obligations and fund assets were recalculated, giving rise to an additional expense of euro 67 million. This amount had already been recognised in provisions in previous years.

Pension provisions relating to pension plans in other countries amounted to euro 107 million (2001: euro 101 million). This includes euro 32 million (2001: euro 32 million) relating to externally funded plans.

Actuarial losses in excess of a corridor of 10% of the defined benefit obligations amount to euro 119 million. They are required to be recognised as expenses over the average remaining working lives of the relevant employees. These losses will result in additional expense in 2003 of euro 6 million in Great Britain, euro 2 million in the USA and euro 1 million in Switzerland. The current shortfall in Germany is attributable to the reduction in the discount factor from 6.0% to 5.75% in the light of capital market developments.

The defined benefit plans of the BMW Group gave rise to a total pension expense in the financial year 2002 of euro 344 million (2001: euro 260<sup>1)</sup> million), comprising the following components:

in euro million	Germany		GB		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Current service cost	62	67 <sup>1)</sup>	52	56	31	29	145	152 <sup>1)</sup>
Interest cost	112	109	327	391	13	11	452	511
Expected return on plan assets (-)	-	-	-313	-395	-12	-12	-325	-407
Actuarial gains and losses	-	-	2	1	1	2	3	3
Past service cost	-	-	-	-	2	1	2	1
Effect of plan settlements (recognised in provisions in previous years)	-	-	67	-	-	-	67	-
<b>Total expense</b>	<b>174</b>	<b>176<sup>1)</sup></b>	<b>135</b>	<b>53</b>	<b>35</b>	<b>31</b>	<b>344</b>	<b>260<sup>1)</sup></b>

1) adjusted for employee contributions to the deferred remuneration retirement scheme of euro 28 million

The actual return from external pension funds was euro 52 million (2001: euro 297 million). The shortfall against the expected return on plan assets was attributable mainly to the results of external funds in Great Britain, where the return was less than expected due to the fall of equity prices on the world's stock exchanges. The difference between actual and expected return from external pension funds is

recognised as 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 net obligation, resulting from the pension provision and pension asset disclosed in the balance sheet, are as follows:

in euro million	Germany		GB		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Balance sheet amount at 1. 1.	1,945	1,787	-67	-91	100	81	1,978	1,777
Pension expense	174	176 <sup>1)</sup>	68	53	35	31	277	260 <sup>1)</sup>
Effect of plan settlements (recognised in provisions in previous years)	-	-	67	-	-	-	67	-
Pension payments or transfers to external funds	-49	-46	-81	-28	-20	-14	-150	-88
Amount not recognised in accordance with IAS 19.58	-	-	-	-	-	1	-	1
Employee contributions to the deferred remuneration retirement scheme	47	28	-	-	-	-	47	28
Translation differences on foreign pension plans	-	-	3	-1	-9	1	-6	-
<b>Balance sheet amount at 31.12.</b>	<b>2,117</b>	<b>1,945</b>	<b>-10</b>	<b>-67</b>	<b>106</b>	<b>100</b>	<b>2,213</b>	<b>1,978</b>
thereof pension provision	2,117	1,945	33	-	107	101	2,257	2,046
thereof pension asset (-)	-	-	-43	-67	-1	-1	-44	-68

1) adjusted for employee contributions to the deferred remuneration retirement scheme of euro 28 million

[30] Other provisions Other provisions comprise the following:

in euro million	31.12.2002		31.12.2001	
	Total	thereof due within one year	Total	thereof due within one year
Taxes	372	370	410	395
Obligations for personnel and social expenses	1,096	789	1,049	760
Obligations for on-going operational expenses	2,737	1,174	2,111	1,056
Other obligations	1,204	726	1,208	882
	<b>5,409</b>	<b>3,059</b>	<b>4,778</b>	<b>3,093</b>

Provisions for obligations for personnel and social expenses comprise mainly profit-share schemes and bonuses, part-time working arrangements for older employees, employee long-service awards, vacation entitlements and flexible working-time credits.

Provisions for obligations for on-going operational expenses comprise mainly warranty obligations, sales bonuses, volume discounts and losses on onerous contracts. The increase is attributable

mainly to higher contractual and voluntary warranty obligations as a result of business expansion.

Provisions for other obligations cover numerous specific risks and uncertain obligations. They comprise mainly obligations and risks in respect of the Rover disengagement, 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 31.12.2001	Additions	Reversal of discounting	Used	Released	Translation differences	At 31.12.2002
Taxes	410	293	–	309	2	–20	372
Obligations for personnel and social expenses	1,049	798	–	686	57	–8	1,096
Obligations for on-going operational expenses	2,111	1,732	62	1,021	100	–47	2,737
Other obligations	1,208	456	9	375	78	–16	1,204
	<b>4,778</b>	<b>3,279</b>	<b>71</b>	<b>2,391</b>	<b>237</b>	<b>–91</b>	<b>5,409</b>

[31] Debt Debt includes all interest-bearing liabilities of the BMW Group at the relevant balance sheet dates.

It comprises the following:

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 papers	4,182	–	–	4,182
Bills of exchange	2	–	–	2
Other debt	1,510	3,225	541	5,276
	<b>13,506</b>	<b>10,188</b>	<b>2,568</b>	<b>26,262</b>

31 December 2001 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	3,298	5,221	1,464	9,983
Liabilities to banks	1,295	2,859	160	4,314
Liabilities from customer deposits (banking)	2,029	147	–	2,176
Commercial papers	2,054	–	–	2,054
Bills of exchange	1	–	–	1
Other debt	3,043	3,547	547	7,137
	<b>11,720</b>	<b>11,774</b>	<b>2,171</b>	<b>25,665</b>

Other debt of euro 5,276 million (2001: euro 7,137 million) comprises mainly asset backed financing liabilities and finance lease liabilities.



The following bonds have either variable or fixed interest rates:

Issuer	Interest	Issue volume in relevant currency <sup>1)</sup> (ISO Code)	Weighted average maturity period (in years)	Weighted average interest (in %)
BMW Finance N.V., The Hague	Variable	EUR 265 million	4.8	3.7
	Fixed	JPY 60,000 million	7.5	1.8
	Fixed	EUR 1,115 million	7.5	5.3
	Fixed	USD 650 million	3.6	5.3
	Fixed	CHF 350 million	13.0	4.4
	Fixed	CZK 300 million	6.0	7.8
BMW Coordination Center N.V., Bornem	Variable	EUR 630 million	1.8	3.2
	Variable	HKD 100 million	2.0	1.8
	Variable	USD 65 million	1.0	1.4
	Variable	GBP 50 million	1.0	4.0
	Fixed	JPY 16,000 million	1.0	0.1
	Fixed	USD 200 million	0.3	1.4
	Fixed	EUR 138 million	1.5	3.6
	Fixed	GBP 6 million	1.3	4.4
BMW (UK) Capital plc, Bracknell	Variable	EUR 128 million	5.5	9.2
	Fixed	GBP 583 million	6.2	6.4
	Fixed	GBP 200 million	5.8	3.9
BMW US Capital LLC, Wilmington, Del.	Variable	JPY 6,000 million	2.0	1.5
	Variable	USD 1,520 million	1.6	1.5
	Variable	EUR 803 million	6.7	2.2
	Variable	GBP 13 million	1.0	1.4
	Fixed	JPY 3,000 million	3.0	0.1
	Fixed	USD 1,299 million	9.6	5.6
	Fixed	EUR 26 million	7.0	6.8
Hireus Ltd., Bracknell	Variable	GBP 46 million	1.0	4.0
Other	Variable	AUD 20 million	2.0	6.0
	Fixed	JPY 35,000 million	24.6	0.6
	Fixed	NOK 500 million	2.0	7.5
	Fixed	USD 250 million	5.0	6.9
	Fixed	AUD 130 million	2.0	6.0

<sup>1)</sup> currencies of euro countries have been converted into euros

The following details apply to the commercial papers:

Issuer	Issue volume in relevant currency (ISO Code)	Weighted average maturity period (in days)	Weighted average interest (in %)
BMW AG, Munich	EUR 497 million	51.3	2.9
BMW Coordination Center N.V., Bornem	EUR 402 million	48.3	3.0
BMW US Capital LLC, Wilmington, Del.	USD 3,433 million	11.0	1.4

[32] Trade payables

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

31 December 2001 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Trade payables	2,990	25	–	3,015

[33] Other liabilities

Other liabilities comprise the following:

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
	<b>1,625</b>	<b>792</b>	<b>70</b>	<b>2,487</b>

31 December 2001 in euro million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Taxes payable	194	17	–	211
Social security	104	1	–	105
Employees	14	–	–	14
Advance payments from customers	258	2	–	260
Deposits received	52	119	–	171
Interest	251	–	–	251
Subsidiaries	111	–	–	111
Fair values of derivative financial instruments	1,144	708	57	1,909
Liabilities to associated and other companies in which an investment is held	1	–	–	1
Sundry other liabilities	870	109	56	1,035
	<b>2,999</b>	<b>956</b>	<b>113</b>	<b>4,068</b>

The reduction in negative fair values of derivative financial instruments in the year under report is attributable mainly to favourable fair value changes of currency hedges.

The total amount of all liabilities with a maturity later than five years amounts to euro 2,638 million (2001: euro 2,284 million).

[34] Deferred income      Deferred income consists of:

in euro million	31.12.2002		31.12.2001	
	Total	thereof due within one year	Total	thereof due within one year
Deferred income from lease financing	399	242	406	382
Other deferred income	265	111	171	57
	<b>664</b>	<b>353</b>	<b>577</b>	<b>439</b>

Other deferred income includes euro 165 million (2001: euro 82 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 attaching to the grants have been fulfilled.

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[35] 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	31.12.2002	31.12.2001
Guarantees	52	61
Performance guarantees	79	66
Bills of exchange	16	–
	<b>147</b>	<b>127</b>

The above amounts include euro 17 million (2001: euro 28 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.

**Other financial commitments**

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for plant and machinery, tools, office and other facilities. The leases run for periods of one to thirteen years and in some cases contain extension and/or pur-

chase options. Lease payments of euro 124 million (2001: euro 145 million) were recognised as an 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	31.12.2002	31.12.2001
Nominal total of future minimum lease payments		
due within one year	221	171
due between one and five years	521	498
due later than five years	597	576
	<b>1,339</b>	<b>1,245</b>

The above amounts include euro 44 million (2001: euro 56 million) in respect of non-consoli-

dated subsidiaries and euro 58 million (2001: euro 85 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	31.12.2002	31.12.2001
Total of future minimum lease payments		
due within one year	166	148
due between one and five years	13	268
due later than five years	–	–
	<b>179</b>	<b>416</b>
Interest portion of future minimum lease payments		
due within one year	8	12
due between one and five years	1	22
due later than five years	–	–
	<b>9</b>	<b>34</b>
Present value of future minimum lease payments		
due within one year	158	136
due between one and five years	12	246
due later than five years	–	–
	<b>170</b>	<b>382</b>

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

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

in euro million	31.12.2002	31.12.2001
Nominal total of future minimum lease payments		
due within one year	799	500
due between one and five years	756	719
due later than five years	–	–
	<b>1,555</b>	<b>1,219</b>

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

Purchase commitments for property, plant and equipment amount to euro 1,229 million (2001: euro 1,116 million).

Sundry other financial commitments amount to euro 92 million (2001: euro 93 million).

[36] 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 business transactions or forecasted transactions.

Protection against such risks is provided at first instance through natural hedging which arises when the value 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. These include, 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 2002, 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**

Differences between the carrying amount and the fair value of non-derivative financial instruments are shown in the following table:

in euro million	31.12.2002		31.12.2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from sales financing	19,493	20,014	17,398	17,712
Debt	26,262	26,414	25,665	25,327

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 2002 on the basis of the following interest rates:

in %	Euro	USD	GBP	JPY
Interest rate for six months	2.8	1.4	4.0	0.1
Interest rate for one year	2.8	1.5	4.0	0.1
Interest rate for five years	3.7	3.2	4.6	0.3
Interest rate for ten years	4.5	4.4	4.9	0.9

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

The nominal amount of derivative financial instruments are the purchase or sale amount or value 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 2002					
<b>Assets</b>					
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
<b>Liabilities</b>					
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
31 December 2001					
<b>Assets</b>					
Currency hedge contracts	5,631	783	742	41	–
Interest rate contracts	5,337	67	58	7	2
Other derivative financial instruments	531	142	1	78	63
Total	11,499	992	801	126	65
<b>Liabilities</b>					
Currency hedge contracts	21,825	1,531	981	530	20
Interest rate contracts	16,057	378	163	178	37
Total	37,882	1,909	1,144	708	57

In accordance with internal guidelines, the nominal amounts correspond to the volume of hedged items.

The disclosed fair values of derivative financial instruments, based on their nominal values, 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 2002, the positive impact from the fair value measurement of financial instruments (net of deferred taxes) recognised directly in equity amounted to euro 709 million (2001: negative impact of euro 819 million). This comprises a positive impact from cash flow hedges of euro 1,023 million (2001: negative impact of euro 704 million) and a negative impact from available-for-sale securities of euro 314 million (2001: euro 115 million). During the year under report, positive changes in fair values amounting to euro 1,528 million (2001: negative changes in fair values of euro 77 million) were recognised directly in equity. Of this amount euro 1,727 million (2001: euro 15 million) relate to positive effects from cash flow hedges and euro 199 million (2001: euro 92 million) relate to negative effects from available-for-sale securities.

In 2002, the negative fair values on financial instruments relating to hedged forecasted transactions decreased by euro 161 million (2001: euro 428 million). This amount was included in accumulated other equity and relates to underlying trans-

actions which were realised during the year. As a result of the situation on the capital markets, impairment losses of euro 22 million (2001: euro – million) on available-for-sale securities were recognised as expenses.

### **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 contract 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.

[37] Explanatory notes  
to the cash flow  
statements

The cash flow statements show 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 outflows. In accordance with IAS 7 (Cash Flow State-

ments), cash flows are classified into cash flows from operating, investing and financing activities.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, deposits at the Federal Bank and cash at bank, 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 euro 109 million (2001: euro 45 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 balance sheet.

The cash inflow from operating activities includes the following:

in euro million	2002	2001
Interest received	650	807
Interest paid	628	746
Dividends received	14	33
Income taxes paid	597	709

#### [38] 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 already included in the Group 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 BMW 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 BMW 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 2002, these 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 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. Höhe,

which, through its subsidiaries in the Microlog and Thiel Group, performed logistics services for the BMW Group during the financial year 2002. 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, on arm's length principles.

Susanne Klatten is a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Bad Homburg v. d. Höhe, and also a shareholder and member of the Supervisory Board of BMW AG. During the financial year 2002, Altana AG, Bad

Homburg v. d. Höhe purchased vehicles from the BMW Group. These sale contracts are not material for the BMW Group and are made, without exception, on 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.

[39] Declaration relating 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 in-

cluded in the BMW Group Annual Report and which is permanently available to shareholders on the BMW Group website under the address [www.bmwgroup.com/ir](http://www.bmwgroup.com/ir).

[40] Shareholding of the Board of Management and the Supervisory Board

The members of the Supervisory Board hold a total of 27.73 % of the issued common and preferred stock shares. This holding is split between Stefan Quandt, Bad Homburg v. d. Höhe (16.14 %), and

Susanne Klatten, Bad Homburg v. d. Höhe (11.59 %). The shareholding of the members of the Board of Management is, in total, less than 1 % of the issued stock shares.

[41] 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 years 2002 and 2001 amounts to euro 11.9 million and euro 13.4 million respectively. This comprises fixed components of euro 2.2 million (2001: euro 2.6 million) and variable components of euro 9.7 million (2001: euro 10.8 million).

The remuneration of former Board members and their dependants amounts to euro 5.2 million (2001: euro 2.9 million).

Pension obligations to former members of the Board of Management and their dependants are

covered by pension provisions of euro 30.0 million (2001: euro 24.9 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 years 2002 and 2001 amounts to euro 2.0 million in each year. This comprises fixed components of euro 0.1 million (2001: euro 0.1 million) and variable components of euro 1.9 million (2001: euro 1.9 million).

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

## BMW Group

### Notes to the Group Financial Statements

#### Segment Information

#### [42] 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. BMW (UK) Manufacturing Ltd., Bracknell (Oxford plant), where the MINI is manufactured, has been included in the Automobiles segment with effect from 1 July 2001 after commencement of MINI series production. Previously it was included in Reconciliations.

The Automobiles segment develops, manufactures, assembles and sells BMW brand cars, including off-road vehicles, as well as spare parts and accessories. With effect from 1 July 2001, the Automobiles segment also covers the development, manufacture, assembly and sale of MINI brand cars including 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 also by independent import companies.

With effect from 1 January 2003, responsibility for the Rolls-Royce brand is with the BMW Group. The cost of developing a new Rolls-Royce as well as capital expenditure and other expenses incurred to construct the plant and headquarters in Goodwood are already included in the Automobiles segment.

The Motorcycles segment develops, manufactures, assembles and sells BMW brand motorcycles and C1s as well as spare parts and accessories.

The Financial Services segment focuses primarily on leasing automobiles, providing loan finance for customers and dealers 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 leasing 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 include national holding companies, group financing companies and income and expenses not specifically attributable to the business segments. Reconciliations also include 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. In the previous year, BMW (UK) Manufacturing Ltd., Bracknell, was included here until 30 June 2001 as well as Powertrain Ltd., Bracknell. In addition, Reconciliations include consolidations.

##### 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.

The return on sales for each segment is based on the profit before financial result. The return on sales for the Group as a whole is based on the profit from ordinary activities.

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.

<b>Segment information by region</b> in euro million	External sales		Capital expenditure		Assets	
	2002	2001	2002	2001	2002	2001
Germany	10,343	10,238	3,137	2,482	18,388	16,140
Rest of Europe	13,117	11,777	576	708	12,284	9,999
America	13,538	12,189	255	289	16,216	16,627
Africa, Asia, Oceania	5,284	4,259	74	37	5,084	4,481
Reconciliations	-	-	-	-	3,539	4,012
<b>Group</b>	<b>42,282</b>	<b>38,463</b>	<b>4,042</b>	<b>3,516</b>	<b>55,511</b>	<b>51,259</b>

**Segment information by business segment**  
 in euro million

		Automobiles	
		2002	2001
<b>Revenues with third parties</b>		<b>33,445</b>	<b>29,981</b>
Change compared to previous year	%	11.6	22.1
<b>Inter-segment revenues</b>		<b>4,734</b>	<b>3,561</b>
Change compared to previous year	%	32.9	-30.0
<b>Total revenues</b>		<b>38,179</b>	<b>33,542</b>
Change compared to previous year	%	13.8	13.1
<b>EBITDA</b>		<b>5,023</b>	<b>4,914</b>
<b>Depreciation and amortisation</b>		<b>2,028</b>	<b>1,961</b>
<b>Result before financial result</b>		<b>2,995</b>	<b>2,953</b>
Change compared to previous year	%	1.4	11.2
<b>Financial result</b>		<b>- 112</b>	<b>- 161</b>
<b>Result from ordinary activities</b>		<b>2,883</b>	<b>2,792</b>
Change compared to previous year	%	3.3	2.2
<b>Return on sales</b>	%	<b>7.8</b>	<b>8.8</b>
<b>Significant non-cash items</b>		<b>688</b>	<b>757</b>
<b>Internal financing</b>		<b>5,144</b>	<b>4,662</b>
<b>Capital expenditure</b>		<b>3,887</b>	<b>3,055</b>
<b>Additions to leased products</b>		<b>232</b>	<b>198</b>
<b>Assets</b>		<b>19,006</b>	<b>16,780</b>
<b>Liabilities</b>		<b>12,587</b>	<b>10,584</b>
<b>Average workforce during the year</b>		<b>90,483</b>	<b>84,886</b>

Motorcycles		Financial Services		Reconciliations		Group	
2002	2001	2002	2001	2002	2001	2002	2001
<b>1,128</b>	<b>1,055</b>	<b>7,308</b>	<b>6,725</b>	<b>401</b>	<b>702</b>	<b>42,282</b>	<b>38,463</b>
6.9	14.2	8.7	-13.8	-42.9	58.8	9.9	3.3
<b>2</b>	<b>4</b>	<b>905</b>	<b>789</b>	<b>-5,641</b>	<b>-4,354</b>	<b>-</b>	<b>-</b>
-50.0	-	14.7	2.1	-29.6	30.4		
<b>1,130</b>	<b>1,059</b>	<b>8,213</b>	<b>7,514</b>	<b>-5,240</b>	<b>-3,652</b>	<b>42,282</b>	<b>38,463</b>
6.7	14.1	9.3	-12.4	-43.5	37.2	9.9	3.3
<b>113</b>	<b>92</b>	<b>464</b>	<b>390</b>	<b>-79</b>	<b>119</b>	<b>5,521</b>	<b>5,515</b>
<b>51</b>	<b>33</b>	<b>20</b>	<b>11</b>	<b>44</b>	<b>154</b>	<b>2,143</b>	<b>2,159</b>
<b>62</b>	<b>59</b>	<b>444</b>	<b>379</b>	<b>-123</b>	<b>-35</b>	<b>3,378</b>	<b>3,356</b>
5.1	78.8	17.2	8.0	-251.4	85.7	0.7	62.5
<b>-2</b>	<b>-</b>	<b>-22</b>	<b>11</b>	<b>55</b>	<b>36</b>	<b>-81</b>	<b>-114</b>
<b>60</b>	<b>59</b>	<b>422</b>	<b>390</b>	<b>-68</b>	<b>1</b>	<b>3,297</b>	<b>3,242</b>
1.7	78.8	8.2	11.1	-	-	1.7	59.5
<b>5.5</b>	<b>5.6</b>	<b>5.4</b>	<b>5.0</b>	<b>-</b>	<b>-</b>	<b>7.8</b>	<b>8.4</b>
<b>10</b>	<b>-</b>	<b>1,698</b>	<b>1,669</b>	<b>448</b>	<b>234</b>	<b>2,844</b>	<b>2,660</b>
<b>113</b>	<b>74</b>	<b>2,107</b>	<b>2,255</b>	<b>323</b>	<b>361</b>	<b>7,687</b>	<b>7,352</b>
<b>94</b>	<b>68</b>	<b>24</b>	<b>19</b>	<b>37</b>	<b>374</b>	<b>4,042</b>	<b>3,516</b>
<b>-</b>	<b>-</b>	<b>5,511</b>	<b>4,400</b>	<b>-1,588</b>	<b>-1,213</b>	<b>4,155</b>	<b>3,385</b>
<b>584</b>	<b>542</b>	<b>30,831</b>	<b>29,593</b>	<b>5,090</b>	<b>4,344</b>	<b>55,511</b>	<b>51,259</b>
<b>403</b>	<b>375</b>	<b>27,060</b>	<b>26,362</b>	<b>1,590</b>	<b>3,168</b>	<b>41,640</b>	<b>40,489</b>
<b>2,843</b>	<b>2,633</b>	<b>1,984</b>	<b>1,788</b>	<b>3,168</b>	<b>5,329</b>	<b>98,478</b>	<b>94,636</b>

## BMW Group

### Notes to the Group Financial Statements

#### Disclosures pursuant to § 292a HGB

#### [43] Disclosures pursuant to § 292a 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 § 292a HGB these Group financial statements exempt BMW AG from drawing up Group 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 § 292a HGB" issued by the German Accounting Standards Committee (GASC).

The accounting policies and consolidation methods applied in accordance with the IASB standards for the consolidated financial statements of BMW AG differ from German accounting rules ("HGB") in the following main areas:

##### **Non-current assets**

Under IAS, in certain circumstances, self-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 self-generated intangible items as assets.

Non-current assets are generally depreciated for IAS purposes over their useful economic lives using the straight-line method and not using the reducing balance method.

##### **Lease transactions**

IAS 17 defines the accounting rules for lease transactions. Under these rules, the 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 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 common to apply the treatment prescribed by the German tax authorities.

##### **Inventories**

Under IAS, 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 IAS. In addition, advance payments received cannot be offset against inventories under IAS.

**Other current assets**

The treatment of financial instruments (marketable securities, foreign currency receivables and payables, derivative instruments) differs significantly between IAS and HGB at a conceptual level. IAS requires 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. For IAS purposes, 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 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 impairment 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.

IAS also requires that the surplus on certain external pension funds be recognised as an asset. In the case of the BMW Group, this is an issue principally affecting the pension fund in Great Britain.

**Deferred taxes**

Under IAS, 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 IAS, a deferred tax asset must be recognised for the carryforward of unused tax losses, to the extent that it is probable that the tax benefits will be realised. Under German accounting rules, it is prohibited to recognise a deferred tax asset on tax loss carryforwards.



## Provisions

Pension commitments must be recognised in accordance with HGB and IAS, measured at the level of the expected future payments, on a discounted basis. Under IAS, 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.

Other provisions may only be recognised under IAS 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 IAS. Provisions are measured for HGB purposes on the basis of prudent management

judgement; for IAS purposes they must be measured at their most probable amount. IAS require that long-term provisions are discounted.

## Consolidated companies

The group reporting entity must be determined under IAS 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 consolidated if a constructive ability to control another enterprise exists. 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, 25 February 2003

**Bayerische Motoren Werke**  
Aktiengesellschaft

The Board of Management

**BMW Group**  
**Notes to the Group Financial Statements**  
**Auditor's Report**

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 2002. 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 disclo-

tures 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 2002, 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 2002 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, 28 February 2003

**KPMG Deutsche Treuhand-Gesellschaft**  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Berger  
Wirtschaftsprüfer

Höfer  
Wirtschaftsprüfer

## **BMW AG** **Balance Sheet at 31 December**

<b>Assets</b>	2002	2001
in euro million		
Intangible assets	117	277
Property, plant and equipment	4,309	3,259
Financial assets	6,043	5,570
<b>Non-current assets</b>	<b>10,469</b>	<b>9,106</b>
Inventories	2,193	1,979
Trade receivables	501	674
Receivables from subsidiaries	975	1,449
Other receivables and other assets	1,581	1,427
Marketable securities and notes	926	702
Cash and cash equivalents	109	111
<b>Current assets</b>	<b>6,285</b>	<b>6,342</b>
<b>Prepayments</b>	<b>100</b>	<b>17</b>
	<b>16,854</b>	<b>15,465</b>

<b>Equity and liabilities</b> in euro million	2002	2001
Subscribed capital	674	673
Capital reserve	1,954	1,937
Revenue reserves	2,217	1,953
Unappropriated profit available for distribution	351	350
<b>Equity</b>	<b>5,196</b>	<b>4,913</b>
<b>Registered profit-sharing certificates</b>	<b>36</b>	<b>37</b>
<b>Special tax allowable reserve</b>	<b>2</b>	<b>4</b>
Pension provisions	2,156	1,920
Other provisions	5,730	4,702
<b>Provisions</b>	<b>7,886</b>	<b>6,622</b>
Trade payables	1,096	1,039
Liabilities to subsidiaries	1,797	1,940
Other liabilities	841	910
<b>Liabilities</b>	<b>3,734</b>	<b>3,889</b>
	<b>16,854</b>	<b>15,465</b>

## BMW AG

### Income Statement

in euro million	2002	2001
<b>Revenues</b>	<b>35,315</b>	<b>29,993</b>
Cost of sales	32,058	27,948
<b>Gross profit</b>	<b>3,257</b>	<b>2,045</b>
Sales costs	2,365	1,974
Administration costs	558	373
Other operating income and expenses	- 51	348
Result on investments	541	426
Net interest expense	- 161	- 107
<b>Profit from ordinary activities</b>	<b>663</b>	<b>365</b>
Income taxes	41	8
Other taxes	7	7
<b>Net profit</b>	<b>615</b>	<b>350</b>
Transfer to revenue reserves	264	-
<b>Unappropriated profit available for distribution</b>	<b>351</b>	<b>350</b>

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.

## BMW AG

### Principal Subsidiaries

Principal subsidiaries of BMW AG at 31 December 2002	Equity	Net result	Capital
	in euro million	in euro million	investment in %
Domestic <sup>1)</sup>			
BMW Bank GmbH, Munich <sup>2)</sup>	268	0	100
BMW Finanz Verwaltungs GmbH, Munich	206	<sup>3)</sup>	100
BMW Ingenieur-Zentrum GmbH + Co., Dingolfing	47	8	100
softlab GmbH für Systementwicklung und EDV-Anwendung, Munich	46	3	100
BMW Maschinenfabrik Spandau GmbH, Berlin	33	1	100
BMW Maschinenfabrik Spandau GmbH & Co. Anlagen und Betriebs oHG, Berlin	20	19	100
BMW Leasing GmbH, Munich <sup>2)</sup>	16	0	100
BMW Hams Hall Motoren GmbH, Munich <sup>4)</sup>	15	0	100
BMW Fahrzeugtechnik GmbH, Eisenach <sup>2)</sup>	11	0	100
BMW INTEC Beteiligungs GmbH, Munich <sup>2)</sup>	<sup>3)</sup>	0	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich <sup>2)</sup>	<sup>3)</sup>	0	100

**Principal subsidiaries of BMW AG  
at 31 December 2002**

	Equity in euro million	Net result in euro million	Capital investment in %
Foreign <sup>5]</sup>			
BMW Coordination Center N.V., Bornem	453	63	100
BMW Finance N.V., The Hague	143	10	100
BMW Overseas Enterprises N.V., Willemstad	57	1	100
BMW Österreich Holding GmbH, Steyr	1,110	147	100
BMW Motoren GmbH, Steyr	325	124	100
BMW Austria Gesellschaft m.b.H., Salzburg	31	4	100
BMW Holding B.V., The Hague	3,692	573	100
BMW Japan Corp., Tokyo	554	65	100
BMW Japan Finance Corp., Tokyo	205	24	100
BMW (Schweiz) AG, Dielsdorf	230	33	100
BMW Canada Inc., Whitby	198	44	100
BMW France S.A., Montigny-le Bretonneux	188	58	100
BMW (South Africa) (Pty) Ltd., Pretoria	187	63	100
BMW Italia S.p.A., Milan	136	53	100
BMW Ibérica S.A., Madrid	111	36	100
BMW Belgium S.A./N.V., Bornem	95	26	100
BMW Australia Ltd., Melbourne, Victoria	82	23	100
BMW Australia Finance Ltd., Melbourne, Victoria	75	2	100
BMW de Mexico, S.A. de C.V., Mexico City	74	30	100
BMW Korea Co., Ltd., Seoul	69	42	100
BMW Sverige AB, Stockholm	43	1	100
BMW Nederland B.V., The Hague	34	18	100
BMW (UK) Holdings Ltd., Bracknell	1,841	162	100
BMW (GB) Ltd., Bracknell	373	226	100
BMW Financial Services (GB) Ltd., Hook	184	26	100
BMW (UK) Capital plc, Bracknell	126	25	100
BMW (UK) Manufacturing Ltd., Bracknell	84	168	100
BMW (US) Holding Corporation, Wilmington, Del.	208	1	100
BMW of North America, LLC, Wilmington, Del.	1,080	118	100
BMW Financial Services NA, LLC, Wilmington, Del.	242	57	100

1] In the case of German affiliated companies, based on financial statements drawn up in accordance with HGB.

2] profit and loss transfer agreement with BMW AG

3] below euro 500,000

4] profit and loss transfer agreement with a subsidiary of BMW AG

5] In the case of foreign affiliated companies, based on financial statements drawn up in accordance with uniform IAS accounting policies.

Shareholders' equity and net result are translated at the closing rate.



## BMW Group 10 year comparison

		2002 IAS	2001 IAS
Revenues	euro million	42,282	38,463
Change	%	9.9	3.3
Vehicle production			
Automobiles <sup>1]</sup>	units	1,090,258	946,730
Motorcycles <sup>2]</sup>	units	97,553	100,213
Deliveries to customers			
Automobiles <sup>1]</sup>	units	1,057,344	905,657
Motorcycles <sup>3]</sup>	units	103,020	95,327
Workforce at end of year <sup>4]</sup>		101,395	97,275
Capital expenditure	euro million	4,042	3,516
as % of revenues	%	9.6	9.1
Depreciation and amortisation	euro million	2,143	2,159
Internal financing <sup>5]</sup>	euro million	7,687	7,352
as % of investments	%	190.1	209.1
Non-current assets	euro million	18,829	18,468
Receivables from sales financing <sup>6]</sup>	euro million	19,493	17,398
Other current assets, deferred tax assets and prepayments	euro million	17,189	15,393
Subscribed capital	euro million	674	673
Reserves	euro million	13,029	11,342
Capital reserve	euro million	1,954	1,937
Revenue reserves	euro million	11,075	9,405
Equity	euro million	13,871	10,770
as % of non-current assets	%	73.7	58.3
Equity ratio			
Industrial operations	%	43.1	37.0
Financial operations	%	9.4	8.4
Long-term debt	euro million	15,918	17,085
Long-term capital	euro million	29,789	27,855
as % of non-current assets	%	158.2	150.8
Balance sheet total	euro million	55,511	51,259
Personnel costs	euro million	6,588	6,079
per employee <sup>4]</sup>	euro	69,560	66,711
Profit from ordinary activities	euro million	3,297	3,242
Income taxes	euro million	1,277	1,376
Net profit/ – loss for the year	euro million	2,020	1,866
Unappropriated profit of BMW AG available for distribution <sup>8]</sup>	euro million	351	350

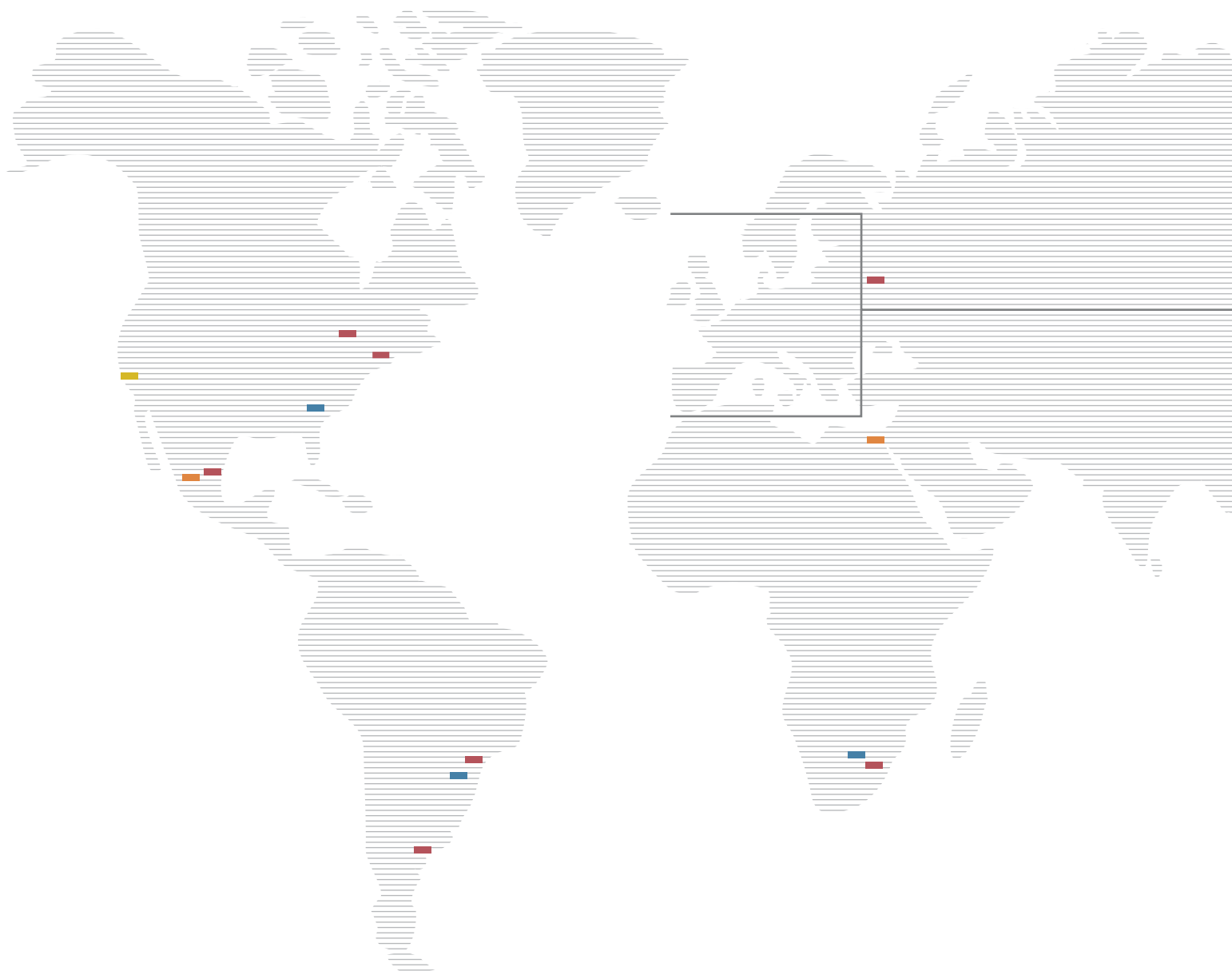
1] incl Rover Cars from 18 March 1994 until 9 May 2000 and Land Rover from 18 March 1994 until 30 June 2000 2] incl assembly of the BMW F650 at Aprilia S.p.A. from 1993 until 1999  
5] to 2000 HGB: cash flow 6] to 2000 HGB: assets from sales financing 7] net profit of euro 663 million before extraordinary result 8] calculation under HGB

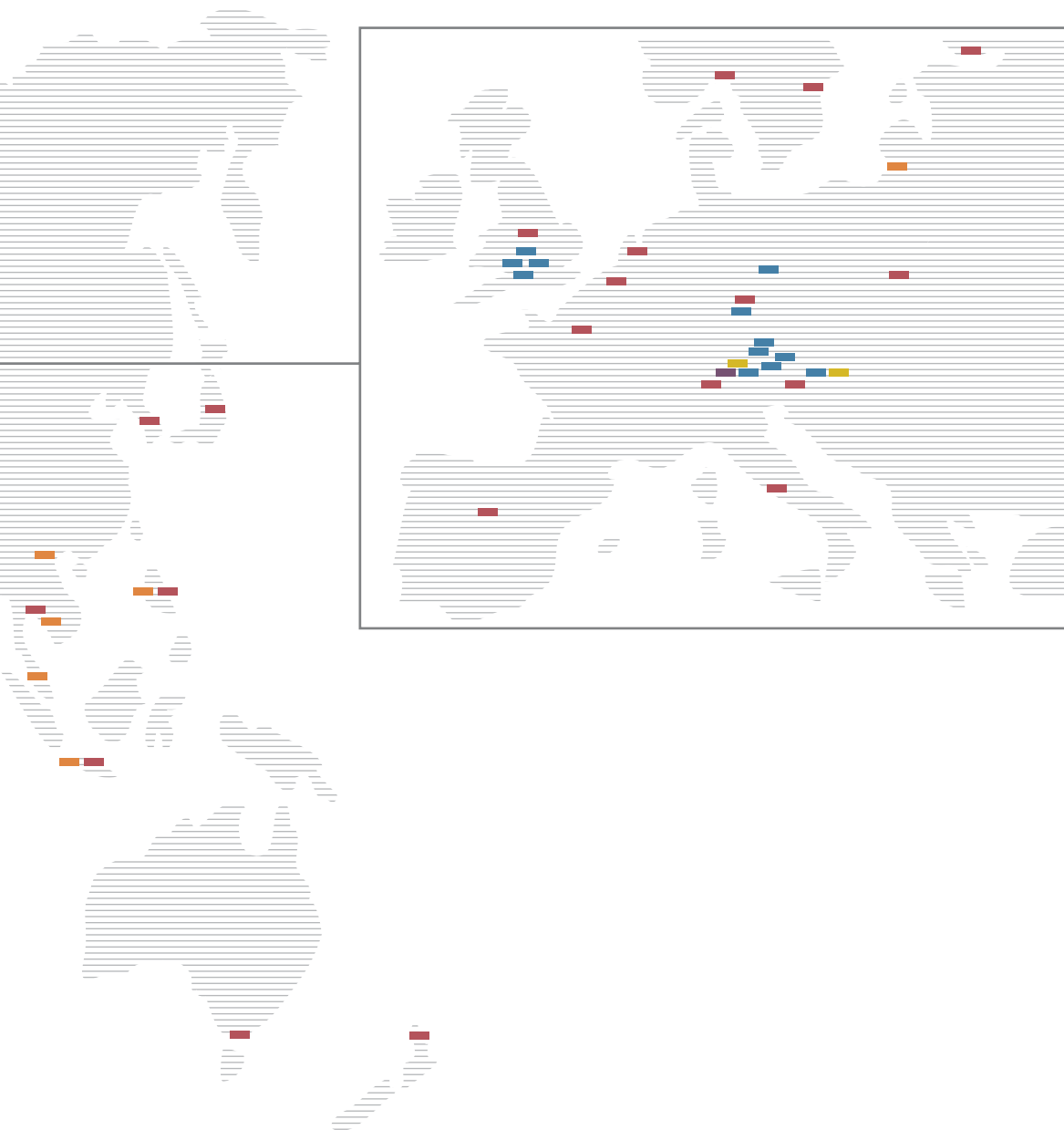
2000 IAS	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB	1995 HGB	1994 HGB	1993 HGB
37,226	35,356	34,402	32,280	30,748	26,723	23,593	21,538	14,836
	2.8	6.6	5.0	15.1	13.3	9.5	45.2	-7.1
-	1,026,775	1,147,420	1,204,000	1,194,704	1,143,558	1,098,582	948,683	532,960
-	93,608	69,157	60,152	54,933	48,950	52,653	44,435	36,990
-	1,011,874	1,180,429	1,187,115	1,196,096	1,151,364	1,073,161	931,883	534,397
-	81,263	65,168	60,308	54,014	50,465	50,246	46,667	35,150
-	93,624	114,952	118,489	117,624	116,112	115,763	109,362	71,034
2,781	2,138	2,155	2,179	2,311	1,958	1,778	1,812	1,132
7.5	6.0	6.3	6.8	7.5	7.3	7.5	8.4	7.6
2,435	2,322	2,042	1,859	1,812	1,535	1,471	1,312	939
6,579	3,198	2,807	2,479	2,518	2,092	1,920	1,825	1,312
236.6	149.6	130.3	113.8	109.0	106.8	108.0	100.7	115.9
17,481	6,763	8,771	7,810	7,789	6,866	6,087	6,007	3,656
17,082	17,578	16,859	12,564	10,862	8,589	7,673	6,800	6,016
14,777	11,534	11,877	10,265	8,590	7,728	7,124	6,977	5,817
-	672	671	658	506	506	505	504	461
9,763	3,914	2,992	5,487	4,465	3,915	3,487	3,343	2,958
1,914	1,914	1,893	1,876	836	825	814	805	426
7,849	2,000	1,099	3,611	3,629	3,090	2,673	2,538	2,532
9,432	4,896	3,932	6,445	5,240	4,636	4,193	4,050	3,592
54.0	72.4	44.8	82.5	67.3	67.5	68.9	67.4	98.2
35.9	19.1	11.9	28.7	25.3	25	25.1	24.8	30.3
8.1	8.0	8.7	10.0	10.0	11.5	11.4	12.2	12.0
15,314	10,375	10,379	7,039	7,772	6,015	5,512	4,608	4,068
24,746	15,271	14,311	13,484	13,012	10,651	9,704	8,658	7,660
141.6	225.8	163.2	172.7	167.1	155.1	159.4	144.1	209.5
49,340	35,875	37,507	30,639	27,241	23,183	20,884	19,784	15,489
6,095	5,976	6,177	5,896	5,535	5,033	4,523	4,308	3,193
63,548	62,307	55,710	51,703	50,493	46,122	42,292	42,684	48,232
2,032	1,663	1,111	1,061	1,293	849	699	694	425
823	637	448	599	655	429	345	337	162
1,209	1,026	-2,487 <sup>3)</sup>	462	638	420	354	357	263
-	310	269	234	203	152	137	142	116

3) includes deliveries of C1 from 2000    4) from 1998 figures exclude suspended contracts of employment, employees in the vacation phase of pre-retirement, low-income earners

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**BMW Group Locations. With 23 production and assembly plants, 27 sales subsidiaries and a research and development network the BMW Group is present in the worldwide markets.**





#### Headquarters

#### Research and Development

Forschungs- und Innovationszentrum (FIZ), Munich  
 BMW Technik, Munich  
 BMW Car IT, Munich  
 Designworks, Newbury Park, USA  
 BMW Motoren, Steyr, Austria

#### Production

Berlin plant  
 Dingolfing plant  
 Eisenach plant  
 Goodwood plant, GB  
 Hants Hall plant, GB  
 Landshut plant  
 Munich plant  
 Oxford plant, GB  
 Regensburg plant  
 Rosslyn plant, South Africa  
 Spartanburg plant, USA  
 Steyr plant, Austria  
 Swindon plant, GB  
 TRITEC Motors Ltda., Curitiba, Brazil  
 (Joint venture with DaimlerChrysler)  
 Wackersdorf plant

#### Assembly plants

CKD Production Hanoi, Vietnam  
 CKD Production Jakarta, Indonesia  
 CKD Production Kaliningrad, Russia  
 CKD Production Cairo, Egypt  
 CKD Production Kuala Lumpur, Malaysia  
 CKD Production Manila, Philippines  
 CKD Production Rayong, Thailand  
 CKD Production Toluca, Mexico

#### Sales subsidiaries

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

## Glossary

### [ACEA]

Abbreviation for “Association des Constructeurs Européens d’Automobiles”. European automobile manufacturers association.

### [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 do justice to the responsibility for the future. For this reason, the BMW Group will establish itself in the long term in 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.

**[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.

**[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.

**[E-Business]**

The BMW Group sees E-business as both a challenge and an opportunity for the entire Company. The strategic significance of E-business lies in the greater process orientation and networking of current structures and processes, with a clear focus on the customer. E-business therefore supports the BMW Group's objective to grow profitably. All of the company's E-business activities are driven from the perspective of daily business, helping to optimise and improve processes. The primary focus is not on cost reduction, but rather on benefits, flexibility, quality and customer satisfaction. The aspect of speed is of particular significance.

**[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.

**[IAS]**

Abbreviation for "International Accounting Standards". Accounting standards which are intended to ensure global comparability of accounting practices and financial reporting. They are issued by the International Accounting Standards Board (IASB).

**[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 becoming demanding, the BMW Group has started to develop a new sales and production system.

#### [Major 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.

#### [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.

#### [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.

#### [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.



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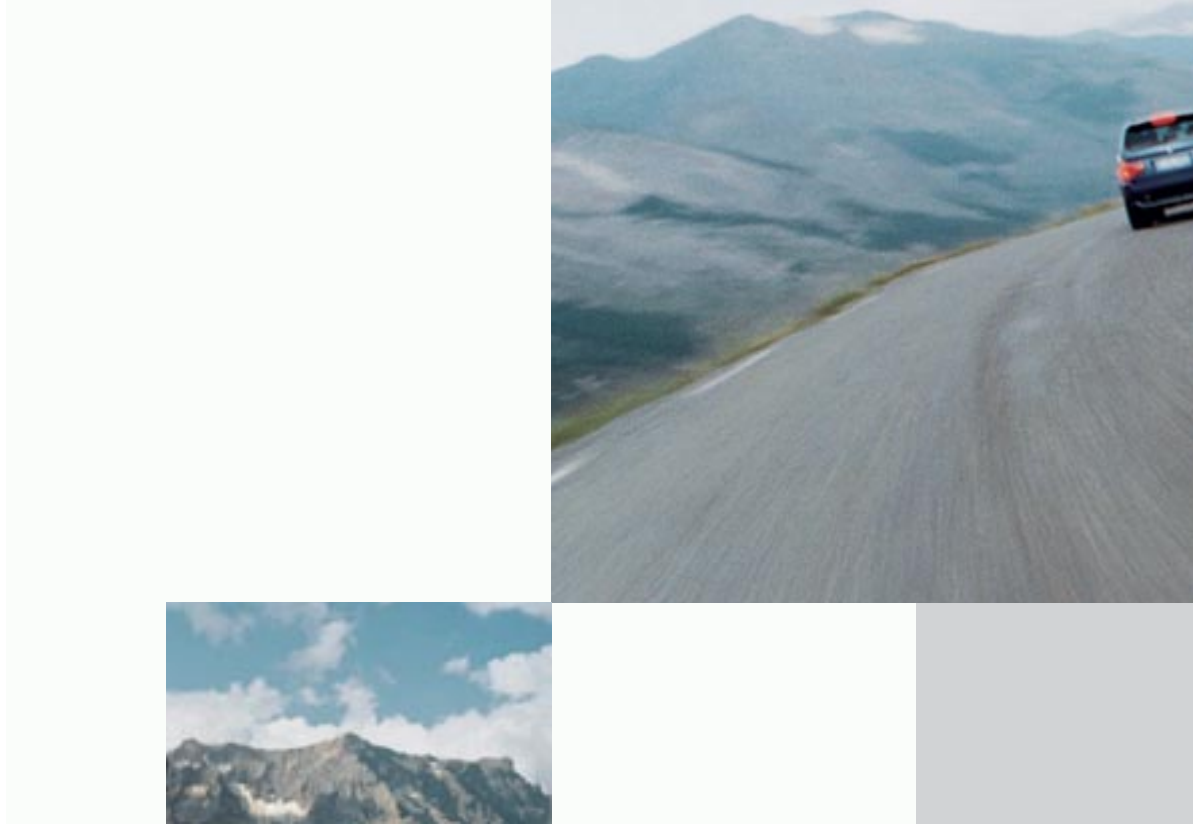
Energy consumed per unit produced 24  
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This version of the Annual Report is a translation from the German version. Only the original German version is binding.

**Driving ahead.**



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Driving ahead. In thought and in action. For the BMW Group, this is both an aspiration and a motivation. The will to be ahead is the result of a passion for mobility that is felt throughout the company, a continued drive for improvement. From this aspiration flows the energy that makes the company successful. The commanding freedom to take courageous decisions and to beat new paths, certain that they are the way to the goal. Paths that open up leads and secure profitable growth. Long term. Driving ahead.

## Preface



Helmut Panke  
Chairman of the Board of Management

Ladies and Gentlemen,

2002 saw the BMW Group forcefully continuing the successful development of its business as it had over the past years. In a partly difficult marketplace, we once again surpassed the previous year's record levels in deliveries, revenues and profits. For the first time in company history, we delivered more than a million BMW and MINI brand cars in a single year. At the same time, we sold more BMW motorcycles than ever before, and in the Financial Services segment as well, our positive business development has continued.

In addition, 2002 was a year in which we attained important milestones in the evolution of the company. One example was the introduction of the MINI brand across the world. MINI now stands for the successful establishment of the premium claim in the small vehicle segment in over 70 countries. Having taken over brand responsibility for Rolls-Royce motor cars at the end of the year, we have now rounded off our brand portfolio in the absolute top segment.

The year 2002 has thus served to prove the BMW Group's performance once again. The year has shown that a strong team with a common determination to succeed can achieve a great deal. It is this determination which marks out the employees of the BMW Group, which leads our company to accept ever new challenges – and which makes the BMW Group so successful.

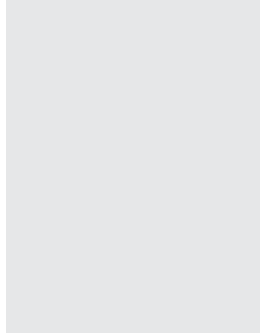
We will continue to apply our strengths resolutely, thus laying the foundation for the continuing success of the BMW Group. In doing this, our goal is to achieve long-term growth with our established model ranges in existing markets, while at the same time expanding into new markets and with new models.

Our current product and market offensive will propel our company into a new dimension: deliveries by the BMW Group are to rise to 1.4 million automobiles by the year 2008. At the same time, we will continue to strengthen our presence in international markets. New subsidiaries and additional production facilities will create the prerequisites for a successful implementation of our plans.

The year 2003 will demonstrate the scale of our activities. This year, we will be introducing more new products than ever before in the history of the company, commencing right from the beginning of the year, as the new Rolls-Royce Phantom was delivered to its first customer on January 1st.

As for the MINI brand, a diesel version will complement the existing line-up and contribute to the further success of the MINI brand.

The BMW brand will see the new BMW 5 Series introduced in the course of the year. In addition, the BMW Z4 will be introduced in Europe and Asia, as will be three updated versions of the 3 Series in the first quarter of 2003. Finally, at the end of the year, we will be presenting two new model lines, namely the BMW 6 Series Coupé and the BMW X3. We will continue on this expansion



course through 2004, when we will be launching, among others, the new BMW 5 Series Touring, the 6 Series Cabrio and the new BMW 1 Series.

As we broaden our product offering in 2003, we will also strengthen our international presence and strategically open up new markets. More specifically, it is the rapidly growing markets in Eastern Europe and Asia, above all in China, where we see opportunities which we will aim to take advantage of – an aim we are confident of achieving. In doing so, we will be able to leverage our positive experience which we have gathered in building up our plant in Spartanburg in the US state of South Carolina, and, as a consequence, in opening up the US market.

2003 will be another year in which we will commit considerable resources to further our corporate strategy and to advance the BMW Group's product and market offensive. In doing so, we remain committed to managing and financing our growth by ourselves. We will again be investing a good part of our profits into our future, just as we did in 2002. By doing so, we will be creating substance, which is paramount to our growing into a new dimension.

Our goal remains unchanged: we are committed to being the most successful premium manufacturer in the automobile industry, with a comprehensive product offering for all relevant market segments. This is the goal we are aligning our strategy onto: we will continue to rely on the premium segments of the inter-



national automobile and motorcycle markets. BMW, MINI and, more recently, Rolls-Royce provide us with brands to build on which could not be stronger. These brands will enable us to go on writing the BMW Group's successful history and to prove this company's strength once again in 2003. It is a strength which we will be exclusively applying to the task of making good on the premium claim – that is to say, to what we do best.



Helmut Panke  
Chairman of the Board of Management



Driving ahead. Again and again.

Think ahead. Anticipate.

What are the concepts  
for tomorrow? In

technology, business and

society. What does

the customer want,

though he may not

yet know it? Discover

possibilities. Accelerate.

Generate visions.

Challenge the conventional.



Find new ways.

New thoughts. Ideas.

Utopias? Specifically permitted! The bounds of reality? Near enough. Relish unusual concepts. Think mobility, unthought-of as yet. Power ahead.

Consider. How much future is feasible?

What does research tell us?

What are society's needs?

The technical options?

Assume responsibility.

For humankind and the

environment. Explore

opportunities. Above all:

remain independent. Pursue a distinctive course.

Power ahead. Make decisions. What are the goals?

Cost. Benefit. **Efficiency.**

Petrol in the veins, numbers in mind. **And always: a passion.**

For mobility. Technology and design. **Show courage.**

But bear in mind the laws of physics.

Power ahead. **Implement.**

Combine abilities. **Motivate.**

The company: a networked system, working towards a goal. **Improve.** And improve again. Test. Unbending physical forces and one's own principles.

**Perfection,** with no loss of imagination. Realise visions.

Driving ahead. **Again and again.**



Technology that serves the individual. The driver. The vehicle. Transportation and the environment. Those are the starting points for innovation at the BMW Group. Technology needs to serve the individual. This is the all-embracing theme for all efforts in research and development. Witness the mobility concept ConnectedDrive: innovative telematics and on-line services as well as driver assistance systems provide more safety, efficiency and comfort in traffic.



Driving ahead.

Leave behind the conventional to  
learn to think differently. To take  
new paths. To network knowledge.  
Find innovations. And  
translate them into  
advantage. Technology for a  
new understanding between  
driver, vehicle and environment.  
For more safety. Driving  
pleasure. And less consumption.  
Act responsibly. Out of  
passion for mobility.  
The status quo? Just the start  
of something better.  
Driving ahead.





## Thinking the new

Better decisions, safer driving. The driver is and will remain the centre of events. Technology can come to his aid, but it should not override his judgment where only he can make decisions.

**Active Steering for active drivers.** With Active Steering, the BMW Group has set new standards in agility, comfort and safety. The core element of the Active Steering system is a planetary gearbox integrated into the steering column. An electric motor generates a greater or reduced steering angle depending on the situation. At the same time, adjustable power steering takes control of steering wheel torque. These two components ensure that the steering angle of the front wheels and steering wheel torque can be adjusted to the current driving situation. The permanent mechanical link between steering wheel and front wheels guarantees not just fully maintained steering functions, but at the same time guarantees that the authentic feeling of steering remains.

At extremely low speed, as when manoeuvring or driving in town, a slight turn of the steering wheel will be enough to turn the front wheels at maximum angle. At higher speeds the steering transmission becomes increasingly indirect, reaching the level of conventional steering and even going beyond this. This ensures excellent directional stability. Moreover, in critical situations the system can stabilise the vehicle much faster than a human driver can.

**Active accelerator pedal – intuitively safer driving.**

Developed by the BMW Group, the active accelerator pedal gently applies counterpressure against the driver's foot when current speed appears excessive in view of traffic conditions. A variety of sources may generate this guidance to reduce speed – the on-board navigation system, for instance, operating on the basis of a navigation DVD containing exact information on road topography. Radar sensors also deliver important data. If a slow-moving vehicle is detected ahead, counterpressure from the accelerator pedal reminds the driver to keep his distance. Anytime this is necessary, as before overtaking, the driver may override the active accelerator pedal simply by pressing down slightly harder.

**Safe and easy parallel parking.** With the Parking Assistant, currently under test at the BMW Group, even short parking spaces will no longer be a problem.

A sensor determines the size of a parking space as the car drives past it. If the space is large enough, the driver is immediately informed. He can then stop, shift into reverse and activate the Parking Assistant. On pressing the accelerator, the car steers itself into the parking slot at an ideal angle with an electric motor taking over steering.

**Awake or tired – a look in the eyes will tell.** According to a study by the German insurance industry, 24 per cent of all fatal autobahn accidents are caused by momentary nodding off. The BMW Group is currently testing a system designed to reduce this danger. The system, developed in conjunction with Würzburg University, uses a camera to monitor eyelid movement in determining the driver's level of alertness or tiredness. If it finds he is getting too tired, it will warn him to take a break well before he reaches a state where nodding off becomes a real danger.

**25 years of BMW Driver Training.** The BMW Group has been offering professional Driver Training for car drivers and motorcycle riders for as long as 25 years. In 2002 alone, more than 15,000 participants took part in over 1,100 BMW Driver Trainings, where they were taught how to spot danger on the road and how to avoid it or, failing that, how to prevent accidents using the right driving skills.

Back in 1977, BMW became the first manufacturer to go beyond merely improving the active and passive safety of its vehicles, moving to include the training of their users. Today, these courses are held in 14 countries, from Argentina to the United Arab Emirates, with more countries looking to join.





BMW pixel headlight: navigation instructions projected onto the road

The automotive industry will sometimes progress in small steps, sometimes by giant leaps – now evolutionary, now revolutionary – innovations by the BMW Group are a case in point.

**Light from the future: BMW pixel headlight.** Ultra-precise new light distribution is made possible through pixel headlights. This is done by placing 480,000 tiny micromirrors onto a DMD chip (Digital Micromirror Device) and substituting them for a conventional reflector. These minute mirrors then beam the light onto the road. Each mini-reflector can be individually controlled and oriented by computer. This opens up new functions hitherto unavailable, such as a permanent, dazzle-free high beam, where the beam is blacked out in the area around the eyes of an oncoming driver. Road surface markings may be brightly illuminated and navigation and warning signs projected straight onto the road.

**The vehicle as a traffic observer.** To provide timely and accurate traffic information, the BMW Group has developed “Floating Car Data” (FCD), a vehicle-based data capture system. Effective autumn of 2001, this system is available in all BMW automobiles equipped with the BMW ASSIST telematics service. This turns each of these vehicles into a mobile sensor, transmitting traffic information auto-

matically, anonymously and free of charge to a control centre. There, all the information is entered into a database to reflect traffic conditions in real time. Using this data, BMW's on-board navigation system can plot an alternate route around a traffic delay. Floating Car Data's advantage is that it provides a comprehensive overview of the traffic situation – with no need for any additional data capture infrastructure.

But that is not all: for an even more detailed evaluation of driving conditions, the BMW Group is at present developing an extended version of this system – Extended Floating Car Data (XFCD). The idea is to leverage the multitude of data available in a modern vehicle to generate traffic and weather information. This may include, for example, information on the use of low beam, high beam and fog lamps, of anti-lock braking system (ABS) and the Dynamic Stability Control (DSC) with Anti Spin Control, the external thermometer and the windscreen wipers. Using positioning data from each transmitting vehicle, the control centre can generate a detailed real time representation of conditions and dangers across the entire road network.

**Light turns the corner.** As early as this year, adaptive headlights are being introduced in series production vehicles bearing the BMW brand. Two orientable headlights can swivel up to 15 degrees to the right or left and so illuminate the road ahead more effectively. The algorithms developed by the BMW Group steer the light beam as the driver turns the wheel, adjusting for the specific driving situation and vehicle speed. In its next stage of development, adaptive headlights will use additional information obtained from GPS navigation and digital roadmaps. Adaptive headlights will then even illuminate bends immediately before the steering wheel is turned.

**19,050 rpm – the benchmark in Formula 1.** This standard was set by BMW in 2002 with its ten-cylinder Formula 1 motor. This high-revolution engine with up to 900 bhp enabled Juan Pablo Montoya to achieve a world record lap time in qualifying for the Italian Grand Prix at Monza. Since the start of the 2000 season, when BMW returned to Formula 1, engine speed has steadily increased from 17,000 to 19,000 revolutions. This has put this lightweight engine into the top of the premier class of motor racing, and no competitor so far has challenged that position. These engines provide insights which continually feed through to series production. Thus, this technology transfer benefits all BMW drivers.

## Thinking the new

Intelligent solutions for traffic and the environment. Congestion is no immutable natural phenomenon. Petrol and diesel are not the only realistic energy sources. Two examples of many for the future of mobility: here and in numerous other fields, the BMW Group is developing new solutions.

**24 per cent shorter journey times are feasible.** In Germany alone, congestion entails an annual economic cost of euro 100 billion. The BMW Group has been researching innovations to optimise existing traffic systems for more than a decade now. Latest highlights include ACCEZZ (Adaptive and Coordinated Control of Entrance Ramps with Fuzzy Logic), an intelligent system designed to reduce or avoid congestion.

ACCEZZ's "Ramp Metering" controls a traffic light that regulates the flow of cars driving onto a motorway so that ramp traffic and motorway traffic merge smoothly to form an even stream. Simulations have demonstrated that in this way, total journey time can be reduced by up to 24 per cent, with waiting time at ramps reaching no more than just over two minutes.

As part of the key MOBINET project supported by the German Federal Ministry for Education and Research, the system is undergoing testing at a number of traffic hotspots in the Munich area and has delivered very promising first results.

**CleanEnergy conserves resources.** With a strategic policy of introducing hydrogen as a sustainable energy source for the future, the BMW Group is

resolutely following this goal in order to ensure individual mobility for tomorrow. It will be during the lifetime of the current BMW 7 Series that the BMW Group will deliver the first variant to be powered by a hydrogen-powered engine to customers. Independent specialists have confirmed hydrogen's huge potential. In recognition of its contributions towards introducing hydrogen as an alternative power source, the BMW Group was awarded the National Hydrogen Association's "Robert M. Zweig Memorial Public Education and Outreach Award" in June 2002 at the 14th World Hydrogen Congress in Montreal.

**The future of mobility.** At the end of 2002, the BMW Group, Lufthansa and German Railways presented traffic scenarios for the year 2020 as part of the research project "Future of Mobility", which is backed by the German Federal Ministry for Education and Research. Under the direction of the Institute for Mobility Research (ifmo), a research institution at the BMW Group, some 50 experts from different scientific disciplines and companies worked out how mobility and traffic could develop in Germany by the year 2020. Their conclusion: political, business and community leaders need to start today to create the necessary structural conditions – and not wait until they have come under the pressure of the events.

The aim is to use this joint research project for an extensive dialogue between the major players in Germany's transportation economy and to elaborate a useful guideline for necessary future decisions on traffic policy.

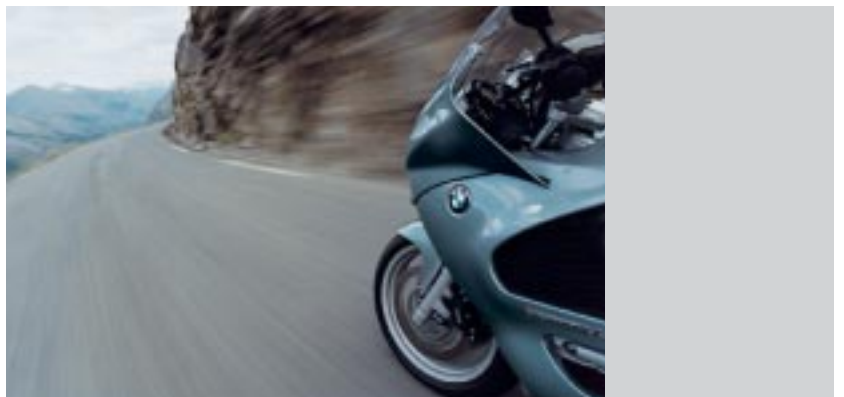


Innovation on two wheels. The same philosophy applies to BMW motorcycles that applies to four-wheel vehicles: innovative technology creates more efficiency, safety and comfort. And it contributes to the environmental compatibility of mobility.

**High tech in motorcycles and in automobiles alike.** Stress-free riding is aided by the first integrated navigation system, which BMW has developed for the K 1200 LT. In addition, a range of electronic and electrical comfort features is available for the K 1200 LT, such as seat heating, on-board computer, cruise control and a sound system with a CD changer.

**Improved exhaust emissions and reduced fuel consumption.** Exhaust emission treatment has long become a tradition at BMW. In 1991 the first fully controlled catalytic converter was introduced into series motorcycle production, in the 4-cylinder engines of the so-called K Series. The technology was then extended step by step across the entire BMW motorcycle model range. Since 2000 all models have been fitted with the fully controlled, three-way catalytic converter as standard equipment. The dual ignition for the four-valve boxer engine, first introduced at the end of 2002, further improves exhaust emissions while reducing fuel consumption at the same time.

**Integral ABS – on or off.** As early as the late eighties, BMW was breaking new ground with the first series production anti-lock braking system (ABS) for motorcycles. Continuous development eventually led to the introduction of Integral ABS, in 2001. This further expanded BMW Motorrad's leadership in brake system innovation. The first motorcycle ABS to feature electrohydraulic brake servo, it ensures the shortest possible stopping distance while providing the best possible distribution of brake power between the front and rear wheels in any situation. 2002 saw the introduction on the R 1150 GS of an Integral ABS that may be deactivated for off-road riding.





Driving ahead.

Beyond the horizon there lie  
**opportunities**. Going for  
growth means following  
the markets. Having **clear**  
**goals**. Watching the world  
closely. Probing. Analysing.  
**Being courageous**.  
Going where the opportunities  
are. **Putting down roots**.  
And linking each site into a  
**global strategy**.  
Witness Spartanburg, USA.  
Power ahead. Worldwide.



**A major step.** Spartanburg, South Carolina, 1992: the ground-breaking ceremony marked the beginning of construction on BMW's first complete manufacturing plant outside Germany. Today, ten years later, it is clear that the decision taken on Spartanburg was one of the most important decisions for the internationalisation of the BMW Group. It is true that erecting a new plant is always a significant step, but the decision regarding Spartanburg was about more than that. It was about breaking through into a new dimension, regionally as well as with products. It was about firmly anchoring the BMW Group in international markets. Spartanburg represents the strategy best described in the expression "production follows the market".

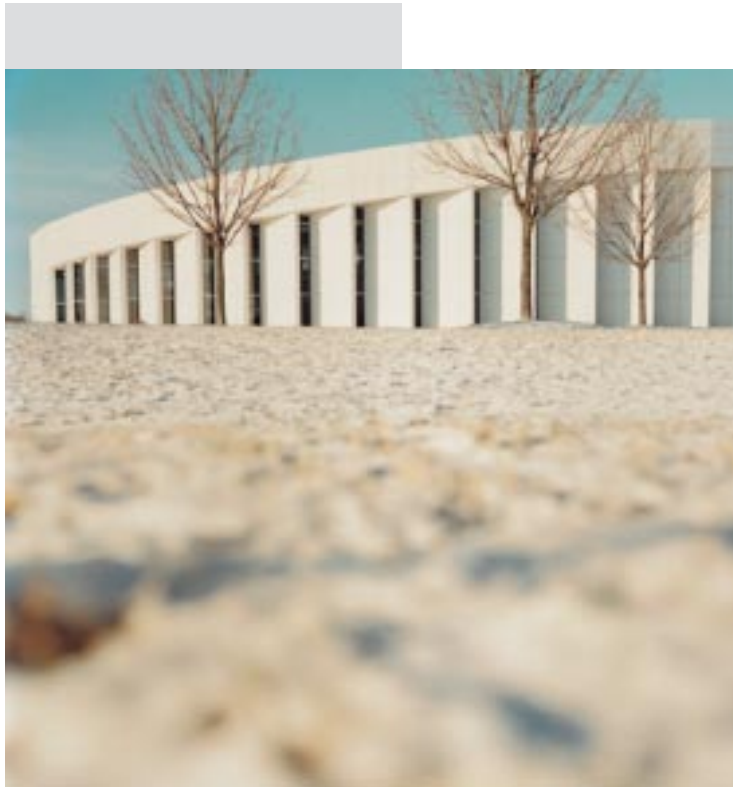
Before this step, the BMW Group was an internationally active motor car manufacturer with a central pivotal point in Bavaria. In locating at Spartanburg, the BMW Group decided to establish a firm presence in international automobile markets – and today possesses a second strong pivotal point in the most important automobile market in the world. This relates not just to the orientation of production and sales, but also to an openness vis-à-vis international influences in research and development, management and corporate culture. Future international manufacturing facilities will build on the good experiences at Spartanburg.

The decision on Spartanburg was the first step towards a sustained internationalisation of the BMW Group. That is why from the start, the new plant was geared to be a full and integral part of the BMW Group's production network.

Over the years, the BMW Group has invested some two billion US dollars in the plant, expanding capacity step by step. Though plans had projected a production level of 50,000 vehicles per year in the initial stages, 2002 production exceeded 120,000 automobiles.

Whether a customer in Thailand orders a BMW Z4 or one in Sweden opts for a BMW X5, the vehicles in these series are built at the BMW plant at Spartanburg – exclusively, for the entire global market. This export orientation was new in 1992 for a non-American manufacturer's plant in the USA – at the same time it constituted a key motivating factor for the employees in South Carolina. One of the challenges in setting up the plant was to export processes and corporate culture from the BMW Group to the USA and to adapt them. That has been a success: consider, for example, the fact that the BMW Z4 reached its planned daily production capacity in just three months – and thus in record time.

Go where the markets are



**Sustained integration.** The BMW plant at Spartanburg has also greatly influenced its region. Thus, more than 4,700 individuals are employed at the plant itself today. Beyond this, the site has contributed to the creation of more than 12,000 additional jobs. According to a study by the University of South Carolina, each new position created at the plant results in nearly three new workplaces being created outside it.

Around the plant, a dense net of suppliers has developed. In South Carolina alone the BMW Group works with more than forty suppliers, in the whole of the NAFTA area (USA, Canada, Mexico) the number is 135. As a comparison: in 1992, before the decision on the new plant, the BMW Group had only five suppliers based in South Carolina.

Under the influence of the BMW Group's locating in Spartanburg, local employees' levels of skills have continually strengthened. South Carolina maintains a good technical education and training system. In addition, there are intensive training and learning programmes as well as a frequent exchange of employees between South Carolina and the other sites in the worldwide production network of the BMW Group. This has steadily enabled the BMW plant at Spartanburg to recruit its specialists and managers on the local labour market: ten years ago, only 40 per cent of management were American. Today, that proportion has risen to 90 per cent.

Go where the markets are



[1]





[2]

William Barnet III, Mayor, Spartanburg, SC. [1] "In the last five to ten years, there has been a change in the way education is valued in this state. Without the new companies that have come here, this journey would have been much more difficult."

Dr. Douglas P. Woodward, University of South Carolina, Columbia, SC. [2] "South Carolina is in a much better shape today relative to globally competitive manufacturing than it was ten years or so ago. That has helped a lot of communities throughout the state."

## Go where the markets are



[3]

David Swenson, Greer Development Corporation, Spartanburg County, SC. [3] "Our city's population has expanded by 63 per cent since 1990. The community has experienced improvements in the education system, healthcare facilities, cultural and recreational amenities, and overall commercial and residential developments. This growth has primarily occurred due to the increase in our manufacturing base."

William Rhodes, Price's feed store, Greer, Spartanburg County, SC. [4] "BMW's plant is a great part of our local economy."



[4]



[5]

Lieutenant Eric Pressley, Greer Police Department, Spartanburg County, SC. [5]  
"Kids' Planet is a community-built playground that also caters to the needs of handicapped children and is supported by BMW. Having the Kids' Planet and BMW's driver's training course attracts a large number of folks to our city. Our motto at the Police Department is 'policing is a partnership', and BMW has proven to be one of our best partners. The BMW plant has been a tremendous asset to our community."

Go where the markets are

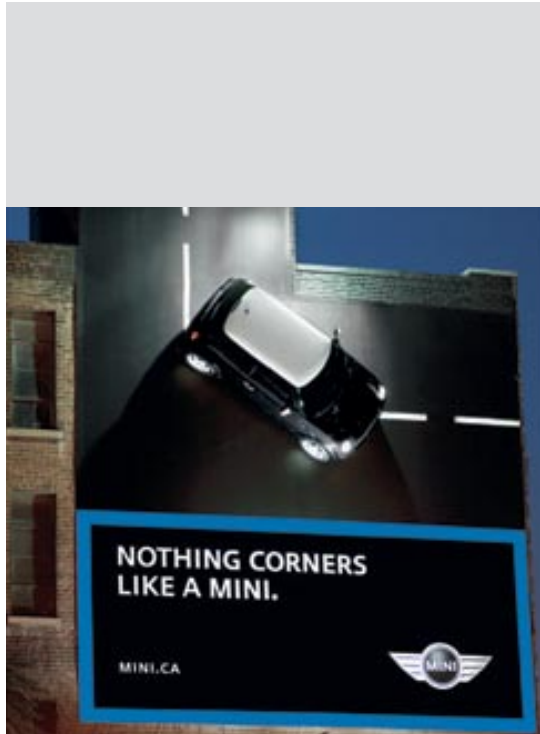


**Internationalisation continues.** The Spartanburg BMW plant has thus found its place – within the company as well as within the region. In achieving this, it has set an example, particularly for future plants in the BMW Group. Wherever they may be located, these plants will always strive firmly to anchor the BMW Group in the region, while at the same time working as an equal within the production and innovation network. In the coming years the BMW Group will invest considerable sums in the expansion of this network, one result being the start of series production at the new BMW plant in the Leipzig/Halle region in 2005. In Great Britain the corporate headquarters and manufacturing facilities for Rolls-Royce motor cars have just been completed. In Oxford, capacity for MINI production has been significantly increased. In the other plants of the BMW Group as well, extensive investments are being undertaken year after year, to expand and further develop production. The fact that the plants are inter-linked means that any investment in increased production capacity, new technologies and processes, benefits not just the plant itself, but the entire production network.

In the coming years, this network will further strengthen the presence of the BMW Group on the world market. The BMW plant in Rayong, Thailand, will play an important role in this respect. Depending on further development of the Asian Free Trade Area (AFTA), the intention is to expand it, step by step, from an assembly plant to a full automobile plant and thus further to strengthen the position of the BMW Group in the markets of Asia.

In China, the BMW Group's plans for the production of BMW automobiles under a joint venture with a Chinese partner are advancing. The BMW Group assumes that production could start as early as the second half of 2003, aiming for an initial volume of some 30,000 vehicles. The BMW Group is striving to repeat in Asia the successful development it has achieved in other markets to date – one example being the move to South Carolina.

With the Spartanburg plant, the BMW Group has achieved a breakthrough towards a continuing expansion of the company. The plant is both a symbol and a milestone for the development of the BMW Group's business – for the internationalisation of the company, for the expansion of its product range and, once again, for the successful path taken by the BMW Group.





Driving ahead.

Go new ways, find new customers. Sense, understand what people want. And do not know yet. Develop strategies. Then make the right decision, strike the right tone. Position a brand clearly. Capture a market. Small size. Great enthusiasm. 100 per cent premium. MINI – a strong brand. An exceptional story. Tremendous success. All over the world. Power ahead.







## Develop new segments



**Enthusiasm in Great Britain.** Great Britain 2002: one year after launch, enthusiasm for the MINI in its mother country remains unbroken. The dealers in Great Britain experience a rush. Everyone wants to see it, touch it, drive it. Would-be buyers wait patiently in long queues for their chance to experience the MINI close up. Many customers even sign contracts without having seen or driven the MINI. Young and old are taken by the MINI: a grandfather bought his granddaughter a new MINI Cooper. Too bad it will now have to sit in the garage for fourteen years since she is only three years old.



**USA – MINI is back.** USA, 22 March 2002: MINI Cooper and MINI Cooper S return to America. 35 years after the last Mini was sold in the USA, the MINI brand experiences a unique success story. Under the motto "Let's motor", the MINI hitches a ride into major cities on the back of big SUVs (sports utility vehicles) or vans. "Monday Night Football" sees the MINI live sitting in the stands, right in the middle of the fans.

Enthusiasm for the MINI shows up in sales figures, too. From year one, the USA proves to be the second largest market for the MINI. Of particular note: at the start of this year's Detroit Motor Show the MINI was voted North American Car of the Year 2003. And the story goes on.



MINI is on track. Following the launch of the MINI One and MINI Cooper in Germany in 2001, the two models are joined by the MINI Cooper S in June 2002. MINI dealers are working flat out. Everyone wants a MINI. MINIs sitting in car parks are a real magnet, drawing large crowds in no time at all. Fingerprints on paintwork and windows show that people need to feel and touch the MINI. Owners turn into ambassadors for the MINI, fielding questions about vehicle details. Unusual marketing activities underscore what the MINI is about: MINI = fresh and unconventional.



**Mission MINI – fiction becomes reality.** June 2002: Mission MINI begins. Best-selling author Val McDermid writes a short detective novel with an open ending. The story: in a mysterious art theft, collages by New York artist Peter Halley disappear from a gallery in Barcelona. The unsolved detective story plays out in reality. Ads appear in magazines and on the Internet recruiting private eyes willing to team up with MINI to hunt down the culprits and return the collages to the gallery.

Barcelona, November 2002: 84 amateur sleuths from 17 countries form 21 teams to investigate the Mission MINI crime scene. They do the legwork, visit the scenes of the crime, analysing and evaluating evidence and clues. Quizzing witnesses and informants. Driving a MINI Cooper S, the detectives hunt down the criminals through the streets and alleys of Gaudi's home town. After 36 hours the team from Germany has solved the case. The progress and conclusion of the hunt winds up the detective story originally left unsolved by the author. Mission MINI: fiction becomes reality.



**MINI in the land of the rising sun.** Japan, 2 March 2002 – the best date on which to launch the MINI in Japan, because 2 March can be said as “MI-NI” in Japanese. The MINI models are welcomed enthusiastically. Showrooms are forced to close their doors during the first days because of overcrowding. People pack around the vehicles on display. Those who can't get in wait patiently outside. The MINI is a winner. It puts people under a spell. The oldest Japanese MINI owner is a proud 81. She drives a red MINI Cooper. It's plain to see: the MINI is a “timeless original”.



## Develop new segments



**MINI successful worldwide.** More than 144,000 MINI automobiles sold in the year 2002 speak for themselves: the MINI is well on its way worldwide, the emotional positioning of the MINI brand and the establishment of the premium small-car market segment have been a success. Following all those launches, some of them spectacular, the MINI is now available in more than 70 markets around the globe. In the MINI, the BMW Group has created a global small car that is successful in Asia, Europe and North America.

To meet the large demand for the MINI models, capacity at the Oxford plant has been continuously expanded. The BMW Group has invested some £230 million, or around euro 340 million there. During 2002 production capacity was increased step by step, making use of flexible working schemes to cope with the heavy demand. The result: in the year 2002 more than 160,000 vehicles of the MINI brand ran off the line at the Oxford plant.

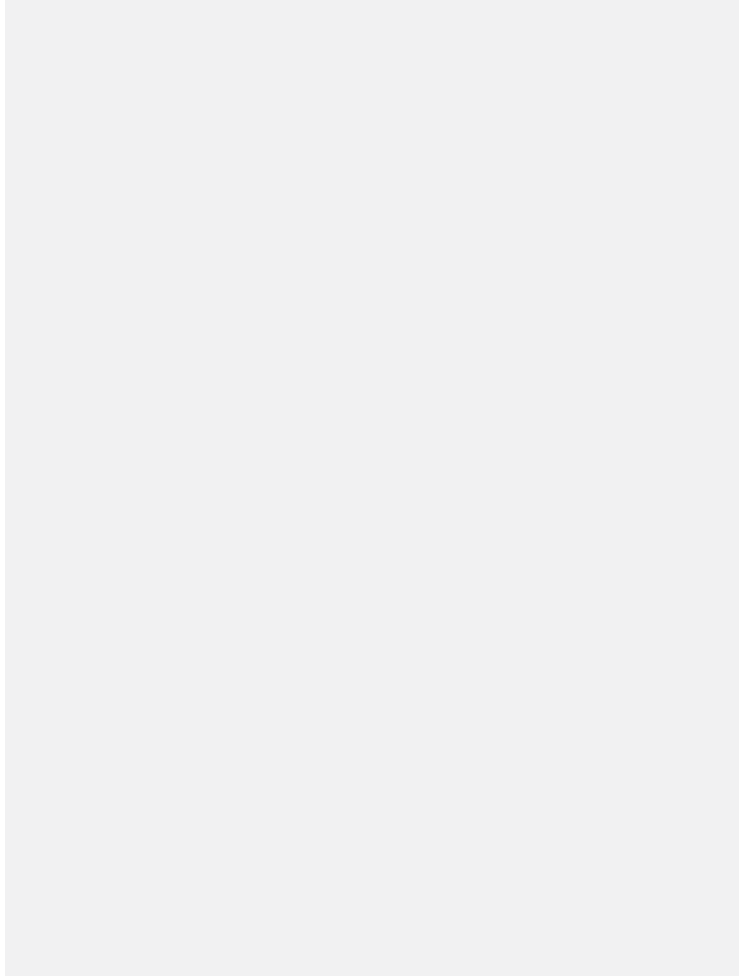
2002 saw the first additional investments at the Oxford plant, which were geared to meet the high demand for the Cooper and Cooper S models. One example was the expansion of capacity for spraying the roof in a second colour, as this is standard on the MINI Cooper and MINI Cooper S.

The vehicles of the MINI brand have allowed the BMW Group to broaden its product range: the MINI is a significant component in the product offensive of the BMW Group. At the same time the MINI brand opens up additional growth potential for the BMW Group, widens the customer base, and so contributes to the continuing success of the company. More than 50 per cent of the customers who opt for a MINI brand vehicle are completely new customers for the BMW Group.

After an extraordinarily successful launch phase, the goal of the BMW Group now is to consolidate and further expand the success of the MINI. On its way to this goal the company is supported by two market trends. Firstly, the small car market is set to grow by about 50 per cent over the next ten to twelve years from the 8.4 million units sold in 2001. And secondly, the market for premium products is clearly growing faster than the total market. Particularly in the small car market, the number of customers who will not compromise on safety, quality and driving characteristics is rising faster than average. The same applies to the trend for individualisation of the automobile. For these reasons, the BMW Group is confident of being able to continue the success story of the MINI in the coming years.

Experience the MINI production at the Oxford plant online: [www.MINI.com/manufacturing](http://www.MINI.com/manufacturing)





Driving ahead.

There is a world running on its own time in its drive for perfection. People in search of the unique, of perfection and presence. Rolls-Royce.

Almost 100 years of automobile manufacturing in peerless coherence. Created by specialists.

To a standard so high only the best of the best will do.

Out of tradition. Driving ahead.





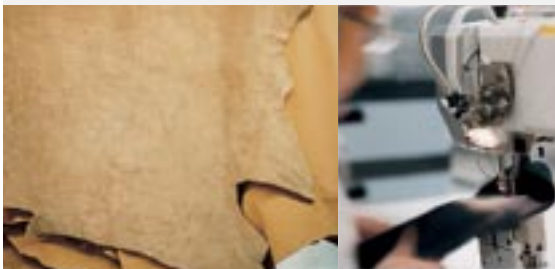
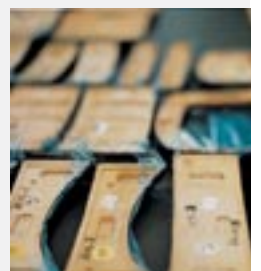
“Strive for perfection in everything you do. Take the best that exists and make it better. When it doesn’t exist, design it.” Sir Henry Royce

Words on which a legend is founded. A maxim transfused by the drive for perfection. That is the standard for Rolls-Royce. From the very beginning, its hallmark has been an unrivalled dedication to a motor car, where nothing less than perfection will do – in all its minutely tuned details. For that is what makes a car a Rolls-Royce. Something that goes beyond the mere sum of its already perfect details. Something that is borne out by its sublime elegance, its perfect proportions and by a level of craftsmanship that is unmatched. These are the true roots of Rolls-Royce. Charles Rolls and Sir Henry Royce did not just found a motor car company in 1904: they created a philosophy which will accept only the best solutions an era has to offer.

“Accept nothing nearly right, or good enough.”

Sir Henry Royce

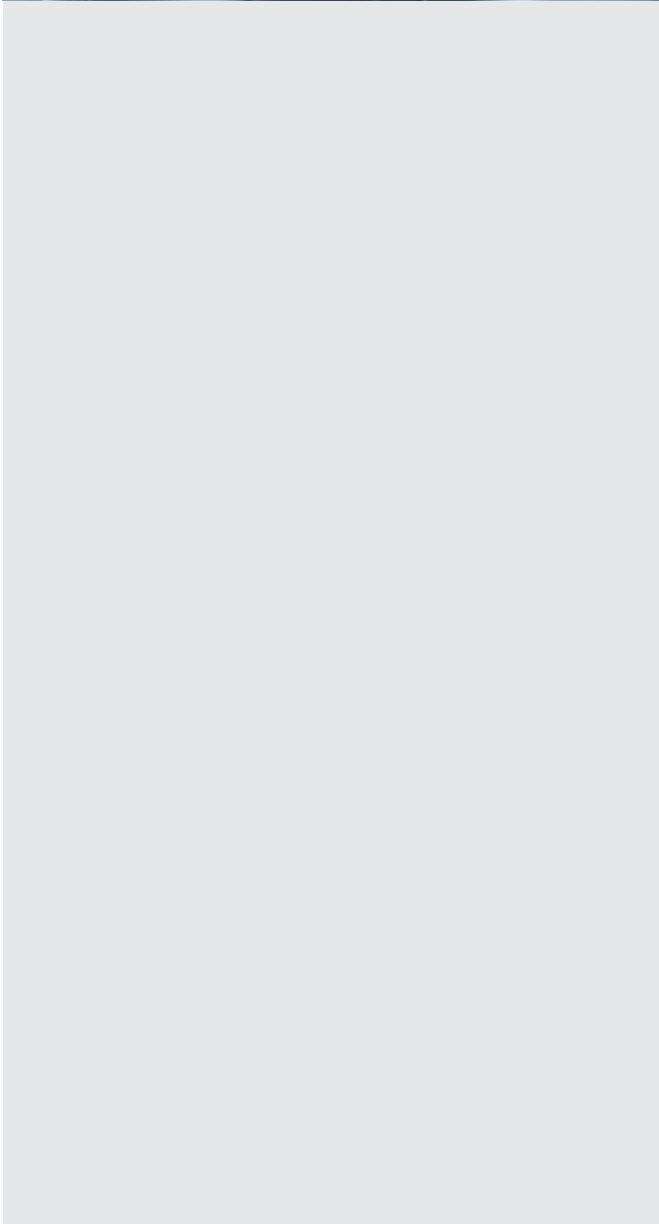
The commanding presence and effortless power of a Rolls-Royce on the road are beyond comparison. But this unique impression can actually be surpassed – by boarding the vehicle. It is the tangible quality and precision in detail, the flawless craftsmanship and the perfect coordination of all the individual parts that immediately captures the observer. An art that almost seemed forgotten – until a Rolls-Royce appears as a reminder that it is not. To build a vehicle like this, it takes engineers, technicians and craftsmen of calling. It takes specialists working together in a manufacturing plant and to whom it is an honour to take part in the creation of such a vehicle, and whose passion it is to build the best motor car in the world. It takes specialists steeped in a time-honoured tradition that makes them past masters in the finest work in leather and wood. It takes a quality evident to anyone who sits down in the vehicle. What looks like wood really is wood. And what feels like leather really is a leather such as no other. Even the grain in the veneer can be customised to the new owner's wish. There is hardly any request that Goodwood cannot fulfil.



“Rolls-Royce supremacy is the reward of superlative design and meticulous care in manufacture. Its secret lies in the proved excellence of the Rolls-Royce productions in Durability, Trustworthiness, Economy, Speed, Silence and Comfort.”

This statement appeared in a Rolls-Royce sales brochure as early as 1928. Since then, little has changed. Only the best and finest of materials will do, the best technologies, a unique power train, outstanding craftsmanship combined with the latest production technology, a lot of passion and a great deal of time. The result of all this is a motor car in which the most sought-after attributes of the past meld with the most innovative solutions of today: Rolls-Royce. And for the BMW Group a commitment to this legend in the passion.





Driving ahead.

Premium. Nothing else.

A clear strategy. Without exceptions. Understand the power of brands.

And put it to use. Do what one does best. Less risk.

More opportunities.

Profitable growth. Long-term. Power ahead.







## Purely premium

**Purely premium.** The BMW Group, with its brands BMW, MINI and Rolls-Royce, stands out from the industry in that it concentrates solely on the premium segment of the international automobile and motorcycle markets. This premium-brand strategy requires a thorough and uncompromising stewardship of the brands and their unique identities. Premium, after all, means added value – created through exceptional substance and quality of the brand products and all services connected with them. The brands stand for this promise of performance, which demands to be fulfilled time and again. To be successful in the long term, a premium manufacturer must rise to this demand and provide its customers with sustained added value in both rational and emotional terms. That is why the BMW Group concentrates all of its resources and all of its know-how onto maintaining the unique profiles of its brands and onto creating an unmistakable, brand-specific product substance. That is what makes a BMW, MINI or Rolls-Royce each so desirable in its own right.

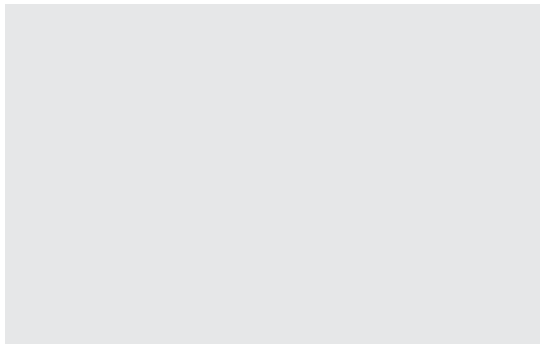
This uncompromised commitment to the premium claim will be the guiding principle for the BMW Group now and in the future. On this basis the current product and market offensive will propel the BMW Group and its brands into a new dimension. The aim is to provide premium vehicles geared to those market segments where the company can best play to its strengths and where an above-average potential for profits and growth potential is discernible.

Fundamental to this is the need to safeguard and further promote the authenticity of the individual brands and their products. In keeping with this, the BMW Group will focus the BMW brand exclusively onto those segments in which a typical BMW with its well-known values of dynamism, agility and driving pleasure can be offered. The same applies to the MINI and Rolls-Royce brands, each of which defines the premium concept in a unique manner.

The BMW Group's current product and market offensive follows this maxim. Recent evidence of this may be seen in the product line-up:

- in the BMW brand's new 6 Series, the X3 Sports Activity Vehicle and the new 1 Series, which considerably broaden the product portfolio of the BMW brand and let the BMW Group expand into new segments,
- in the MINI brand, with which the BMW Group is developing new market segments and tapping new customer groups,
- in the Rolls-Royce brand, which stands for expansion into the absolute top segment.

Over the next five years, the BMW Group will considerably expand the number of its models. On conclusion of the current product and market offensive, there will be a total of eleven model series in the BMW Group's product portfolio. This product portfolio along with the steadily expanding market presence, will further improve the economic performance of the BMW Group. The BMW, MINI and Rolls-Royce brands are the basis for this growth. And, though their brand profiles may differ, they have one thing in common: the customer will always be able to count on each of the brands to generate enthusiasm for their excellent products and services. Premium – nothing else.





Driving ahead.

Assume responsibility.

Be successful. Not

opposites. Quite the opposite.

Come up with answers.

For company and employees,

for the environment and society.

The BMW Group takes

responsibility. Learns. Researches.

Becomes involved. Starts a

dialogue. Driving ahead. Today.

For tomorrow.



Sustainability. It can be done. Why is the BMW Group emphasising sustainability? And what makes it a leading company in this field? Answers to these questions were given at the United Nations' Johannesburg Summit 2002.

The goal is not new: it is to ensure for the long term the economic success and growth in value of the BMW Group. The company's economic efficiency, after all, is a prerequisite for social and ecological sustainability. At the same time, responsibility towards humankind and the environment informs thought and action in all departments of the company.

Sustainability is firmly established as part of the corporate strategy of the BMW Group, which, as a leading international premium automobile manufacturer, seeks critical exchange in the creation of sustainable solutions, with various representatives in the fields of politics, business and society.

The World Summit on Sustainable Development, held in South Africa from August 26th to September 4th, 2002, provided a unique opportunity to intensify the dialogue on sustainability. At the largest UN world summit conference to date, the BMW Group presented its corporate environmental policy, its model for sustainable mobility, as well as specific economic, social and ecological activities to a wide international audience.

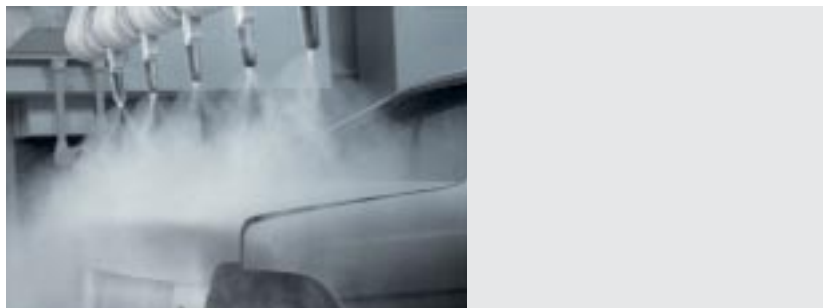
An exhibition at Sandton Square and in the EarthLounge erected by the BMW Group immediately next to the conference venue were at the heart of the BMW Group's involvement in the summit. The title of the BMW Group's presence, "Sustainability. It can be done", demonstrated that sustainability is more than a distant vision for the company. The twelve-metre high hemisphere representing the globe, EarthLounge, attracted great interest amongst summit delegates and the international media because of its spectacular architecture. The exhibition

## Assuming responsibility

and event forum became a symbol for the summit and a gathering point for some 15,000 visitors from all over the world. In addition, internationally renowned experts from business, politics, science and other communities met in the EarthLounge on eight evenings to discuss numerous aspects of sustainable development. The BMW Group also made the EarthLounge available to other organisations to stage events.

The central topics discussed by the experts were the social responsibilities of internationally active companies such as the BMW Group, sustainability and its growing importance for financial markets, Clean Production, and the BMW Group model for a sustainable mobility. This model includes continued development of environmentally friendly automobiles, mobility research by the BMW Group, and BMW CleanEnergy, a concept for the use of liquid hydrogen as an energy source for combustion engines in automobiles.

Solving important questions relating to the future will take more than the networked thought and work processes already in place at the BMW Group. It will require creating



Clean Production: Powder-based paint



alliances with external partners. This applies to technical implementation as much as to acceptance by the public. In this spirit, the BMW Group supports the German federal government's Clean Energy Partnership project, which aims to develop a suitable infrastructure for hydrogen as a future energy source in personal transport.

International partnerships and declarations on corporate sustainability are also supported by the company. These include the Global Compact of UN Secretary General Kofi Annan, the Cleaner Production Declaration of the United Nations' environmental programme (UNEP), and the UNEP Mobility Forum. In its value-oriented personnel and social policies, the BMW Group has committed itself to uphold the agreements of the International Labour Organisation (ILO) and the OECD.

Just how widely the topic of sustainability is being discussed was evident in Johannesburg from the large number of international experts who met in the EarthLounge. Amongst the speakers and guests of the BMW Group were the UNEP Executive Director, Professor Klaus Töpfer, and other political and business leaders. Various environmental organisations such as Greenpeace and Friends of the Earth also sought a critical dialogue with the BMW Group.

The BMW Group used the summit to add new building blocks to its involvement in sustainability. In Johannesburg the company endowed a professorship in sustainability at South Africa's famous University of the Witwatersrand. The aim of this initiative, in addition to the scholarly aspects of the subject, is to play a role in the exchange of experiences and in the specific development of a sustainability network in Africa. The new chair will be supported by the

## Assuming responsibility

BMW Group. At the same time, experts from the BMW Group will support this professorship, unique in Africa, by organising and managing events.

In South Africa, where the BMW Group has already been economically active for 30 years, the company is also taking an active part in the war against HIV/AIDS. Having guaranteed free counselling and medical care for all employees and their families for some time now, the BMW Group took the Johannesburg Summit as an opportunity to present new plans for a multi-purpose community centre in the immediate vicinity of the Rosslyn BMW plant. The centre is being built in cooperation with the German Federal Ministry for Economic Cooperation and Development. In addition to specialist counselling, it will offer medical services including testing and expanded mother-and-child facilities, to name but a few. The opening of the new community centre, which will be available to all residents, is planned for December 2003.

Many such economic, social and ecological activities serve to ensure that the BMW Group maintains its leading position as a responsible automobile manufacturer and employer. As a consequence, relationships are created that form a common identity as part of the international corporate culture – and at the same time contribute to the BMW Group's ability to conduct business around the world in a reliable environment. The world summit has proven this once again.



BMW CleanEnergy: Driving into the future with regenerative-energy-based hydrogen



Free medical consultation and care for all employees – in the war against HIV/AIDS as well

## New products

**BMW brand.** 3 Series Compact, 3 Series Cabrio and 3 Series Coupé modified stylistically. Adaptive headlight introduced into the series. BMW Z4 launched in the USA – available in Europe and Asia from 2003. BMW 7 Series now with long wheelbase option. Two diesel variants and the 760i/Li with twelve-cylinder motor expand the 7 Series engine offerings. BMW motorcycle product range expanded with the models K 1200 GT, R 1200 CL, R 850 R and the R 1100 S BoxerCup Replika.

**MINI brand.** High-performance model MINI Cooper S launched.

**Rolls-Royce brand.** Newly introduced Rolls-Royce Phantom marks BMW Group's take-over of brand responsibility for Rolls-Royce motor cars, completing portfolio in absolute top segment.





BMW 3 Series Compact



BMW 3 Series Limousine



BMW 3 Series Coupé



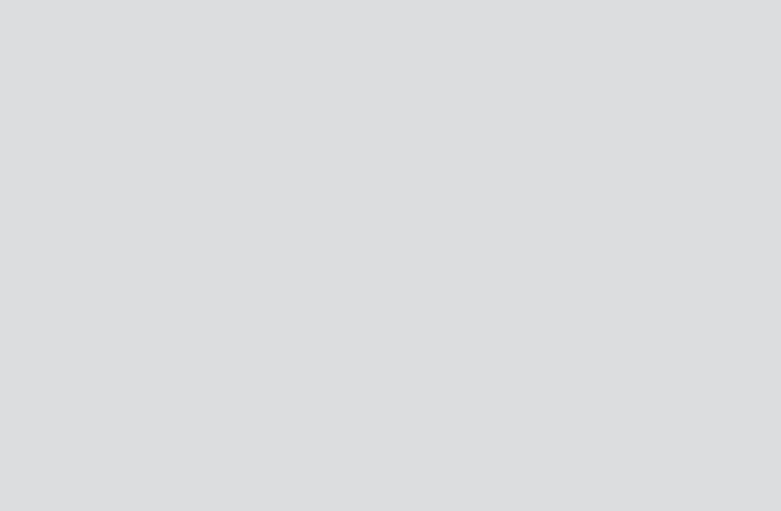
BMW 3 Series Cabrio



BMW 3 Series Touring



MINI One



BMW Z4



BMW M3 Coupé



BMW 5 Series Touring



BMW 5 Series Limousine



BMW X5



MINI Cooper



Rolls-Royce Phantom



BMW M5



BMW 7 Series Limousine



BMW Z8



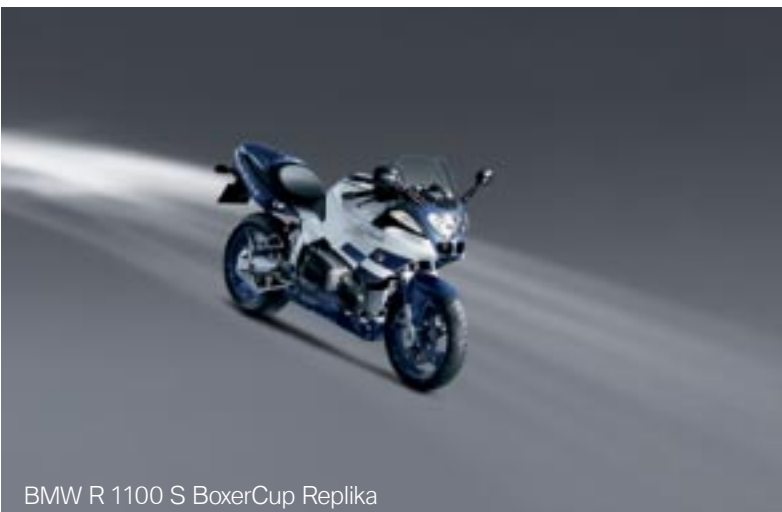
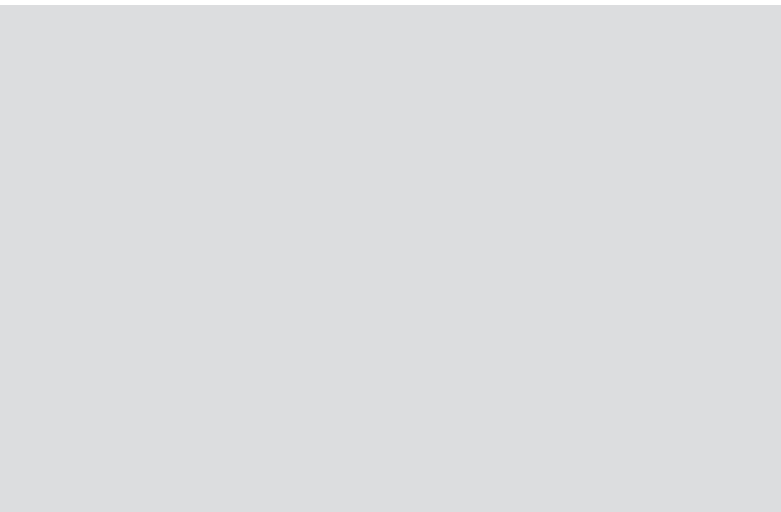
BMW C1



BMW F 650 CS



MINI Cooper S



BMW R 1100 S BoxerCup Replika



BMW R 1150 RT



BMW R 1200 CL



BMW K 1200 GT

BMW Group 2002



Brand BMW

3 Series

Limousine	<b>320d</b> 1.995 cc, 110 kw (150 bhp)
<b>316i</b> 1.796 cc, 85 kw (115 bhp)	<b>330d*</b> 2.993 cc, 150 kw (204 bhp)
<b>318i</b> 1.995 cc, 105 kw (143 bhp)	
<b>320i</b> 2.171 cc, 125 kw (170 bhp)	Compact
<b>325i*</b> 2.494 cc, 141 kw (192 bhp)	<b>316ti</b> 1.796 cc, 85 kw (115 bhp)
<b>330i*</b> 2.979 cc, 170 kw (231 bhp)	<b>318ti</b> 1.995 cc, 105 kw (143 bhp)
<b>318d</b> 1.995 cc, 85 kw (115 bhp)	<b>325ti</b> 2.494 cc, 141 kw (192 bhp)
<b>320d</b> 1.995 cc, 110 kw (150 bhp)	<b>318td</b> 1.995 cc, 85 kw (115 bhp)
<b>330d*</b> 2.993 cc, 150 kw (204 bhp)	<b>320td</b> 1.995 cc, 110 kw (150 bhp)
	Cabrio
Coupé	<b>318Ci</b> 1.995 cc, 105 kw (143 bhp)
<b>318Ci</b> 1.995 cc, 105 kw (143 bhp)	<b>320Ci</b> 2.171 cc, 125 kw (170 bhp)
<b>320Ci</b> 2.171 cc, 125 kw (170 bhp)	<b>325Ci</b> 2.494 cc, 141 kw (192 bhp)
<b>325Ci</b> 2.494 cc, 141 kw (192 bhp)	<b>330Ci</b> 2.979 cc, 170 kw (231 bhp)
<b>330Ci</b> 2.979 cc, 170 kw (231 bhp)	
<b>330Cd</b> 2.993 cc, 150 kw (204 bhp)	
Touring	
<b>316i</b> 1.796 cc, 85 kw (115 bhp)	<b>Z4 Roadster 2.5i</b> 2.491 cc, 141 kw (192 bhp)
<b>318i</b> 1.995 cc, 105 kw (143 bhp)	<b>Z4 Roadster 3.0i</b> 2.979 cc, 170 kw (231 bhp)
<b>320i</b> 2.171 cc, 125 kw (170 bhp)	
<b>325i*</b> 2.494 cc, 141 kw (192 bhp)	
<b>330i*</b> 2.979 cc, 170 kw (231 bhp)	
<b>318d</b> 1.995 cc, 85 kw (115 bhp)	

5 Series

Limousine	<b>X5 3.0i</b> 2.979 cc, 170 kw (231 bhp)
<b>520i</b> 2.171 cc, 125 kw (170 bhp)	<b>X5 4.4i</b> 4.398 cc, 210 kw (286 bhp)
<b>525i</b> 2.494 cc, 141 kw (192 bhp)	<b>X5 4.6is</b> 4.619 cc, 255 kw (347 bhp)
<b>530i</b> 2.979 cc, 170 kw (231 bhp)	<b>X5 3.0d</b> 2.926 cc, 135 kw (184 bhp)
<b>535i</b> 3.498 cc, 180 kw (245 bhp)	
<b>540i</b> 4.398 cc, 210 kw (286 bhp)	
<b>520d</b> 1.951 cc, 100 kw (136 bhp)	
<b>525d</b> 2.497 cc, 120 kw (163 bhp)	
<b>530d</b> 2.926 cc, 142 kw (193 bhp)	
Touring	
<b>520i</b> 2.171 cc, 125 kw (170 bhp)	
<b>525i</b> 2.494 cc, 141 kw (192 bhp)	
<b>530i</b> 2.979 cc, 170 kw (231 bhp)	
<b>540i</b> 4.398 cc, 210 kw (286 bhp)	
<b>520d</b> 1.951 cc, 100 kw (136 bhp)	
<b>525d</b> 2.497 cc, 120 kw (163 bhp)	
<b>530d</b> 2.926 cc, 142 kw (193 bhp)	

X5

7 Series

<b>730i</b> 2.972 cc, 170 kw (231 bhp)	<b>Z8</b> 4.941 cc, 294 kw (400 bhp)
<b>735i</b> 3.600 cc, 200 kw (272 bhp)	
<b>745i</b> 4.938 cc, 245 kw (333 bhp)	
<b>760i</b> 5.972 cc, 327 kw (445 bhp)	
<b>730Li</b> 2.972 cc, 170 kw (231 bhp)	
<b>735Li</b> 3.600 cc, 200 kw (272 bhp)	
<b>745Li</b> 4.938 cc, 245 kw (333 bhp)	
<b>760Li</b> 5.972 cc, 327 kw (445 bhp)	
<b>730d</b> 2.993 cc, 160 kw (218 bhp)	
<b>740d</b> 3.901 cc, 190 kw (258 bhp)	

Z8

Motorcycles

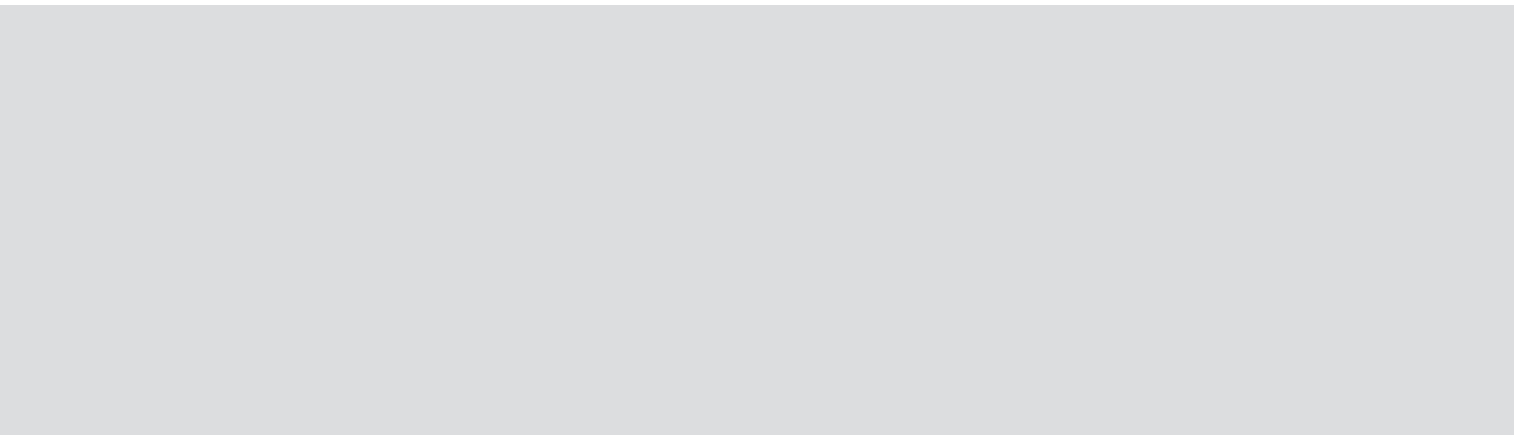
Scarver	<b>MINI One</b> 1.598 cc, 66 kw (90 bhp)
<b>F 650 CS</b> 652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)	<b>MINI Cooper</b> 1.598 cc, 85 kw (115 bhp)
	<b>MINI Cooper S</b> 1.598 cc, 120 kw (163 bhp)
Enduro/Funduro	
<b>F 650 GS</b> 652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)	
<b>F 650 GS Dakar</b> 652 cc, 37 kw (50 bhp) or 25 kw (34 bhp)	
<b>R 1150 GS</b> 1.130 cc, 62,5 kw (85 bhp)	
<b>R 1150 GS Adventure</b> 1.130 cc, 62,5 kw (85 bhp)	
Roadster	
<b>R 850 R</b> 848 cc, 52 kw (70 bhp) or 25 kw (34 bhp)	
<b>R 1150 R</b> 1.130 cc, 62,5 kw (85 bhp)	
<b>R 1150 R Rockster</b> 1.130 cc, 62,5 kw (85 bhp)	
Cruiser	
<b>R 1200 C Classic</b> 1.170 cc, 45 kw (61 bhp)	
<b>R 1200 C Avantgarde</b> 1.170 cc, 45 kw (61 bhp)	
<b>R 1200 C Independent</b> 1.170 cc, 45 kw (61 bhp)	
<b>R 1200 CL</b> 1.170 cc, 45 kw (61 bhp)	
Sports Tourer	
<b>R 1100 S</b> 1.085 cc, 72 kw (98 bhp)	
<b>R 1100 S BoxerCup Replika</b> 1.085 cc, 72 kw (98 bhp)	
<b>R 1150 RS</b> 1.130 cc, 70 kw (95 bhp)	
<b>K 1200 RS</b> 1.171 cc, 72 kw (98 bhp) or 96 kw (130 bhp)	
<b>K 1200 GT</b> 1.171 cc, 96 kw (130 bhp) or 72 kw (98 bhp)	
Luxury Tourer	
<b>R 1150 RT</b> 1.130 cc, 70 kw (95 bhp)	
<b>K 1200 LT</b> 1.172 cc, 72 kw (98 bhp)	

Brand MINI

BMW Group  
2002

Brand Rolls-Royce

<b>Rolls-Royce Phantom</b> 6.749 cc, 338 kw (453 SAE/460 bhp)
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[1]

[2]

**[1] BMW 3 Series Compact.** The BMW 3 Series Compact has been retouched stylistically and provided with some technical updates. The new entry-level diesel model 318td means there are now five engine variants – two diesel and three petrol. From now on, drivers of the top model 325ti will enjoy the six-speed manual gearbox, or they may choose the six-speed sequential mechanical gearbox (SMG) as an option. The clear-glass cover on the rear lights has been replaced with a red-tinted version. With an additional horizontal contour line and the wider grab handle on the luggage compartment lid, the rear aspect of the Compact has changed. Contoured side-sills under the doors round off the refresh.

**New look for BMW 3 Series Cabrio [2] and Coupé [3].** The modified design of the BMW 3 Series Cabrio and 3 Series Coupé heighten their outward independence from the 3 Series Limousine. The BMW Cabrio and Coupé now look more striking and powerful.

The wider kidney grille, the modified powerdome on the hood, the more compact front apron and the new headlight unit with direction indicators reaching higher up at the sides are all new. The rear now sports a wider grab handle on the luggage compartment lid, new rear lights in LED technology as well as a new bumper cover.

In the US version – as already with the BMW 7 Series – the LED rear lights are supplied with the dynamic Brake Force Display. This brake light changes the area and strength of the lighting depending on the vehicle's deceleration, alerting traffic to the rear, for example, in the case of an emergency stop. The person behind can thus see how strongly the BMW in front is braking, the danger of front-to-rear collisions is greatly reduced.





[3]

**Adaptive headlight.** The adaptive headlight in the BMW 3 Series Coupé and Cabrio is revolutionary. It adjusts the light distribution to the actual driving situation and moreover uses networked data such as steering angle, road speed and yaw rates to recognise in advance where the driver will steer the vehicle. Thus, this optional light technology lights up the bend in advance for the driver.

**6-speed manual gearbox and SMG.** The BMW 330Ci Cabrio is now equipped with a close-ratio 6-speed manual gearbox as standard, which is also used in the Coupé 330Ci. The sixth gear reduces engine speed and fuel consumption. As an option, a 5-speed automatic transmission or the sequential mechanical gearbox (SMG), also available for the 325Ci, may be ordered. This shift-by-wire system enables the driver to change gears as fast as lightning either using the central gearshift lever or via two paddles on the steering wheel. Gears are changed in split seconds – with absolute precision and smoothness, and without the driver pressing the clutch pedal.

**BMW 330Cd.** The BMW 330Cd with the new 3-litre diesel engine marries diesel power and sportiness. At 150 kW (204 bhp), the six-cylinder engine offers high performance, the maximum torque of 410 Newton-metres is available from as low as 1,500 rpm. Acceleration from 0–100 km/h is achievable in 7.2 seconds. The top speed is 242 km/h. Even so, the 330Cd gets by on 6.6 litres diesel/100 km.



**BMW Z4 – The Roadster that appeals to all the senses.** Its proportions are remarkable: a long engine compartment, a snug cockpit that wraps around the driver and passenger, and a short rear end. With a long wheelbase, a wide track and short car body overhangs, the Z4 is comparatively compact. Its external length measures little more than 4 metres.

The design represents the new shape language of BMW. The designers' enthusiasm is palpable, right into the details. Even the side indicator is moulded into the steel underneath a BMW logo. The interior combines classic Roadster elements, such as a low seating position and easy-to-read circular instruments, with flawless lines.

For power there are two straight-six engines to choose from: the 2.5 litre with 141 kW/192 bhp and the 3.0 litre with 170 kW/231 bhp. They enable acceleration from 0 to 100 km/h in 7.0 seconds and 5.9 seconds, respectively. The top speed is 235 and 250 km/h, respectively.

The Z4 is the first BMW with Electric Power Steering (EPS). Since steering coordination takes place via software, the EPS enables a much higher standard of flexibility in steering characteristics as well as optimum harmony between steering damper effect and feedback from the road. Unlike with conventional hydraulic steering, fuel is saved when driving straight ahead without any movement of the steering wheel, since no energy is required.

The new folding roof saves space and thus makes a larger luggage compartment possible. The front-most part of the roof takes on the function of a cover over the soft top. The rear window is made of scratch-proof mineral glass and can be heated. A fully automatic folding roof is available as an option. This can be opened or closed again in less than ten seconds by pressing a single button.

The body of the BMW Z4 is a completely new construction and offers a torsional stiffness not previously achieved in Cabrios or Roadsters – enabling optimum vibration control and a sporting suspension set-up. The safety reserves in the suspension are so high that the standard Dynamic Stability Control (DSC) will come into supportive action only in extreme driving situations.





[1] BMW 760i/760Li. The V12 power unit in the 760i/760Li carries BMW's tradition of twelve-cylinder Limousines into its third generation. The V12 engine has a displacement of six litres and an output of 327 kW/445 bhp enabling acceleration from 0 to 100 km/h in 5.5 seconds.

It is the first twelve-cylinder engine worldwide to feature direct fuel injection. Its four-valve technology and fully variable valve control VALVETRONIC lower fuel consumption to only 13.4 litres in the EU cycle, despite high performance data. The top speed is limited to 250 km/h. A powerful braking unit guarantees powerful deceleration and low maintenance costs.

Externally the 760i/760Li is recognisable by the V12 logo on the flanks behind the front mudguards and by a BMW kidney grille inlaid with chrome. An 18-inch wheel rim in star-spoke design is also reserved exclusively for this engine type.

While nothing of the power unit can be heard at standstill or at a constant speed, the V12 demonstrates its sporting genes when accelerating more dynamically. The engine will run at speeds up to 6,500 rpm with no vibrations at all, its sound growing stronger without ever becoming intrusive. BMW's philosophy becomes clear here: never completely to isolate driver and passengers from their surroundings, even in a luxury Limousine.



[1]



[2]

[2] **BMW 730d and 740d.** Starting mid-October 2002, the BMW 7 Series has also been available with a diesel engine. There are two engines to choose from: a 3-litre, six-cylinder power unit with 160 kW/218 bhp and a 4-litre eight-cylinder power unit with 190 kW/258 bhp. For the first time in the world in a diesel vehicle, performance is delivered through a six-speed automatic transmission.

Both models are equipped with the latest common rail technology. The fuel is injected at a pressure of 1,600 bar and a volume control ensures that at any time, only the currently required amount of fuel is compressed. This results in a driving experience that combines power and agility with comfort and economy.

The 730d accelerates from 0 to 100 km/h in 8.0 seconds and reaches a top speed of 235 km/h. In doing so it uses only 8.5 litres of fuel in the EU cycle. Only 7.4 seconds go by as the 740d accelerates from 0 to 100 km/h. Its top speed is 250 km/h. In the EU cycle, fuel consumption amounts to 9.7 litres.



[1]



[2]

[1] **K 1200 GT – Sporting performance and touring comfort.** The distinguishing feature of the K Series is the straight four-cylinder engine. The K 1200 GT rounds off the K Series as a third model, joining the K 1200 LT Luxury Tourer and the K 1200 RS Sports Tourer. The model name “GT” stands for Gran Turismo, the synonym for sporting performance and touring comfort. The upright seating position and good wind and weather protection enable tireless travel. The K 1200 GT is designed as a Sports Tourer and combines dynamism with superior touring qualities.

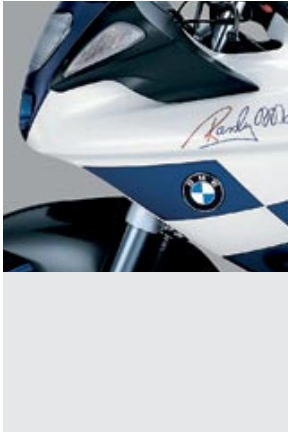
[2] **R 1200 CL – Luxury Cruiser.** The R 1200 CL combines the positive qualities of a cruiser with those of a touring motorcycle. It conveys the fun of relaxed cruising and at the same time leaves no wish unfulfilled when it comes to comfort and equipment.

The most striking characteristic of the R 1200 CL is the tourer fairing with four integrated headlights and a large windshield. Additional fairings on the tank give further protection from wind and weather. The front-wheel mudguard is an optical extension of the front end, and to offer good protection against splashwater, it extends down the side, close to the wheel rim. Two hard shell cases and a removable top case at the rear form one harmonious whole with the vehicle.

The R 1200 CL is powered by the tried and tested boxer engine with 1,179 cc and 45 kW/61 bhp, which makes for relaxed driving thanks to its superior performance and power development. The six-speed gearbox has been made quieter by reworking the teeth segmentation. In the future, this gearbox will be used in all BMW motorcycles with boxer motors. The long sixth gear, designed as an “overdrive”, enables low-revolution and economic driving on long distances. And as an expression of the pleasure orientation, gear change on the R 1200 CL is done using a kick lever instead of a gearshift lever.

**R 850 R – Roadster for pure riding pleasure.** The new model in the family, the R 850 R is technically the same as the R 1150 R, but is equipped with an 850 cc engine. In addition to the standard variant with 52 kW/70 bhp there is also a reduced-performance version available with 25 kW/34 bhp.

## BMW Brand



R 1100 S BoxerCup Replika – The street version of a racing machine. In the BMW Motorrad BoxerCup, the R 1100 S proves its capability and sporting performance on the racetrack. For the road, this motorcycle is available as the R 1100 S BoxerCup Replika in the original Pacific Blue Metallic/Alpine White paintwork.

The series version of the Replika includes the sporting chassis with longer suspension struts for greater freedom when leaning into bends and the 5.5 inch wide rear wheel rim for the wide rear tyre with the dimensions 180/55 ZR 17. Front and rear wheel rims are painted Pacific Blue.

For increased safety on the road, the partially integrated version of BMW's Integral ABS is available as an option. The cylinder head covers and the engine spoiler have both been directly derived from the racing machine. They are made of carbon-fibre reinforced plastic – a material that is also used in Formula 1 because of its particular lightness and stability. The engine spoiler improves the aerodynamics and provides an extra racing touch.

## MINI Brand





**MINI – fresh and unconventional.** MINI is an expression of a modern, urban lifestyle. MINI embodies the lust for life, unites classes, countries, generations. Vehicles with the MINI brand captivate through their unmistakable design that clearly shows its relationship with a legendary predecessor. The MINI represents a piece of zeitgeist combined with high product substance.

The attractive body of the MINI holds the latest in vehicle technology. For example the electronic architecture with data bus, or the multi-arm rear axle, unique in this segment of the vehicle market. Together with the very direct electrohydraulic power steering, the low centre of gravity and the long wheelbase, it provides a driving experience reminiscent of a go-kart, and one that has always been loved by MINI drivers.

The robust passenger cells, the intelligent airbag system with frontal airbags and seat-integrated side airbags interacting with pyrotechnic belt tensioners ensure optimal occupant protection. In addition, an optional head airbag system (AHPS = Advanced Head Protection System) is available which protects occupants in the front and back in case of a collision from the side.

Disc brakes (ventilated at the front) on all four wheels, supplemented by four-sensor ABS, Electronic Brake Force Distribution (EBD) and Cornering Brake Control (CBC) are all standard equipment and guarantee optimal braking performance. In addition, the traction control ASC+T (standard on MINI Cooper S) and the Dynamic Stability Control (DSC) are available as options.

**MINI Cooper S – compact power pack.** Driving pleasure is guaranteed in the MINI Cooper S. The 1.6 litre power unit delivers 120 kW/163 bhp. This engine, together with the standard six-speed gearbox and the long wheelbase ensures dynamic driving performance. Even on rapidly taken curves, the Sports PLUS suspension with reinforced anti-roll bars and firm springs ensures optimal contact with the road.

A compressor with an intercooler compacts the intake air, cools it and thus increases the performance of the four-cylinder, 16-valve engine. Direct, spontaneous response and a harmonious torque distribution are features that set the top model apart.

The considerable performance potential in combination with an unladen weight of around 1,140 kilograms gives the agile four-seater impressive driving performance. The MINI Cooper S can be accelerated from standstill to 100 km/h in just 7.4 seconds. The top speed is 218 km/h.

The MINI Cooper S is the only vehicle in its class to be fitted with runflat tyres with emergency running capabilities as standard. Together with the standard-fitted runflat indicator (RPA) they increase the active safety, make an on-the-spot wheel change after a tyre accident unnecessary, and allow the journey to continue to the nearest garage.

Externally the air intake on the engine compartment lid, which feeds the compressor and the charge air cooler, accentuate the car's athletic appearance. The two centrally placed chrome exhaust pipes, the "Cooper S" logo and a discreet roof spoiler reveal the power packed into this vehicle.

## Rolls-Royce Brand



**Rolls-Royce Phantom – masterpiece of motor car manufacturing.** The goal in the development of the new Rolls-Royce Phantom was not individual superlatives but an optimal balance of all attributes.

Uncompromising concentration on quality is a matter of course. Only the highest quality leather will do. The precise colour harmony for the interior is selected with the help of computer-controlled colour test procedures. The subsequent processing is done by hand on special sewing machines, so as to guarantee a perfect fit.

The wood for the up to 60 pieces of panelling in the interior is worked with the greatest precision on the most modern CNC milling machines. The loving and careful selection by specialists ensure that from the aesthetic viewpoint, the grain and pattern of the woods match perfectly.

The technology in the Rolls-Royce Phantom also embodies absolute top class. The space frame body combines extreme rigidity – which benefits safety and driving comfort – with exceptional protection for occupants and, at the same time, lightness.

The 6.75 litre engine is designed for commanding progress. The aspirated V12 engine is almost silent, yet makes an imposing torque available to the driver at little more than idling speed. It is one of the most advanced in the world, featuring fully variable valve lift control, variable valve timing and direct fuel injection optimised fuel consumption, extremely quiet operation and superior responsiveness.

The air suspension on all four wheels provides the greatest possible comfort: at a speed of 100 km/h the dampening forces automatically adjust to road conditions every 30 cm of the route being driven.

The Rolls-Royce fascinates through unique solutions in detail: the rear coach doors open to the rear and can even be closed elegantly from the inside with the press of a button. The famed radiator figure “Spirit of Ecstasy” can be retracted into the radiator grille. Synchronised wheel hubs ensure that the Rolls-Royce badges are always in an upright position, whether the car is stationary or in motion.



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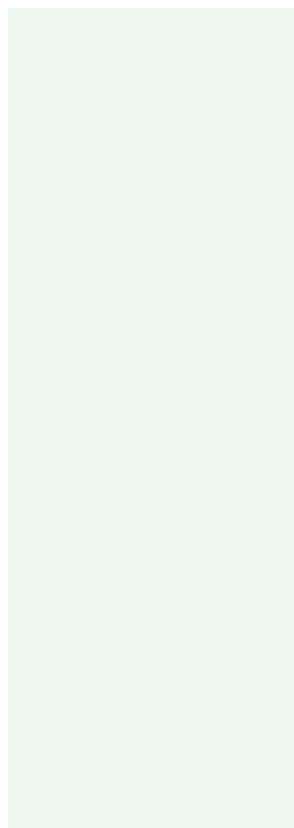
## The BMW Group on the Internet

Further information on the BMW Group is available at the internet address [www.bmwgroup.com](http://www.bmwgroup.com).

The investor relations section may be reached directly at [www.bmwgroup.com/ir](http://www.bmwgroup.com/ir). Information on the BMW Group brands is available at [www.bmw.com](http://www.bmw.com), [www.mini.com](http://www.mini.com) and [www.rolls-roycemotorcars.com](http://www.rolls-roycemotorcars.com).

Financial Calendar

Interim Report to 31 March 2003	8 May 2003
Annual General Meeting	15 May 2003
Interim Report to 30 June 2003	7 August 2003
Interim Report to 30 September 2003	6 November 2003
Letter to Shareholders	January 2004



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