

Quarterly Report to 30 June 2008

Q2



Rolls-Royce
Motor Cars Limited



BMW Group

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		2nd quarter 2008	2nd quarter 2007	Change in %
Vehicle production				
Automobiles	units	413,711	406,659	1.7
Motorcycles ¹⁾	units	31,972	32,772	-2.4
Deliveries to customers				
Automobiles	units	413,087	397,009	4.0
Motorcycles ²⁾	units	34,886	36,201	-3.6
Workforce at end of quarter³⁾				
		105,802	107,079	-1.2
Operating cash flow				
	euro million	1,217	1,545	-21.2
Revenues				
	euro million	14,552	14,683	-0.9
Profit before financial result (EBIT)				
	euro million	425	1,019	-58.3
Thereof:				
Automobiles	euro million	395	824	-52.1
Motorcycles	euro million	56	59	-5.1
Financial Services	euro million	39	181	-78.5
Reconciliations	euro million	-65	-45	-44.4
Profit before tax⁴⁾				
	euro million	602	1,065	-43.5
Thereof:				
Automobiles	euro million	325	801	-59.4
Motorcycles	euro million	53	56	-5.4
Financial Services	euro million	64	189	-66.1
Reconciliations	euro million	160	19	-
Income taxes				
	euro million	-95	-312	69.6
Net profit				
	euro million	507	753	-32.7
Earnings per share⁵⁾				
	euro	0.77/0.78	1.15/1.16	-33.0/-32.8

1) including BMW G 650 X assembly at Piaggio S.p.A., Noale, Italy, excluding Husqvarna Motorcycles (3,587 units)

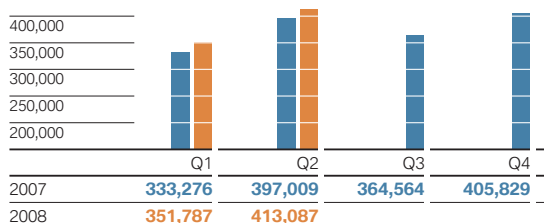
2) excluding Husqvarna Motorcycles (2,278 units)

3) excluding Husqvarna Motorcycles (225 employees)

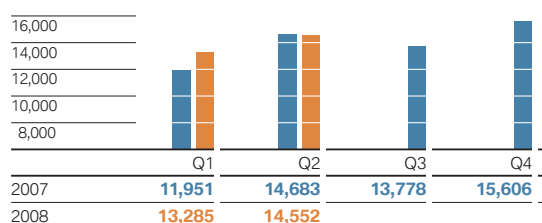
4) Profit before tax for the second quarter 2007 includes an exceptional gain of euro 30 million arising from the exchangeable bond on shares in Rolls-Royce plc, London.

5) for common/preferred stock in accordance with IAS 33. In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

Deliveries of automobiles
in units



Revenues
in euro million



		1 January to 30 June 2008	1 January to 30 June 2007	Change in %
Vehicle production				
Automobiles	units	819,306	788,678	3.9
Motorcycles ¹⁾	units	60,561	68,567	-11.7
Deliveries to customers				
Automobiles	units	764,874	730,285	4.7
Motorcycles ²⁾	units	55,932	59,230	-5.6
Workforce at end of quarter³⁾				
		105,802	107,079	-1.2
Operating cash flow				
	euro million	2,322	2,798	-17.0
Revenues				
	euro million	27,837	26,634	4.5
Profit before financial result (EBIT)				
	euro million	1,252	1,931	-35.2
Thereof:				
Automobiles	euro million	1,014	1,485	-31.7
Motorcycles	euro million	92	95	-3.2
Financial Services	euro million	118	369	-68.0
Reconciliations	euro million	28	-18	-
Profit before tax⁴⁾				
	euro million	1,243	1,917	-35.2
Thereof:				
Automobiles	euro million	864	1,410	-38.7
Motorcycles	euro million	87	90	-3.3
Financial Services	euro million	148	372	-60.2
Reconciliations	euro million	144	45	-
Income taxes				
	euro million	-249	-577	56.8
Net profit				
	euro million	994	1,340	-25.8
Earnings per share⁵⁾				
	euro	1.52/1.53	2.05/2.06	-25.9/-25.7

1] including BMW G 650 X assembly at Piaggio S.p.A., Noale, Italy, excluding Husqvarna Motorcycles (7,924 units)

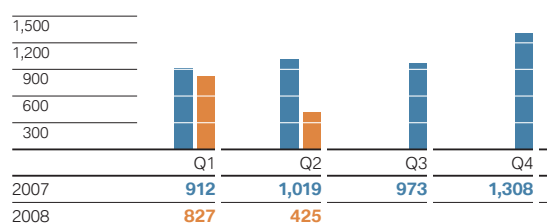
2] excluding Husqvarna Motorcycles (6,172 units)

3] excluding Husqvarna Motorcycles (225 employees)

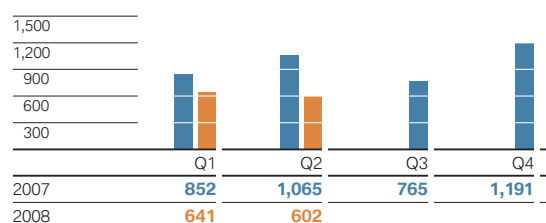
4] Profit before tax for the first half of 2007 includes an exceptional gain of euro 61 million arising from the exchangeable bond on shares in Rolls-Royce plc, London.

5] for common/preferred stock in accordance with IAS 33. In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

Profit before financial result
in euro million



Profit before tax
in euro million



Interim Group Management Report

The BMW Group – an Overview

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Sales volume growth for all three brands

BMW Group's second-quarter performance was affected by difficult conditions, a general reluctance on the part of consumers to spend and economic uncertainties. Despite these adverse factors, all three brands registered a sales volume increase. During the period from April to June 2008, a total of 413,087 BMW, MINI and Rolls-Royce brand cars was sold, 4.0% more than in the same quarter last year. The six-month sales volume figure was 764,874 units, 4.7% ahead of the number sold in the corresponding period of 2007.

With unfavourable market conditions prevailing, the Motorcycles segment was unable to achieve the previous year's high sales volume figure for either the second quarter or the six-month period. In total, 34,886 motorcycles were handed over to customers during the period from April to June (-3.6%). The sales volume for the six-month period fell by 5.6% to 55,932 units.

The BMW Group continued to make progress with its financial services business during the period under report and surpassed the previous year's business volume. The number of lease and financing contracts in place with dealers and retail customers rose by 12.9% compared to June 30, 2007 to stand at 2,806,776 units.

Significant impact of external developments on earnings

Second-quarter revenues of the BMW Group amounted to euro 14,552 million, thus achieving a similar level to the previous year (-0.9%). Group revenues for the six-month period totalled euro 27,837 million (+4.5%). The increase was therefore in line with the increase in sales volume. Adjusted for exchange rate factors, Group revenues in the first six months were up by 9.9%.

Reported earnings of the BMW Group for both the second quarter and the first half of 2008 were adversely affected by unfavourable business conditions. The sharp rise in energy and food prices has caused consumer spending worldwide to lose momentum. As a consequence, the expected spring-time upturn of the car markets did not materialise as predicted. The ongoing high price level of raw materials and energy and the strength of the euro against the other major currencies gave rise to

significant additional expenses for the BMW Group. At the same time, the impact of the international financial crisis was also felt more strongly. In response, the BMW Group increased its additional risk provisions for residual value risks and bad debts to euro 695 million. The cost of implementing previously announced measures to reduce the workforce also had a negative impact on earnings.

Taking all these factors into account, the second-quarter profit before financial result, at euro 425 million, was 58.3% down on the previous year. The six-month profit before financial result, at euro 1,252 million, was also down on last year's figure (-35.2%).

The same external factors also had an adverse impact on pre-tax profits. The second-quarter profit before tax fell by 43.5% to euro 602 million and the six-month figure fell by 35.2% to euro 1,243 million. The pre-tax profit reported for the first half of 2007 included a one-time gain of euro 61 million on the conversion of the exchangeable bond on shares in Rolls-Royce plc, London.

The net profit of the BMW Group for the second quarter 2008 fell to euro 507 million (-32.7%). For the period from January to June, it fell to euro 994 million (-25.8%).

BMW Group workforce reduced

The BMW Group had a worldwide workforce of 105,802 employees at the end of the second quarter, 1.2% fewer than at 30 June 2007. The measures previously announced to reduce the number of employees are being implemented as scheduled.

BMW Group model range expanded

The BMW Group again continued to expand its model range during the second quarter 2008. The BMW X6, the first Sports Activity Coupé manufactured by the BMW Group, and the new BMW M3 Coupé have both been available to customers since April. The BMW M3 Convertible has been on the market since May. At the end of June, the BMW Group presented the new BMW 7 Series, which is due to be launched in November. The new model range includes numerous technical innovations such as driver assistance and driving dynamics systems as well as engines equipped with the BMW EfficientDynamics package. The new Rolls-Royce Phantom Coupé, which has driving qualities that

are unique in its class, will become available to customers in September. The Motorcycles segment will also be expanding its model range to include the sporty G 450 X from September onwards.

BMW Museum reopened

After a two-and-a-half-year construction period the BMW Group reopened the BMW Museum in mid-June. The extended museum building presents 125 exhibits on a total of 5,000 m² of floor space and offers visitors an insight into the history of the company and an authentic experience of the BMW brand.

In the new museum the original "continuation of the road" philosophy is further pursued in a new setting. Roads and paths connect the seven independent exhibition buildings, each of which is dedicated to a different theme. The museum is not only an exhibition hall for unusual cars and motorcycles of past decades, but also reflects the dynamics and innovative strength of the BMW brand and of the company as a whole. The BMW Group is expecting up to 400,000 visitors to the museum each year.

International car markets continue to develop divergently

The international car markets once again saw the traditional markets and the emerging economy markets continuing to develop in different directions during the first half of 2008. New car registration figures fell in the USA, Western Europe and Japan, whereas most emerging markets saw another sharp rise in the number of cars sold.

Of the three traditional markets, the USA experienced the most significant downturn. The financial crisis and the high price of fuel are having a noticeable effect on demand in the USA. New registration figures fell in Western Europe, particularly in countries such as the United Kingdom and Spain, where the real estate markets have recently been heavily hit by market price corrections. The Italian market experienced a sharp downturn in the first half of 2008. Markets in Germany and France, however, both grew strongly, but were unable to prevent a downturn for the Western European market as a whole. The Japanese car market again contracted slightly.

On the other hand, most of the emerging markets again registered strong growth during the

six-month period. The Russian car market experienced the highest growth rate, with sales volumes increasing by almost one third. Car sales also rose in China at a double-digit rate. Growth in the new EU member states continued at similarly high rates to 2007.

International motorcycle markets contracting

The 500 cc plus class motorcycle markets relevant for the BMW Group generally performed weakly during the first half of 2008. Worldwide motorcycle sales fell by 4.1% during the first two quarters of 2008. In Europe, the markets for 500 cc plus motorcycles contracted by 6.2% compared to one year earlier. Whereas the market in France grew (+3.5%), those in Italy (-10.5%), Spain (-13.7%) and Germany (-6.4%) all remained well below the previous year's figures. The number of motorcycles sold in the USA fell by 2.3% during the period under report. In Japan, the decrease was as much as 21.5% compared with the corresponding period in 2007.

Financial sector adversely affected by unfavourable external factors

Reductions in reference interest rates in the first few months of 2008 – in some cases quite sharp ones – were intended to ease tensions on the capital markets and provide a suitable response to the deterioration in economic conditions. At the same time, however, further steep increases in energy and raw material prices as well as substantial rises in food prices have recently resulted in noticeably higher inflation rates. With these developments in mind, the European Central Bank (ECB) found it necessary to increase its reference interest rate by 25 basis points in July. Medium-term interest rates also increased significantly in the main currency regions, reflecting expectations that reference interest rates will be further increased.

After a brief drop, credit spreads began to rise again towards the end of the first half of 2008. Refinancing costs have increased perceptibly around the world as a result. On top of this, residual values of used cars have fallen as a consequence of the general uncertainty and unfavourable economic conditions, particularly in Canada, the USA and Germany, and had an additional adverse impact on earnings in the financial services sector.

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Sales volume increased for six-month period

The BMW Group achieved new sales volume records for all three brands both on a second-quarter and a six-month basis. A total of 413,087 BMW, MINI and Rolls-Royce brand cars was delivered to customers in the second quarter 2008, 4.0% more than in the same quarter last year. The number of cars sold during the six-month period increased by 4.7% to 764,874 units.

Despite the fact that a number of models were affected by life-cycle factors, second-quarter sales of BMW brand cars increased by 2.3% to 344,019 units. The equivalent figure for the six-month period was 637,569 units, 2.4% ahead of the previous year.

The MINI brand registered a sharp rise in sales volume. The number of cars sold during the second quarter climbed by 13.5% to 68,756 units compared to the corresponding quarter in 2007. In total, 126,810 units were sold worldwide during the first six months of the year (+17.9%). This performance was helped in particular by the MINI Clubman, which has been available on the markets since November 2007.

Rolls-Royce Motor Cars also recorded strong volume growth during the period under report. In the second quarter 2008, 312 Rolls-Royce cars were handed over to customers (+72.4%). Sales for the six-month period increased by 68.4% to 495 units.

Sales volume growth in Asia and Europe

The BMW Group recorded some good sales volume increases in its automobile business during the period under report, particularly in Europe and Asia. Additional impetus also came from Eastern Europe and Latin America.

The sales volume performance on the North American markets was again influenced in the second quarter 2008 by the ongoing financial crisis and the steep rise in fuel prices in the USA. Nevertheless, the BMW Group was able to sell 99,150 cars in the region during the period from April to June, 1.3% more than in the previous year. For the six-month period, however, the sales volume figure of 172,270 units fell 3.5% short of the previous year's figure. Sales in the USA, the BMW Group's largest single market, developed similarly. With 89,494 units sold, the second-quarter sales volume figure was just above the previous year's level (+0.6%), whereas the figure for the six-month period fell by 3.9% to 158,080 units. This development in the USA was partly the result of a targeted sales volume reduction in this region with a view to increasing profitability.

Second-quarter sales of the BMW Group in Europe* grew by 4.7% to reach 251,024 units. In total, 470,352 cars were handed over to customers during the period from January to June, 7.6% ahead of the previous year. 81,013 cars were sold in Germany* in the second quarter, 9.1% more than one year earlier. Sales for the six-month period rose by 6.9% to 146,501 units. The number of vehicles sold in the United Kingdom* in the second quarter edged up by 1.8% to 44,770 units and the six-month sales volume rose by 5.1% to 86,851 units. In Italy, the BMW Group was not able to escape the overall weak performance of the market as a whole. The BMW Group sold 52,994 cars there during the period from January to June 2008, 2.3% fewer than in the first half of 2007. In contrast, good growth rates were achieved in France, where sales in the first half of the year climbed by 19.9% to 36,747 units. In Spain,

* Previous year's figures restated in line with modified allocation

Automobiles		2nd quarter 2008	2nd quarter 2007	Change in %
Production	units	413,711	406,659	1.7
Deliveries to customers	units	413,087	397,009	4.0
Revenues	euro million	13,754	14,257	-3.5
Profit before financial result (EBIT)	euro million	395	824	-52.1
Profit before tax	euro million	325	801	-59.4
Workforce at end of quarter		96,880	98,355	-1.5

Automobiles		1 January to 30 June 2008	1 January to 30 June 2007	Change in %
Production	units	819,306	788,678	3.9
Deliveries to customers	units	764,874	730,285	4.7
Revenues	euro million	25,916	25,675	0.9
Profit before financial result (EBIT)	euro million	1,014	1,485	-31.7
Profit before tax	euro million	864	1,410	-38.7

too, the six-month sales volume figure was up by 2.6 % to 34,592 units.

Most Asian markets grew dynamically during the first half of 2008. The BMW Group sold 83,558 cars in this region during the period (+8.9%). The Chinese markets (China, Hong Kong, Taiwan) made the biggest contribution to this performance with sales up by 25.2% to 35,517 units and have meanwhile become the largest sales region for the BMW Group in Asia. In Japan, the six-month sales figure fell by 19.0% to 26,550 units in a difficult business environment.

Good sales volume growth for the BMW brand

Sales of BMW brand cars were influenced by model life-cycle factors during the period under report. The BMW 1 Series benefited in particular from the new BMW 1 Series Three-door, Coupé and Convertible models. Sales for the six-month period jumped by 66.4% to 116,919 units.

Sales of the BMW 3 Series failed to reach the high level recorded in the first half of 2007. Life-cycle factors affecting the BMW 3 Series Sedan and the BMW 3 Series Touring caused the sales volume to drop by 11.2% to 256,052 units.

Deliveries of BMW automobiles by model variant in units		1 January to 30 June 2008	1 January to 30 June 2007	Change in %
BMW 1 Series		116,919	70,282	66.4
Three-door		27,333	4,284	-
Five-door		64,255	65,997	-2.6
Coupé		13,114	1	-
Convertible		12,217	-	-
BMW 3 Series		256,052	288,256	-11.2
Sedan		128,766	166,777	-22.8
Touring		47,533	53,484	-11.1
Coupé		46,277	44,642	3.7
Convertible		33,476	23,353	43.3
BMW 5 Series		106,371	111,802	-4.9
Sedan		81,911	87,687	-6.6
Touring		24,460	24,115	1.4
BMW 6 Series		9,713	10,054	-3.4
Coupé		5,048	4,741	6.5
Convertible		4,665	5,313	-12.2
BMW 7 Series		20,244	20,659	-2.0
BMW X3		47,146	57,471	-18.0
BMW X5		63,352	48,533	30.5
BMW X6		6,082	-	-
BMW Z4 Series		11,690	15,358	-23.9
Coupé		2,746	4,280	-35.8
Roadster		8,944	11,078	-19.3

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Sales figures for the BMW 5 Series for the six-month period fell marginally, with 106,371 vehicles handed over to customers (–4.9%). More than one million units have been sold since the current generation of the BMW 5 Series was launched in spring 2003.

The BMW 6 Series did not quite match the previous year's six-month sales volume figure with the number of cars sold down by 3.4% to 9,713 units.

Now nearing the end of its product life-cycle, sales of the BMW 7 Series decreased. In total, 20,244 units of the BMW 7 Series were sold during the period from January to June 2008 (–2.0%). The new generation of this series was presented to the public at the end of June and will become available to customers from November 2008 onwards.

In the seventh year since its market launch, the BMW Z4 was also unable to achieve the sale volume figure recorded in 2007. 11,690 units of this model were sold during the first half of 2008 (–23.9%).

Sales of the BMW X3 for the first six months of 2008 were 18.0% lower at 47,146 units. The BMW Group has sold the BMW X3 to almost 500,000 customers since its market launch in 2003.

Sales of the BMW X5 – which has been available since spring 2007 – climbed steeply by 30.5% to 63,352 units.

The first Sports Activity Coupé to be manufactured by the BMW Group, the new BMW X6, was successfully launched in April. Since then, this vehicle has already been sold to more than 6,000 customers.

MINI brand success story continues

The MINI brand, with its three model variants, continued to perform well in the first six months of 2008. In total, 126,810 units were sold during the period, 17.9% more than in the previous year. On the one hand, sales of the MINI were not quite as high as in the corresponding period last year, finishing the six-month period with a sales volume of 85,353 units (–3.3%). Sales of the MINI Convertible were also down by 13.3% to 16,713 units as a result of model life-cycle factors. On the other hand, however, demand for the MINI Clubman is very strong with 24,744 units sold during the period from January to June 2008. Almost 30,000 units of the MINI Clubman have been sold since its market launch in November 2007.

Deliveries of MINI automobiles by model variant in units	1 January to 30 June 2008	1 January to 30 June 2007	Change in %
MINI	85,353	88,305	–3.3
One	14,424	9,791	47.3
Cooper	48,706	51,792	–6.0
Cooper S	22,223	26,722	–16.8
MINI Convertible	16,713	19,271	–13.3
One	2,939	3,626	–18.9
Cooper	8,532	9,285	–8.1
Cooper S	5,242	6,360	–17.6
MINI Clubman	24,744	–	–
Cooper	17,241	–	–
Cooper S	7,503	–	–

Deliveries of Rolls-Royce automobiles by model variant in units	1 January to 30 June 2008	1 January to 30 June 2007	Change in %
Rolls-Royce	495	294	68.4
Phantom	297	294	1.0
Drophead Coupé	198	–	–

Rolls-Royce remains market leader

Demand for the Rolls-Royce Phantom remained strong throughout the first half of 2008. The number of cars sold edged up by 1.0% to 297 units. The Phantom Drophead Coupé, available since autumn 2007, was handed over to 198 customers during the first six months of 2008. The first Phantom Coupés will be delivered in September 2008.

BMW Group car production volume up on last year's level

413,711 BMW, MINI and Rolls-Royce brand cars were manufactured in the second quarter 2008, 1.7% more than in the previous year. The BMW brand accounted for 350,241 units (+0.1%). 63,072 MINI brand cars left the Oxford plant during the quarter (+11.2%). Production volume also increased at the Goodwood plant, where 398 Rolls-Royce were manufactured (+90.4%) between April and June.

In total, the BMW Group produced 819,306 vehicles during the period from January to June 2008, 3.9% more than one year earlier. At 692,936 units, the six-month production volume for the BMW brand was up by 2.7%. 125,738 MINI brand cars left the Oxford plant during that period, up by 10.7%. In total, 632 Rolls-Royce were manufactured at the Goodwood plant in England during the first half of 2008, 49.4% more than in the previous year.

External factors have adverse impact on reported earnings

The ongoing weakness of the US dollar also had an impact on revenues generated by the Automobiles segment during the second quarter. Second-quarter revenues totalled euro 13,754 million and were thus 3.5% below the figure achieved in 2007. Excluding the exchange rate impact, revenues increased by 1.8%. Six-month revenues of the Automobiles segment, at euro 25,916 million, were just above the previous year's level (+0.9%). Excluding the exchange rate impact, revenues would have been 6.3% higher than in the corresponding period one year earlier.

Earnings of the Automobiles segment were severely affected during the period under report by economic uncertainties, caused by ever-rising raw material prices, a record oil price level and the financial crisis in the USA. These external factors, expenditure to implement previously announced measures to reduce the workforce and the additional expense

recognised for residual value risks significantly reduced earnings both for the second quarter 2008 and the six-month period.

Taking all these factors into account, the second-quarter profit before financial result of the Automobiles segment fell by 52.1% to euro 395 million. The segment profit before financial result for the six-month period fell by 31.7% to euro 1,014 million. This is stated after an additional risk provision expense bringing the total to euro 450 million for the six-month period.

The allocation of risk provision expense between the Automobiles and Financial Services segments is based on the BMW Group's whole-company approach to remarketing cars coming out of leases. This also has a benefit for the new car business.

These various adverse factors also had an impact on pre-tax earnings. The second-quarter profit before tax fell by 59.4% to euro 325 million, while the six-month profit before tax decreased by 38.7% to euro 864 million.

Automobiles segment workforce reduced

The BMW Group had a workforce of 96,880 employees in the Automobiles segment at 30 June 2008, 1.5% fewer than one year earlier. The previously announced measures to reduce the workforce are being implemented as scheduled. The Automobile segment workforce has been reduced by approximately 1,500 employees.

Interim Group Management Report Motorcycles

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Motorcycle sales down in first half of year

The Motorcycles segment was unable to avoid the general market trend in either the second quarter or the six-month period. The BMW Group sold 34,886 motorcycles during the second quarter 2008, a 3.6% drop on the previous year's figure. The number of BMW motorcycles sold in the first half of the year decreased by 5.6% to total 55,932 units.

The six-month sales volume figure for Europe went down by 1.4% to 42,079 units. The markets performed positively in the United Kingdom with 3,120 units sold (+5.7%), in Italy with 10,022 units sold (+4.4%) and in France with 4,646 units sold (+3.2%). Market share gains were also registered in the area of European exports. On the other hand, the number of BMW motorcycles sold in Germany fell sharply by 13.0% to 10,421 units.

Sales of BMW motorcycles in the USA during the first half of 2008 were increasingly influenced by the general reluctance of consumers to spend in the face of a gloomier economic climate. The six-month sales volume fell by 24.2% to 5,154 units. In addition, the new models F 800 GS and F 650 GS are not yet available in the USA. Difficult market conditions in Japan meant that the previous year's volumes were not achieved on this market. With 1,479 units sold, the six-month sales volume was 17.5% lower than one year earlier.

Motorcycle production volume significantly reduced

The number of BMW motorcycles produced in the second quarter 2008 decreased by 2.4% to 31,972 units. This figure comprised 30,606 units manufactured at the BMW Berlin plant and 1,366 units manufactured by the cooperation partner, Piaggio. In total, 60,561 BMW motorcycles were produced during the six-month period (-11.7%), 58,795 at the Berlin plant and 1,766 at Piaggio.

Decline in revenues and earnings of the Motorcycles segment

Revenues generated by the Motorcycles segment in the second-quarter and six-month period were lower than in the corresponding periods of the previous year. Segment revenues for the period from April to June 2008 fell by 1.0% to euro 392 million. Revenues for the first half of the year were down by 3.4% to euro 737 million.

Adverse external factors also held down the Motorcycles segment's pre-tax earnings. The profit before tax for the second quarter fell by 5.4% to euro 53 million and for the six-month period by 3.3% to euro 87 million.

Workforce at previous year's level

The BMW Group had a workforce of 2,783 employees in the Motorcycles segment at 30 June 2008, very similar to the level one year earlier (+0.7%).

Motorcycles		2nd quarter 2008	2nd quarter 2007	Change in %
Production ^{1]}	units	31,972	32,772	-2.4
Deliveries to customers ^{2]}	units	34,886	36,201	-3.6
Revenues	euro million	392	396	-1.0
Profit before financial result (EBIT)	euro million	56	59	-5.1
Profit before tax	euro million	53	56	-5.4
Workforce at end of quarter ^{3]}		2,783	2,765	0.7

1] including BMW G 650 X assembly at Piaggio S.p.A., Noale, Italy, excluding Husqvarna Motorcycles (3,587 units)

2] excluding Husqvarna Motorcycles (2,278 units)

3] excluding Husqvarna Motorcycles (225 employees)

Motorcycles		1 January to 30 June 2008	1 January to 30 June 2007	Change in %
Production ^{1]}	units	60,561	68,567	-11.7
Deliveries to customers ^{2]}	units	55,932	59,230	-5.6
Revenues	euro million	737	763	-3.4
Profit before financial result (EBIT)	euro million	92	95	-3.2
Profit before tax	euro million	87	90	-3.3

1] including BMW G 650 X assembly at Piaggio S.p.A., Noale, Italy, excluding Husqvarna Motorcycles (7,924 units)

2] excluding Husqvarna Motorcycles (6,172 units)

Performance still being affected by financial crisis

The BMW Group's financial services business has also been affected by the general reluctance of consumers to spend in the face of economic uncertainties. Contrary to the expectations of the BMW Group, the situation on the used car markets remains tense. Residual values of pre-owned vehicles fell steeply over the course of the six-month period – especially in Canada, the USA and Germany – and are now at a low level. Further measures taken in the area of risk provision have therefore had a major influence on the level of earnings generated by the BMW Group with its financial services business. Unfavourable conditions on the international financial markets have also resulted in sharp increases in refinancing costs.

An assessment of the current risk situation for the financial services business in the light of the financial crisis is provided in the risk report on page 18.

The business volume in balance sheet terms at 30 June 2008 amounted to euro 53,115 million, an increase of 8.8% compared to one year earlier. At the balance sheet date, 2,806,776 lease and financing contracts were in place with dealers and retail customers. This corresponds to a growth rate of 12.9%. The proportion of new BMW Group vehicles leased or financed by the Financial Services segment during the first half of 2008 was 46.4%, 2.4 percentage points higher than in the corresponding period in 2007.

Regional expansion continued

The Financial Services segment continued its strategy of regional expansion during the first half of 2008. In conjunction with a cooperation agreement with Nordea Finance, a subsidiary of Nordea Bank, the Financial Services segment has been offering financing products to retail customers in Estonia, Latvia and Lithuania since the beginning of July 2008.

The BMW Group received its banking license for Russia during the second quarter 2008. This will enable it to commence retail customer and dealer financing operations from July 2008 onwards.

In May 2008, a framework agreement was signed with BMW Brilliance Automotive Ltd., Shenyang, concerning the establishment of a joint venture for financial services products in China.

Retail customer business expanded further

325,497 new contracts were signed during the second quarter 2008, 12.1% more than in the same quarter last year. Financing and leasing business with retail customers also developed positively during the six-month period. Overall, 608,141 new contracts were signed worldwide during the first half of 2008 (+ 15.0%). The leasing business contributed to this growth with a 7.4% increase. The number of new credit financing contracts signed rose by 19.6%. The leasing business and credit financing accounted for 35.1% and 64.9% respectively of new contracts signed.

In the area of pre-owned car financing, the number of new contracts rose by 26.6%. Approximately two thirds of these contracts relate to BMW and MINI brand cars.

The total volume of all finance and lease contracts signed with retail customers during the first half of the year amounted to euro 14,791 million, representing an increase of 6.9% on the same period last year.

This strong performance in the area of retail customer business is reflected in the overall contract portfolio: in total, 2,566,854 retail customer contracts were in place at 30 June 2008, 13.1% more than at the same date one year earlier. All regions contributed to this growth: the number of retail customer contracts in Germany increased by 9.4%, whilst the remaining European markets and the Asia/Oceania/Africa region grew by 15.0% and 13.0%

Financial Services		2nd quarter 2008	2nd quarter 2007	Change in %
New contracts with retail customers		325,497	290,293	12.1
Revenues	euro million	3,877	3,449	12.4
Profit before financial result (EBIT)	euro million	39	181	-78.5
Profit before tax	euro million	64	189	-66.1
Workforce at end of quarter		4,248	4,073	4.3

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respectively. The Americas region, with 853,063 contracts, still constitutes the largest contract portfolio. The growth rate compared to one year earlier was 14.5%.

Multi-brand financing expanded further

In the multi-brand financing line of business, a total of 86,262 new contracts were signed during the first half of 2008, representing a growth of 50.7% in new business.

Dealer financing up on previous year

In addition to the financing of vehicle inventories held by dealerships, the Financial Services segment also offers real estate and equipment financing products for dealers. At euro 8,830 million, the total volume of dealer financing contracts managed by the Financial Services segment at the end of the period under report represented a new high level (+11.1%).

Fleet business achieves milestone

The contract portfolio for fleet business continued to grow strongly during the first half of 2008. In June, the 300,000th fleet vehicle was handed over to a longstanding customer at the BMW Welt. At the end of the period under report, the Group's fleet management entities were managing a portfolio of 302,587 contracts worldwide, up by 19.7% compared to one year earlier.

Competition in the banking sector remains intense

Competition in the banking sector remains intense, particularly in the deposit line of business. The Financial Services segment's deposit volume amounted to euro 5,596 million at 30 June 2008, similar to the level one year earlier (-0.1%). In total, 31,874 securities custodian accounts were being maintained at the period end (+3.4%).

Insurance business registering continuous growth

The Financial Services segment offers insurance services to customers that complement its financing and lease products. Demand remained strong during the period under report. The insurance contract portfolio grew by 20.4% compared to last year's figure, to stand at 1,068,258 contracts at 30 June 2008.

Financial Services segment earnings significantly affected

The ongoing unfavourable business conditions described above had a negative impact on the reported earnings of the Financial Services segment. The additional expense recognised for residual value risks and bad debts totalled euro 245 million for the six-month period. The second-quarter profit before tax therefore fell by 66.1% to euro 64 million. The pre-tax profit for the six-month period, at euro 148 million, was also well below the previous year's result (-60.2%).

Further rise in size of workforce

The Financial Services segment had a workforce of 4,248 employees at the period end, 4.3% more than one year earlier.

Financial Services		1 January to 30 June 2008	1 January to 30 June 2007	Change in %
New contracts with retail customers		608,141	528,853	15.0
Business volume*	euro million	53,115	48,811	8.8
Revenues	euro million	7,734	6,532	18.4
Profit before financial result (EBIT)	euro million	118	369	-68.0
Profit before tax	euro million	148	372	-60.2

*leased products plus receivables from sales financing (per Group balance sheet)

BMW stock in the second quarter 2008

The world's stock markets finished the first half of 2008 with massive losses. The principal factors were the extreme increase in oil prices, the ongoing credit crisis in the USA and "stagflation" risks in Europe and the USA. The US dollar remained weak during the second quarter, seeing a new low of almost US dollar 1.60 to the euro. At the end of the period under report, the US currency closed at US dollar 1.58 to the euro and hence 7.6 % below its closing exchange rate at the end of 2007. The currency was, however, almost unchanged compared to the closing exchange rate at the end of the first quarter 2008.

The German stock index, the DAX, closed on 30 June 2008 at 6,418.32 points, 1.8 % lower than at the end of the first quarter 2008. This meant that the DAX had lost some 20% in value since the beginning of the year (28 December 2007: 8,067.32 points). The Prime Automobile sector index performed better than the DAX in the first quarter 2008 thanks to special factors, falling only by a moderate 11.3%. During the second quarter, however, the index lost significantly in value, closing 22.5% lower at 609.00 points (28 December 2007: 785.54 points). Compared to the end of the first quarter, this represents a drop in value of 12.6 % (31 March 2008: 697.14 points).

The price of BMW stock followed this ongoing trend on the world's exchanges. BMW common stock closed at euro 30.55 on the last day of trading in June 2008, 12.7 % lower than at the end of the first quarter (31 March 2008: euro 34.99). Compared to the end of 2007, the value of BMW common stock fell by 27.9 % (28 December 2007: euro 42.35). BMW preferred stock finished the period at euro

25.21, 9.7 % lower than at the end of the first quarter (31 March 2008: euro 27.91). The fall compared to the closing price at the end of 2007 was 30.6 % (28 December 2007: euro 36.30).

Buy-back of preferred stock for employee share plan

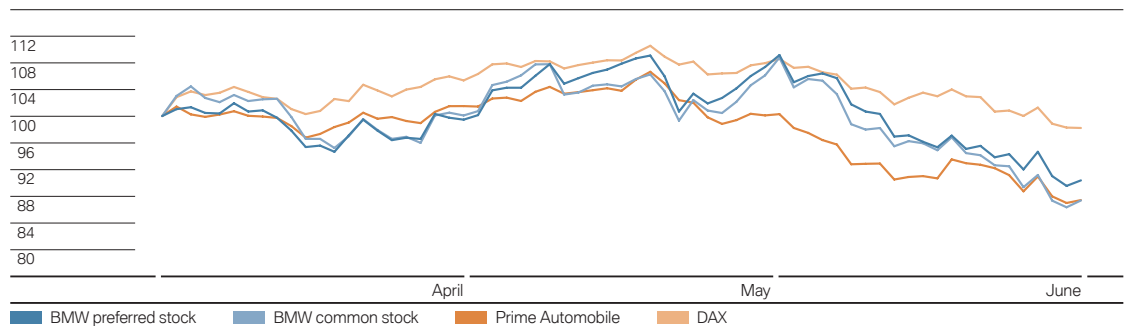
BMW AG is again offering its employees the opportunity to participate in an employee share scheme in 2008. A total of 746,411 shares of preferred stock were acquired via the stock exchange during the first half of 2008 at an average purchase price of euro 29.38 per share. In total, it is planned to buy back up to one million shares of preferred stock in 2008 and to offer these to employees for subscription at the end of the year.

Refinancing activities largely unaffected by unfavourable climate

The BMW Group was again able to obtain refinancing funds on the capital markets during the first half of 2008, despite the unfavourable climate. In the middle of the second quarter, a temporary easing of pressure on the market was used to issue a euro benchmark bond totalling euro 1.75 billion with a seven-year term. A further euro 1.35 billion was refinanced via a promissory note loan with a term of five years. In addition, a number of bonds were issued in various currencies. During the first half of 2008, the BMW Group was also able to raise in excess of euro 3 billion via the capital markets by way of private placements. ABS transactions (private conduits) were also used successfully to raise refinancing funds; commercial paper was again issued at extremely favourable conditions.

Development of BMW stock compared to stock exchange indices

(Index: 31.03.2008 = 100)



Interim Group Management Report

Analysis of the Interim Group Financial Statements

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Earnings performance

The unfavourable business conditions described elsewhere in this report had an adverse impact on the BMW Group's earnings performance for both the second quarter and for the first half of 2008. In addition, reported earnings have been affected by increased adverse currency factors and the ongoing high price of raw materials and energy.

Earnings performance for the second quarter 2008

Group revenues, at euro 14,552 million, were at a similar level to the previous year (euro 14,683 million). Excluding the effect of currency fluctuations, the increase was 4.5%. Within Group revenues, external revenues of the Automobiles and Motorcycles segments were 4.5% and 0.8% below those of the corresponding period in 2007. External revenues of the Financial Services segment rose by 13.1% in the second quarter. Revenues from other activities of the Group amounted to euro 37 million and related mainly to the Cirquent Group. The comparable figure for the previous year was euro 52 million.

Group cost of sales amounted to euro 11,983 million and are therefore 5.5% higher than in the second quarter last year. This reflects the higher expense for risk provisions, the impact of less favourable exchange rates and higher raw material prices. The second-quarter gross profit in absolute terms therefore fell by 22.9% to euro 2,569 million. The gross profit percentage was 17.7% (second quarter 2007: 22.7%). The gross profit percentage of Industrial Operations went down by 3.4 percentage points to 17.1% and that of Financial Operations fell by 4.9 percentage points to 5.9%.

Sales and administrative costs decreased by 2.5%. In the previous year, this line item included higher market launch costs attributable to model life-cycle factors. Sales and administrative costs represented 10.0% (second quarter 2007: 10.2%) of revenues.

Research and development costs decreased by 9.3% compared to the second quarter 2007 and represented 5.2% of revenues (second quarter 2007: 5.7%). They include amortisation of capitalised development costs amounting to euro 299 million (second quarter 2007: euro 267 million). Total research and development costs for the second quarter 2008 totalled euro 720 million (second quarter 2007: euro 893 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. For the second quarter 2008, this gives a research and development expenditure ratio of 4.9% (second quarter 2007: 6.1%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 910 million (second quarter 2007: euro 894 million).

The positive net amount from other operating income and expenses increased by euro 51 million compared to the second quarter last year.

As a result of the various adverse factors discussed above, the second-quarter profit before financial result fell by euro 594 million to euro 425 million.

The financial result improved compared to the same quarter last year. This was attributable mainly to the higher level of net gains on derivative financial instruments, as a result of which the line item "Sundry other financial result" improved by euro 153 mil-

Revenues by segment in the 2nd quarter in euro million	External revenues		Inter-segment revenues		Total revenues	
	2008	2007	2008	2007	2008	2007
Automobiles	10,743	11,247	3,011	3,010	13,754	14,257
Motorcycles	391	394	1	2	392	396
Financial Services	3,381	2,990	496	459	3,877	3,449
Reconciliations	37	52	-3,508	-3,471	-3,471	-3,419
Group	14,552	14,683	-	-	14,552	14,683

lion. Within the financial result, the net interest expense increased by euro 14 million. The net result from investments remained unchanged at a positive amount of euro 1 million. The result from equity accounted investments fell by euro 8 million.

The second-quarter profit before tax, at euro 602 million, was euro 463 million below the previous year's figure. The pre-tax return on sales was 4.1% (second quarter 2007: 7.3%).

The income tax expense decreased by 69.6% and the effective tax rate was 15.8% (second quarter 2007: 29.3%).

The BMW Group recorded a net profit of euro 507 million for the second quarter 2008, euro 246 million or 32.7% below the result for the same quarter last year. In the second quarter, the Group generated earnings per share of common stock of euro 0.77 (second quarter 2007: euro 1.15) and earnings per share of preferred stock of euro 0.78 (second quarter 2007: euro 1.16).

Earnings performance for the first half of 2008

Group revenues for the six-month period rose by 4.5% to euro 27,837 million. Excluding the effect of currency fluctuations, the increase was 9.9%. Within Group revenues, external revenues of the Automobiles and Financial Services segments were 0.3% and 20.6% above those of the corresponding period in 2007. External revenues of the Motorcycles segment in the first half of 2008 fell by 3.3%, reflecting the sales volume decrease. Revenues from other activities of the Group were unchanged at euro 99 million and related mainly to the Cirquent Group.

Cost of sales amounted to euro 22,420 million, rising by 9.0% and therefore more pronounced than

the increase in revenues. This was attributable to the adverse external factors described above. The six-month gross profit therefore decreased in absolute terms by 10.7%. The gross profit percentage was 19.5% (first half-year 2007: 22.8%). The gross profit percentage for Industrial Operations was 18.9% (first half-year 2007: 20.4%). The gross profit percentage for Financial Operations fell by 4.3 percentage points to 6.5%.

Sales and administrative costs increased by 1.1% compared to the corresponding period last year and represented 9.9% (first half-year 2007: 10.2%) of revenues. Expenditure incurred to date to reduce the size of the workforce has predominantly related to administrative functions.

Research and development costs for the six-month period were practically unchanged and represented 5.3% of revenues (first half-year 2007: 5.5%). Research and development costs include amortisation of capitalised development costs amounting to euro 597 million (first half-year 2007: euro 517 million). Total research and development costs for the first half of 2008 amounted to euro 1,346 million (first half-year 2007: euro 1,563 million). This figure comprises research costs, development costs not recognised as assets and capitalised development costs. The research and development expenditure ratio for the six-month period was 4.8% (first half-year 2007: 5.9%).

Depreciation and amortisation included in cost of sales, sales and administrative costs and research and development costs amounted to euro 1,812 million (first half-year 2007: euro 1,755 million).

At euro 60 million, the positive net amount from other operating income and expenses increased by 13.2% compared to the first half of 2007.

Revenues by segment in the period from 1 January to 30 June in euro million	External revenues		Inter-segment revenues		Total revenues	
	2008	2007	2008	2007	2008	2007
Automobiles	20,167	20,108	5,749	5,567	25,916	25,675
Motorcycles	733	758	4	5	737	763
Financial Services	6,838	5,669	896	863	7,734	6,532
Reconciliations	99	99	-6,649	-6,435	-6,550	-6,336
Group	27,837	26,634	-	-	27,837	26,634

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As a result of the various adverse factors discussed above, the six-month profit before financial result fell by euro 679 million to euro 1,252 million.

The financial result (net expense of euro 9 million) was euro 5 million higher than in the previous year (net expense of euro 14 million). Within that figure, the net result from derivative financial instruments improved by euro 79 million. The increase in the fair values of these financial instruments reflected the change in interest rate structures. Other financial result for the first half of 2007 included a positive one-time gain of euro 61 million on the exchangeable bond on shares in Rolls-Royce plc, London. Also within the financial result, net interest expense increased by euro 83 million. The main factor here was the level of write-downs on marketable securities.

The result from equity accounted investments was up by euro 9 million and the result from investments was unchanged at euro 1 million.

As a result of the adverse factors described above, the six-month profit before tax fell by 35.2% to euro 1,243 million. The pre-tax return on sales was 4.5% (first half-year 2007: 7.2%).

The impact of the 2008 Business Tax Reform – for which no impact had been recognised in the first half of the previous year – and tax reimbursements in the first half of 2008 resulted in a euro 328 million reduction in the income tax expense for the six-month period. The effective tax rate for the six-month period went down from 30.1% to 20.0%.

The BMW Group recorded a net profit of euro 994 million for the six-month period, euro 346 million or 25.8% below the result for the first half of 2007.

For the first half of 2008, the Group generated earnings per share of common stock of euro 1.52 (first half-year 2007: euro 2.05) and earnings per share of preferred stock of euro 1.53 (first half-year 2007: euro 2.06).

Earnings performance by segment

Revenues of the Automobiles segment for the second quarter 2008 decreased by 3.5%, and the segment profit before tax fell by 59.4% due to the adverse factors described above. Six-month segment revenues edged up by 0.9%, while the segment profit for the period fell by 38.7% to euro 864 million.

Second-quarter revenues generated by the Motorcycle segment decreased by 1.0%, while the segment profit before tax fell by 5.4%. Segment revenues for the six-month period, at euro 737 million, were down by 3.4%. The six-month segment profit before tax fell by 3.3% in line with the drop in revenues.

Revenues of the Financial Services segment for the second quarter 2008 rose by 12.4%. The second-quarter segment profit before tax was 66.1% lower than in the previous year, reflecting the higher expense for risk provisions in the areas of vehicle residual values and loan financing. For the six-month period, segment revenues increased by 18.4%, while the segment profit before tax was 60.2% lower than in the previous year.

Reconciliations to the Group net profit in the second quarter 2008 were a net positive amount of euro 160 million (second quarter 2007: euro 19 million). Reconciliations to the Group net profit for the first half of 2008 were also positive, with a net

Profit before tax by segment in euro million	2nd quarter 2008	2nd quarter 2007	1 January to 30 June 2008	1 January to 30 June 2007
Automobiles	325	801	864	1,410
Motorcycles	53	56	87	90
Financial Services	64	189	148	372
Reconciliations	160	19	144	45
Profit before tax*	602	1,065	1,243	1,917
Income taxes	-95	-312	-249	-577
Net profit	507	753	994	1,340

* Profit before tax for the first half of 2007 includes an exceptional gain of euro 61 million arising from the exchangeable bond on shares in Rolls-Royce plc, London.

positive amount of euro 144 million, representing a improvement of euro 99 million compared to the corresponding period last year.

Financial position

The cash flow statements of the BMW Group and its sub-groups show the sources and applications of cash flows for the first half of the financial years 2007 and 2008, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount disclosed in the balance sheet.

The cash inflow from operating activities in the first half of 2008 increased by euro 347 million to euro 5,904 million (first half-year 2007: euro 5,557 million).

The cash outflow for investing activities amounted to euro 8,576 million and was therefore euro 204 million higher than in the first half of 2007. Capital expenditure for intangible assets and property, plant and equipment resulted in the cash outflow for investing activities decreasing by euro 394 million compared to the corresponding period last year. Cash outflow in conjunction with the net investment in leased products and receivables from sales financing increased by euro 469 million. 68.8% (first half-year 2007: 66.4%) of the cash outflow for investing activities was covered by the cash inflow from operating activities. The sub-group cash flow statement shows coverage of 144.8% (first half-year 2007: 151.7%) for Industrial Operations. As expected, the cash flow statement of the Financial Operations sub-group shows that cash inflow from operating activities does not cover cash outflow from investing activities due to the high level of capital expenditure on leased products and receivables from sales financing.

The cash inflow from financing activities includes inflows of euro 6,878 million from bond issues (first half-year 2007: euro 2,748 million) and outflows for repayments totalling euro 1,884 million (first half-year 2007: euro 1,578 million). The cash inflow of euro 3,026 million from financing activities during the first half of 2008 was primarily attributable to the issue of bonds. After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group, the various cash flows

resulted in an increase in cash and cash equivalents of euro 275 million (first half-year 2007: decrease of euro 117 million).

Net interest-bearing assets relating to Industrial Operations (including receivables from Financial Operations) amounted to euro 7,087 million at 30 June 2008. This represents an increase of euro 35 million since 31 December 2007. Net interest-bearing assets relating to Industrial Operations comprise cash and cash equivalents (euro 2,545 million), marketable securities relating to Industrial Operations (euro 2,035 million) and receivables from Financial Operations (euro 3,507 million) less financial liabilities relating to Industrial Operations. Excluding interest and currency derivatives, the latter amounts to euro 1,000 million.

Net assets

The balance sheet total of the BMW Group increased by euro 3,606 million or 4.1% compared to 31 December 2007. Adjusted for changes in exchange rates, the balance sheet total would have increased by 7.4%. The main reason for this increase on the assets side of the balance sheet were inventories (+ 16.1%), receivables from sales financing (+ 4.9%), financial assets (+ 13.0%) and cash and cash equivalents (+ 11.5%). On the equity and liabilities side of the balance sheet, the increase was due to the increase in trade payables (+ 15.1%) and financial liabilities (+ 6.2%). By contrast, pension provisions decreased by 9.0%.

Leased-out products increased by only euro 173 million despite the higher volume of business. The higher level of residual value related risk provisions, which are offset against leased products, also contributed to this development. Excluding the effect of exchange rate fluctuations, leased-out products would have increased by 6.2%. Similarly, the increase in receivables from sales financing would also have been higher (8.6%) adjusted for exchange rate fluctuations.

Compared to 31 December 2007, inventories increased by euro 1,185 million to euro 8,534 million.

Financial assets increased by 13.0% to euro 5,416 million, principally as a result of higher fair values of derivative financial instruments.

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Group equity increased primarily as a result of the net profit for the period. Within Group equity, accumulated other equity decreased by euro 2 million. On the one hand, the fair value measurement of derivative financial instruments resulted in an increase of euro 148 million. In addition, the increase in interest rates gave rise to actuarial gains of euro 334 million (net of deferred tax) on pension obligations. By contrast, translation differences and the fair value measurement of securities reduced accumulated other equity by euro 484 million.

The equity ratio of the BMW Group fell overall by 0.6 percentage points to 23.8%. The equity ratio for Industrial Operations was 45.1% (31 December 2007: 43.8%). The equity ratio for Financial Operations was 9.1%, which was 0.1 percentage points lower than at 31 December 2007.

Pension provisions went down by 9.0% to euro 4,212 million, primarily as a result of the use of a higher discount factor.

Other provisions amounted to euro 5,452 million, slightly lower than their level at the end of the financial year 2007. Financial liabilities increased during the six-month period mainly as a result of bond issues.

Other liabilities, at euro 6,615 million, were euro 485 million higher than at 31 December 2007, mainly due to an increase in accruals and deferred income.

Risk management

As a globally operating enterprise, the BMW Group is confronted with numerous risks. The BMW Group's corporate success has long been founded on the idea of consciously taking calculated risks and making full use of the opportunities relating to them. A description of these risks and of the Group's risk management methods is provided in the Group management report for the financial year ended 31 December 2007 (Annual Report, page 62 et seq.).

The financial crisis – which originated in the US mortgage market and in the meantime has global consequences – deepened during the first half of

2008, contrary to the BMW Group's expectations. There are currently no signs of the situation easing. The economic environment in the USA, the BMW Group's largest single market for cars, is suffering perceptibly as a result of this situation. This fact is currently being reflected in the high number of insolvencies, rising unemployment and a very definite reluctance on the part of consumers to spend.

The BMW Group is also being affected by this development. Payment arrears and an increased level of bad debts in the retail customer business, particularly in the USA, necessitated a higher risk provision in the BMW Group's financial services business. The financial crisis and the resulting downturn in the economic climate in the USA have resulted in a further deterioration on North American used car markets. Losses incurred to resell used cars have therefore increased. In addition, the revaluation of the worldwide residual value risk-bearing portfolio had a further negative impact on earnings.

Further sharp increases in energy and raw material prices also pose a high risk for the future development of the global economy. Fuelled by rises in food prices, inflation rates around the world have also increased greatly and dampened the willingness to consume to a far greater degree than predicted. Ongoing high prices of raw materials and energy continue to give rise to substantial additional expenses for the BMW Group.

Outlook

Overcast outlook for the world economy

Worldwide economic growth will continue to lose pace in the second half of 2008. The main contributing factors for this, apart from even higher prices for energy and raw materials, are the US property crisis and the lack of confidence in the global financial system. The impact will be felt throughout the rest of the current year, particularly in the USA, where rapidly falling real estate and share prices and the resulting losses incurred by private households are also contributing to weaker domestic demand. Increased exports due to the weak dollar can only partially compensate for this trend.

Although the financial crisis is likely to have less of an impact on markets in Europe and Japan, the weaker global economy will, nevertheless, result in more moderate export growth. It is likely that this drop in demand will only partially be offset by domestic demand. This is also true for the German market, where consumer spending remains on the weak side.

The emerging markets are only expected to be affected to a limited extent by the financial crisis. Although these economies are forecast to slow down somewhat in the course of the year, growth rates will nevertheless remain high.

The risks for the global economy continue to be considerable. The consequences of the financial crisis are still difficult to predict at this point in time. Any spill-over to the non-financial economy outside the USA would have a severely adverse impact on the world economy. The fact that prices for energy and raw materials continue to rise steeply also constitutes a high risk. In the meantime, these rises have resulted in food price increases worldwide and, as a consequence, in significantly higher inflation rates. If the central banks react to the risk of inflation by increasing reference interest rates, this could also have a braking effect on the world economy. The ongoing weakness of the US dollar continues to pose a risk for companies based in the euro region.

Diverse trends continue in international automobile markets

Once again, the triad of traditional car markets (USA, Japan and Western Europe) are unlikely to generate any significant momentum in the second half of 2008. The downturn on the US market could become even more pronounced, whereas the markets in Western Europe and Japan are more likely to stagnate. In Germany, car sales are stabilising at a lower level following the value-added tax hike at the beginning of 2007.

In contrast, the automobile markets in the emerging economies of Asia and Latin America will continue to grow strongly during the second half of 2008. Markets in China and Brazil will again grow

at high double-digit rates, while growth in India and Russia, at over ten per cent, will remain dynamic. Eastern Europe is expected to see high single-digit growth rates.

International motorcycle markets contracting

The motorcycle markets relevant for the BMW Group in the 500 cc plus class are not likely to recover significantly in the course of the year. The world market is expected to perform more weakly than in the previous year. This is mainly due to the sharp contraction in the USA, the largest single market for motorcycles. In Europe, the negative trend seen on the Spanish and Italian markets is expected to continue. The market contraction witnessed in Germany over the last eight years is likely to continue in 2008. The Japanese market in the relevant 500 cc plus segment is also forecast to decline significantly in the face of difficult market conditions.

Volatile climate in financial services sector

The general uncertainty caused by the financial crisis will continue to dominate the macro-economic climate in the financial services sector during the second half of the year. Financial markets are therefore likely to remain volatile. The state of the economy as a whole and inflationary tendencies do not at present give any definite indication of the direction in which the interest rate markets are heading. Credit spreads are also likely to be characterised by a high degree of volatility. On top of this, the competition between private banks and manufacturer-related financial service providers will remain tough during the second half of 2008.

BMW Group adjusts earnings outlook

Contrary to expectations, business conditions for the BMW Group have deteriorated in recent months. The crisis on the international financial markets is having a perceptible impact and an end to the tense situation is not currently in sight. The situation is being exacerbated by a sharp rise in energy and food prices which are contributing to a worldwide slowdown in consumer spending. The situation is

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unlikely to improve in the short term due to the growing danger posed by inflation.

These factors are having a particularly noticeable effect on consumer spending in the USA, the BMW Group's largest single car market. A general reluctance to spend has taken hold, not only in the USA, but also in a number of European markets and in Japan. According to forecasts, the number of new car registrations in the mature markets will fall steeply in 2008 compared to the previous year. Moreover, the forecast spring-time vitality of the used car markets has not materialised to the degree expected and there is no sign of an early recovery. These adverse factors will also influence the BMW Group's performance in the second half of 2008.

Furthermore, the BMW Group has also had to bear the brunt of further substantial price rises for raw materials. The price of crude oil and steel in particular continued to rise during the period under report. The ongoing weakness of the US dollar, the British pound and the Japanese yen also resulted in a negative currency impact. If the principal currencies remain at their current level, the BMW Group will be faced with some major challenges in the coming year.

Given these various factors, the Group's net profit for the financial year 2008 is no longer expected to match the previous year's level. The extent to which the previous forecast will have to be adjusted depends in particular on how business conditions – as described above – actually develop. For this reason, a further increase in risk provisions in the second half of 2008 cannot be ruled out.

With its strategy Number ONE, the BMW Group is on the right track to deal successfully with the current unfavourable environment. In the light of the deterioration in business conditions, the BMW Group is reinforcing its efforts to implement its new strategic direction and intensifying the measures necessary to achieve this. This primarily relates to initiatives designed to boost profitability. A number of strategic sales measures will also be adopted in this context. The BMW Group will decrease its sales volume in the USA in the short term on a targeted

basis without jeopardising its strong market position there. At the same time, it is aiming to increase the number of vehicles sold in emerging economy markets where demand is high. The BMW Group will also remain true to its "production follows the market" philosophy. The expansion of production capacities in the USA, China and India demonstrates this amply. Moreover, customer-oriented sales and production processes allow available capacities to be adapted quickly and flexibly. One major aspect of this is the ability to react rapidly to sharp rises in demand for individual models.

Despite the gloomy climate for consumer spending, the BMW Group continues to forecast that sales volumes will develop positively. The highly acclaimed technological expertise of the BMW Group – demonstrated for example by the EfficientDynamics measures package aimed at reducing fuel consumption – continues to arouse a high degree of interest amongst customers in the premium segment. Thanks to this package, the BMW Group is currently the only car manufacturer in the premium segment capable of achieving significant CO₂ emission reductions on a fleet-wide basis. A portfolio of efficient and at the same time powerful cars meets the worldwide demand for more efficient, lower-emission vehicles. The lead that the BMW Group enjoys over its competitors also reflects the fact that it is committed to investing substantial upfront amounts in the future, and all the more so when it encounters difficult business conditions. These upfront investments justify the positive outlook for the medium and long term.

Despite the wide range of adverse external factors it faces, the BMW Group continues to forecast a successful business performance on the back of stable growth and a wide-ranging package of measures to improve efficiency and productivity. The strong demand for the cars, motorcycles and financial services products sold by the BMW Group provides a solid basis for achieving this target. Taking these factors into account, the return on sales for 2008 should be at least 4%.

The BMW Group is aiming to achieve a return on sales (at a profit before financial result level/EBIT

margin) of approximately 4 % or higher for the year 2008 in its Automobile segment. Partly due to the expected easing of business conditions and partly due to the increasing effectiveness of profitability improvement measures, the BMW Group intends to achieve a return on sales of at least 6 % by 2010. The corresponding EBIT margin in the Automobiles segment would then be almost 6 % or higher.

The profitability targets for 2012 set in conjunction with the strategy Number ONE remain in place. The BMW Group plans to remain on its strategic course by accelerating cost and efficiency improvement measures. The goals to achieve a return on capital employed (ROCE) in the Automobiles segment in excess of 26 % and an EBIT margin of 8 % to 10 % remain unchanged.

Interim Group Financial Statements
Group and Sub-group Income Statements
for the period from 1 January to 30 June

in euro million	Notes	Group		Industrial Operations ¹⁾		Financial Operations ¹⁾	
		2008	2007	2008	2007	2008	2007
Revenues	[4]	27,837	26,634	26,752	26,537	7,954	6,708
Cost of sales	[5]	-22,420	-20,566	-21,689	-21,127	-7,435	-5,981
Gross profit		5,417	6,068	5,063	5,410	519	727
Sales and administrative costs	[6]	-2,749	-2,718	-2,439	-2,431	-296	-287
Research and development costs	[7]	-1,476	-1,472	-1,476	-1,472	-	-
Other operating income	[8]	535	269	283	197	278	98
Other operating expenses	[8]	-475	-216	-240	-162	-275	-85
Profit before financial result		1,252	1,931	1,191	1,542	226	453
Result from equity accounted investments	[9]	12	3	12	3	-	-
Other financial result	[10]	-21	-17	-141	11	145	45
Financial result		-9	-14	-129	14	145	45
Profit before tax		1,243	1,917	1,062	1,556	371	498
Income taxes	[11]	-249	-577	-176	-472	-132	-155
Net profit		994	1,340	886	1,084	239	343
Attributable to minority interest		3	3	3	3	-	-
Attributable to shareholders of BMW AG		991	1,337	883	1,081	239	343
Earnings per share							
of common stock in euro	[12]	1.52	2.05				
Earnings per share							
of preferred stock²⁾ in euro	[12]	1.53	2.06				

1) before consolidation of transactions between the sub-groups

2) In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread over the quarters of the corresponding financial year.

Interim Group Financial Statements

Group and Sub-group Balance Sheets

		Notes	Group		Industrial Operations*		Financial Operations*	
			30.6.2008	31.12.2007	30.6.2008	31.12.2007	30.6.2008	31.12.2007
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Assets								
in euro million								
	Intangible assets	[13]	5,557	5,670	5,430	5,550	127	120
	Property, plant and equipment	[14]	10,774	11,108	10,750	11,083	24	25
	Leased products	[15]	17,186	17,013	281	254	20,070	19,911
	Investments accounted for using the equity method	[16]	74	63	74	63	–	–
	Other investments	[16]	179	209	157	186	22	23
	Receivables from sales financing	[17]	21,157	20,248	–	–	21,157	20,248
	Financial assets	[18]	1,236	1,173	67	81	1,169	1,092
	Deferred tax	[19]	682	720	1,262	1,201	–2,099	–1,952
	Other assets	[20]	507	415	435	892	449	344
	Non-current assets		57,352	56,619	18,456	19,310	40,919	39,811
	Inventories	[21]	8,534	7,349	8,526	7,340	9	9
	Trade receivables		2,603	2,672	2,521	2,592	82	80
	Receivables from sales financing	[17]	14,772	13,996	–	–	14,772	13,996
	Financial assets	[18]	4,180	3,622	2,481	2,213	1,699	1,409
	Current tax	[19]	321	237	312	225	9	12
	Other assets	[20]	2,173	2,109	4,737	6,932	1,077	863
	Cash and cash equivalents		2,668	2,393	2,545	1,887	123	506
	Current assets		35,251	32,378	21,122	21,189	17,771	16,875
	Total assets		92,603	88,997	39,578	40,499	58,690	56,686
	Total assets adjusted for asset backed financing transactions		86,577	82,651	–	–	52,664	50,340

* before consolidation of transactions between the sub-groups

Equity and liabilities in euro million	Notes	Group		Industrial Operations*		Financial Operations*	
		30.6.2008	31.12.2007	30.6.2008	31.12.2007	30.6.2008	31.12.2007
Subscribed capital		654	654				
Capital reserves		1,911	1,911				
Revenue reserves		21,086	20,789				
Accumulated other equity		-1,623	-1,621				
Treasury shares		-22	-				
Minority interest		13	11				
Equity	[22]	22,019	21,744	17,836	17,755	5,363	5,197
Pension provisions		4,212	4,627	4,178	4,595	34	32
Other provisions	[23]	2,751	2,676	2,521	2,417	230	259
Deferred tax	[24]	2,736	2,714	2,379	2,067	91	369
Financial liabilities	[25]	24,741	21,428	719	716	24,022	20,712
Other liabilities	[26]	2,007	2,024	1,552	1,514	1,326	1,843
Non-current provisions and liabilities		36,447	33,469	11,349	11,309	25,703	23,215
Other provisions	[23]	2,701	2,826	2,469	2,673	229	178
Current tax	[24]	852	808	671	654	181	154
Financial liabilities	[25]	21,890	22,493	413	2,090	21,477	20,403
Trade payables		4,086	3,551	3,511	2,938	575	613
Other liabilities	[26]	4,608	4,106	3,329	3,080	5,162	6,926
Current provisions and liabilities		34,137	33,784	10,393	11,435	27,624	28,274
Total equity and liabilities		92,603	88,997	39,578	40,499	58,690	56,686
Total equity and liabilities adjusted for asset backed financing transactions		86,577	82,651	-	-	52,664	50,340

*before consolidation of transactions between the sub-groups

Interim Group Financial Statements

Group and Sub-group Cash Flow Statements

for the period from 1 January to 30 June

	in euro million	Group	
		2008	2007
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	Net profit	994	1,340
	Depreciation of leased products	3,064	2,336
	Depreciation and amortisation of tangible, intangible and investment assets	1,812	1,755
	Change in provisions	136	195
	Change in deferred tax	-55	174
	Change in net current assets and other items	-47	-243
	Cash inflow from operating activities	5,904	5,557
	Investment in intangible assets and property, plant and equipment	-1,515	-1,909
	Net investment in leased products and receivables from sales financing	-6,903	-6,434
	Other	-158	-29
	Cash outflow from investing activities	-8,576	-8,372
	Cash inflow/outflow from financing activities	3,026	2,701
	Effect of exchange rate and changes in composition of group on cash and cash equivalents	-79	-3
	Change in cash and cash equivalents	275	-117
	Cash and cash equivalents at 1 January	2,393	1,336
	Cash and cash equivalents at 30 June	2,668	1,219

Industrial Operations		Financial Operations		
2008	2007	2008	2007	
886	1,084	239	343	Net profit
3	2	2,890	2,137	Depreciation of leased products
1,798	1,745	14	10	Depreciation and amortisation of tangible, intangible and investment assets
82	284	32	-89	Change in provisions
-14	161	2	63	Change in deferred tax
-433	-478	405	295	Change in net current assets and other items
2,322	2,798	3,582	2,759	Cash inflow from operating activities
-1,495	-1,810	-20	-99	Investment in intangible assets and property, plant and equipment
-29	-6	-6,874	-6,428	Net investment in leased products and receivables from sales financing
-80	-28	-78	-1	Other
-1,604	-1,844	-6,972	-6,528	Cash outflow from investing activities
-18	-983	3,044	3,684	Cash inflow/outflow from financing activities
-42	5	-37	-8	Effect of exchange rate and changes in composition of group on cash and cash equivalents
658	-24	-383	-93	Change in cash and cash equivalents
1,887	1,235	506	101	Cash and cash equivalents at 1 January
2,545	1,211	123	8	Cash and cash equivalents at 30 June

Interim Group Financial Statements

Statement of Income and Expenses recognised directly in Equity for the period from 1 January to 30 June

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06 Automobiles	Fair value gains and losses on available-for-sale investments recognised directly in equity	-85	-102
10 Motorcycles	Fair value gains and losses on financial instruments used for hedging purposes		
11 Financial Services	recognised directly in equity	192	-90
13 BMW Stock and Bonds	Exchange differences arising on the translation of foreign subsidiaries	-407	-44
14 Financial Analysis	Actuarial gains and losses on defined benefit pension		
18 Risk Management	and similar obligations	518	577
18 Outlook	Deferred tax on gains and losses recognised directly in equity	-220	-214
22 Interim Group Financial Statements	Gains and losses recognised directly in equity	-2	127
22 Group and Sub-group Income Statements	Profit after tax attributable to shareholders of BMW AG	991	1,337
24 Group and Sub-group Balance Sheets	Aggregate amount of net profit for period and gains and losses recognised directly in equity	989	1,464
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[1] Basis of preparation

The Group financial statements of BMW AG at 31 December 2007 were drawn up in accordance with International Financial Reporting Standards (IFRSs), as applicable in the EU. The interim Group financial statements (Interim Report) at 30 June 2008, which have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting), have been drawn up using, in all material respects, the same accounting methods as those employed in the 2007 Group financial statements. All Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) which are mandatory at 30 June 2008 have also been applied. The Interim Report also complies with German Accounting Standard No. 6 (GAS 6) – Interim Financial Reporting – issued by the German Accounting Standard Committee e.V. (GASC). The Responsibility Statement of the company's legal representatives is made on the basis of German Accounting Standard No. 16 (DRS 16 Near Final Draft) – Interim Financial Reporting – issued by the German Accounting Standards Committee e.V. (GASC). The interim Group financial statements have neither been audited nor reviewed by the Group auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

Further information regarding the Group's accounting principles and policies is contained in the BMW Group financial statements at 31 December 2007. The Group currency is the euro. All amounts are disclosed in millions of euros (euro million) unless otherwise stated.

In order to support the sale of its products, the BMW Group provides various financial services – mainly loan and lease financing – to retail customers and to dealers. The inclusion of the financial services activities of the Group therefore has an impact on the interim Group financial statements. In order to provide a better insight into the assets, liabilities, financial position and performance of the Group, additional information is presented in the BMW Group financial statements for Industrial Operations and Financial Operations. Financial Operations include financial services and the activities of the Group financing companies. The operating interest income and expense of Financial Operations are included in revenues and cost of sales respectively. The holding

companies BMW (UK) Holdings Ltd., Bracknell, BMW Holding B.V., The Hague, BMW Österreich Holding GmbH, Steyr, BMW (US) Holding Corp., Wilmington, Del., BMW España Finance S.L., Madrid, and BMW Holding Malaysia Sdn Bhd, Kuala Lumpur, are allocated to Industrial Operations. The main business transactions between Industrial and Financial Operations, which are eliminated at group level, 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 Industrial and Financial Operations to be presented, in accordance with the recognition and measurement principles stipulated by IFRSs, as if they were two separate groups. This information is provided on a voluntary basis.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well established instrument used by industrial companies. These transactions are usually in the form of asset-backed financing transactions involving 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 and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated and Separate Financial Statements) and the interpretation contained in SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group financial statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet on transfer of the related significant risks and rewards. The balance sheet value of the assets sold at 30 June 2008 totalled euro 6.0 billion (31 December 2007: euro 6.3 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.

In addition to credit financing and lease contracts, the Financial Services segment also brokers insurance business via cooperation arrangements entered into with local insurance companies. These activities are not material to the BMW Group as a whole.

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[2] Consolidated companies

The BMW Group financial statements for the second quarter 2008 include, besides BMW AG, 45 German and 158 foreign subsidiaries. This also includes 17 special purpose securities funds and 24 special purpose trusts, almost all of which are used for asset-backed financing.

SimeLease (Malaysia) Sdn Bhd, Kuala Lumpur, and that entity's subsidiary, SimeCredit (Malaysia) Sdn Bhd, Kuala Lumpur – acquired by BMW Holding B.V., The Hague, on 13 April 2007 following receipt of approval from the relevant local authorities – were consolidated for the first time in the second quarter

2008. The names of these entities were changed to BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, immediately after acquisition.

The purchase consideration for the two companies – all settled with cash and cash equivalents – was euro 23 million. Transaction costs were not incurred. The transaction involved the acquisition of all issued share capital and voting rights. Based on the definitive purchase price allocation, the following carrying amounts and fair values were attributed to the assets and liabilities of the acquired companies at the acquisition date:

in euro million	Carrying amount/ Fair value
Assets	
Receivables from sales financing	179
Other assets	3
Liabilities	
Provisions	4
Financial liabilities	141
Other liabilities	28
Net assets acquired	9
Acquisition cost	23
Goodwill	14

The excess of cost over the fair value of recognised net assets amounted to euro 14 million. This relates primarily to potential synergy benefits that can be realised by expanding lease and financing business. The full amount is attributable to the Financial Services segment. This goodwill is tested annually for impairment.

BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and its subsidiary, BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, recorded a net profit of euro 0.6 million in the first half of 2008 (all relating to the second quarter). Revenues of the two entities during the six-month period totalled euro 7.8 million, of which euro 4.0 million related to the second quarter.

No companies ceased to be consolidated entities during the second quarter 2008.

BMW Roma S.r.l., Rome, BMW de Argentina S.A., Buenos Aires, BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur, and BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur, were consolidated for the first time in the first half of 2008.

The companies entory AG, Ettlingen, axentiv AG, Darmstadt, Nexolab GmbH, Munich, and F.A.S.T. Gesellschaft für angewandte Softwaretechnologie mbH, Munich, all ceased to be consolidated companies in the first half of 2008 following their merger with Cirquent GmbH, Munich. Aveling Barford Manufacturing (Pty) Ltd., Cape Town, has also ceased to be a consolidated company.

Compared to the same quarter last year, five subsidiaries, seven special purpose trusts and two special purpose securities funds were consolidated for the first time. In addition, five subsidiaries, two special purpose securities funds and two special purpose trusts ceased to be consolidated companies.

The changes to the composition of the Group do not have a material impact on the earnings performance, financial position or net assets of the Group.

[3] New financial reporting rules

(a) Financial reporting rules applied for the first time in the second quarter 2008

No new financial reporting rules were applied for the first time in the second quarter 2008.

(b) New financial reporting rules issued during the second quarter 2008

The International Accounting Standards Board (IASB) issued revised versions of IFRS 1 (First-time Adoption of International Financial Reporting Standards) and of IAS 27 (Consolidated and Separate Financial Statements) during the second quarter 2008. The date of first-time application of the changes is stipulated as 1 January 2009.

The IASB has also issued a collection of amendments to various IFRSs ("Improvements to IFRSs"). This includes amendments to various existing IFRSs. The total of 35 amendments to 20 IFRSs are presented in two parts: Part I contains amendments that involve accounting changes for presentation, recognition or measurement purposes (24 improvements). Part II contains 11 amendments involving terminology or editorial changes with minimal effect on accounting. Unless otherwise specified, the amendments are effective for annual periods beginning on or after 1 January 2009.

These new financial rules will not have a significant impact on the BMW Group.

[4] Revenues

Revenues by activity comprise the following:

in euro million	2nd quarter 2008	2nd quarter 2007	1 January to 30 June 2008	1 January to 30 June 2007
Sales of products and related goods	11,005	11,569	20,707	20,731
Income from lease instalments	1,336	1,257	2,655	2,415
Sales of products previously leased to customers	1,227	1,041	2,583	1,915
Interest income on loan financing	705	579	1,386	1,124
Other income	279	237	506	449
Revenues	14,552	14,683	27,837	26,634

An analysis of revenues by segment is shown in the segment information on pages 40 to 41.

[5] Cost of sales

Cost of sales in the second quarter include euro 3,284 million (second quarter 2007: euro 2,684 million) relating to the financial services business. For

the period from 1 January to 30 June 2008, euro 6,566 million (first half-year 2007: euro 5,116 million) relates to the financial services business.

[6] Sales and administrative costs

Sales costs in the second quarter amounted to euro 1,127 million (second quarter 2007: euro 1,210 million). For the six-month period they amounted to euro 2,126 million (first half-year 2007: euro 2,211 million). Sales costs mainly comprise marketing, advertising and sales personnel costs.

Administrative costs in the second quarter amounted to euro 332 million (second quarter 2007: euro 287 million) and in the first half of the year to euro 623 million (first half-year 2007: euro 507 million). Administrative costs comprised expenses for administration not attributable to development, production or sales functions.

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[7] Research and development costs

Second-quarter research and development costs amounting to euro 757 million (second quarter 2007: euro 835 million) comprise all research costs and development costs not recognised as assets as well as the amortisation of capitalised development costs amounting to euro 299 million (second quarter

2007: euro 267 million). For the first half of the year, research and development costs amounted to euro 1,476 million (first half-year 2007: euro 1,472 million). This includes amortisation on capitalised development costs of euro 597 million (first half-year 2007: euro 517 million).

[8] Other operating income and expenses

Other operating income in the second quarter amounted to euro 247 million (second quarter 2007: euro 126 million). For the six-month period it amounted to euro 535 million (first half-year 2007: euro 269 million). Other operating expenses in the second quarter amounted to euro 175 million

(second quarter 2007: euro 105 million). For the six-month period they amounted to euro 475 million (first half-year 2007: euro 216 million). These items principally include exchange gains and losses, gains and losses on the disposal of assets and income/expense from the reversal of, and allocation to, provisions.

[9] Result from equity accounted investments

The result from equity accounted investments in the second quarter amounted to euro 2 million (second quarter 2007: euro 10 million). The equivalent figure

for the six-month period was euro 12 million (first half-year 2007: euro 3 million). This includes the result of the joint venture, BMW Brilliance Automotive Ltd., Shenyang.

[10] Other financial result

in euro million	2nd quarter 2008	2nd quarter 2007	1 January to 30 June 2008	1 January to 30 June 2007
Result on investments	1	1	1	1
Net interest expense	-48	-34	-165	-82
Sundry other financial result	222	69	143	64
Other financial result	175	36	-21	-17

The change in other financial result was primarily attributable to the fair value measurement of stand-alone interest-rate derivatives. The increase in the

fair values of these financial instruments reflected the changes in the interest rate structures.

[11] Income taxes

Taxes on income comprise the following:

in euro million	2nd quarter 2008	2nd quarter 2007	1 January to 30 June 2008	1 January to 30 June 2007
Current tax expense	130	206	298	426
Deferred tax expense	-35	106	-49	151
Income taxes	95	312	249	577

The effective tax rate for the six-month period was 20.0% (first half-year 2007: 30.1%).

[12] Earnings per share

The computation of earnings per share is based on the following figures:

		2nd quarter 2008	2nd quarter 2007	1 January to 30 June 2008	1 January to 30 June 2007
Profit attributable to the shareholders	euro million	506.0	750.7	991.4	1,336.9
Profit attributable to common stock	euro million (rounded)	466.0	691.2	912.9	1,231.1
Profit attributable to preferred stock	euro million (rounded)	40.0	59.5	78.5	105.8
Average number of common stock shares in circulation	number	601,995,196	601,995,196	601,995,196	601,995,196
Average number of preferred stock shares in circulation	number	51,449,751	51,446,162	51,449,751	51,446,162
Earnings per share of common stock	euro	0.77	1.15	1.52	2.05
Earnings per share of preferred stock	euro	0.78	1.16	1.53	2.06

Earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, as attributable to each category of stock, by the average number of shares in circulation.

In computing earnings per share of preferred stock, earnings to cover the additional dividend of euro 0.02 per share of preferred stock are spread

over the four quarters of the corresponding financial year. 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 financial years. Diluted earnings per share were not applicable in either of the reporting periods.

[13] Intangible assets

Intangible assets comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects and software. Capitalised development costs at 30 June 2008 amounted to euro 4,904 million (31 December 2007: euro 5,034 million). Capital expenditure for development costs in the first half of 2008 amounted to euro 467 million (first half-year 2007: euro 608 million). Amortisation amounted to euro 597 million (first half-year 2007: euro 517 million).

In addition, intangible assets include goodwill of euro 177 million (31 December 2007: euro 163 million). This comprises goodwill arising on earlier business acquisitions made by the Cirquent Group, on the acquisition of DEKRA SüdLeasing Services GmbH, Stuttgart, and its subsidiaries and on the acquisition of SimeLease (Malaysia) Sdn Bhd, Kuala Lumpur, and its subsidiary SimeCredit (Malaysia) Sdn Bhd, Kuala Lumpur.

[14] Property, plant and equipment

Capital expenditure for property, plant and equipment in the first six months of 2008 was euro 993 million

(first half-year 2007: euro 1,115 million). The depreciation expense for the same period amounted to euro 1,167 million (first half-year 2007: euro 1,190 million).

[15] Leased products

Additions to leased products and depreciation thereon amounted to euro 5,374 million (first half-year 2007: euro 5,089 million) and euro 1,468 million (first half-year 2007: euro 1,043 million) respectively. Disposals amounted to euro 2,906 million (first half-

year 2007: euro 2,300 million). The translation of foreign currency financial statements resulted in a net negative translation difference of euro 827 million (first half-year 2007: net negative translation difference of euro 165 million).

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[16] Investments accounted for using the equity method and other investments

Investments accounted for using the equity method comprise the Group's interest in the joint venture BMW Brilliance Automotive Ltd., Shenyang.

Other investments relate to investments in non-consolidated subsidiaries and in other companies and non-current marketable securities.

[17] Receivables from sales financing

Receivables from sales financing totalling euro 35,929 million (31 December 2007: euro 34,244 million) relate to credit financing for retail customers and dealers and to finance leases.

Receivables from sales financing include euro 21,157 million (31 December 2007: euro 20,248 million) with a remaining term of more than one year.

[18] Financial assets

Financial assets comprise:

in euro million	30.6.2008	31.12.2007
Interest and currency derivatives	2,503	1,980
Marketable securities and investment funds	2,137	1,959
Loans to third parties	14	28
Other	762	828
Financial assets	5,416	4,795
thereof non-current	1,236	1,173
thereof current	4,180	3,622

The increase in the line item "Interest and currency derivatives" relates primarily to changed exchange

rate parities with the US dollar and the British pound as well as to changed interest rate structures.

[19] Income tax assets

Income tax assets can be analysed as follows:

30 June 2008 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	682	682
Current tax	204	117	321
Income tax assets	204	799	1,003

31 December 2007 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	720	720
Current tax	118	119	237
Income tax assets	118	839	957

[20] Other assets

in euro million	30.6.2008	31.12.2007
Other taxes	639	554
Receivables from subsidiaries	397	641
Receivables from other companies in which an investment is held	84	104
Prepayments	846	729
Sundry other assets	714	496
Other assets	2,680	2,524
thereof non-current	507	415
thereof current	2,173	2,109

[21] Inventories

Inventories comprise the following:

in euro million	30.6.2008	31.12.2007
Raw materials and supplies	580	632
Work in progress, unbilled contracts	945	871
Finished goods	6,113	4,731
Goods for resale	896	1,115
Inventories	8,534	7,349

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[22] Equity

Equity of the BMW Group developed during the first half of the year as follows:

in euro million	Subscribed capital	Capital reserves	Revenue reserves	Accumulated other equity				Treasury shares	Minority interest	Total
				Translation differences	Securities	Derivative financial instruments	Pension obligations			
31 December 2006	654	1,911	18,121	-837	214	178	-1,115	-	4	19,130
Acquisition of treasury shares	-	-	-	-	-	-	-	-34	-	-34
Dividends paid	-	-	-458	-	-	-	-	-	-	-458
Translation differences	-	-	-	-44	-	4	1	-	-	-39
Financial instruments	-	-	-	-	-102	-94	-	-	-	-196
Actuarial gains and losses on pension obligations	-	-	-	-	-	-	576	-	-	576
Deferred tax on transactions recognised directly in equity	-	-	-	-	-	32	-246	-	-	-214
Net profit 30 June 2007	-	-	1,337	-	-	-	-	-	3	1,340
30 June 2007	654	1,911	19,000	-881	112	120	-784	-34	7	20,105
31 December 2007	654	1,911	20,789	-1,259	35	438	-835	-	11	21,744
Acquisition of treasury shares	-	-	-	-	-	-	-	-22	-	-22
Dividends paid	-	-	-694	-	-	-	-	-	-	-694
Translation differences	-	-	-	-407	-	-31	39	-	-1	-400
Financial instruments	-	-	-	-	-85	223	-	-	-	138
Actuarial gains and losses on pension obligations	-	-	-	-	-	-	479	-	-	479
Deferred tax on transactions recognised directly in equity	-	-	-	-	-	-75	-145	-	-	-220
Net profit 30 June 2008	-	-	991	-	-	-	-	-	3	994
30 June 2008	654	1,911	21,086	-1,666	-50	555	-462	-22	13	22,019

Number of shares issued

At 30 June 2008, common stock issued by BMW AG was divided into 601,995,196 shares with a par-value of one euro, unchanged from the previous year. Preferred stock issued by BMW AG was divided into 52,196,162 shares with a par-value of one euro, also unchanged from the previous year. Unlike the common stock, no voting rights are attached to the preferred stock. All of the company's stock is issued to bearer. Preferred stock bears an additional dividend of euro 0.02 per share.

At the Annual General Meeting on 8 May 2008, the shareholders authorised the Board of Management to acquire treasury shares via the stock exchange, up to a maximum of 10% of the share capital in place at the date of the resolution, and to withdraw these shares from circulation without any further resolution by the Annual General Meeting. At the same time, the authorisation from 15 May 2007 to acquire treasury shares was rescinded. The authorisation has not been exercised to date. It has not yet been decided whether or to which extent the authorisation will be used.

During the first half of 2008, BMW AG acquired 746,411 shares of BMW preferred stock at an average price of euro 29.38 per share. It is intended to issue these shares to employees during the financial year 2008 at a reduced price in conjunction with an employee share scheme. These shares of preferred stock are subject to a vesting period of four years. The effect of applying IFRS 2 (Share-Based Payments) to the employee share scheme was not material for the Group.

[23] Other provisions

Other provisions, at euro 5,452 million (31 December 2007: euro 5,502 million) primarily include personnel-related obligations and obligations for ongoing operational expenses.

Equity attributable to shareholders

Equity attributable to shareholders of BMW AG at 30 June 2008 amounted to euro 22,006 million (31 December 2007: euro 21,733 million).

Equity attributable to minority interests amounted to euro 13 million (31 December 2007: euro 11 million). This includes a minority interest of euro 3 million in the results for the period (31 December 2007: euro 8 million).

Current provisions at 30 June 2008 amounted to euro 2,701 million (31 December 2007: euro 2,826 million).

[24] Income tax liabilities

30 June 2008 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,736	2,736
Current tax	480	372	852
Income tax liabilities	480	3,108	3,588

31 December 2007 in euro million	Maturity within one year	Maturity later than one year	Total
Deferred tax	–	2,714	2,714
Current tax	378	430	808
Income tax liabilities	378	3,144	3,522

Current tax liabilities of euro 852 million (31 December 2007: euro 808 million) comprise euro 200 million (31 December 2007: euro 161 million) for taxes payable and euro 652 million (31 December 2007: euro 647 million) for tax provisions. During the six-

month period under report, income tax provisions totalling euro 40 million were reversed. There were no reversals of income tax provisions in the corresponding period last year.

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[25] Financial liabilities

Financial liabilities include all obligations of the BMW Group relating to financing activities. These comprise the following at the relevant reporting dates:

in euro million	30.6.2008	31.12.2007
Bonds	22,771	18,383
Liabilities to banks	6,188	6,501
Liabilities from customer deposits (banking)	5,596	5,732
Commercial paper	4,315	5,445
Asset backed financing transactions	6,026	6,346
Interest and currency derivatives	841	616
Other	894	898
Financial liabilities	46,631	43,921
thereof non-current	24,741	21,428
thereof current	21,890	22,493

Other financial liabilities relate primarily to obligations recognised under finance leases.

[26] Other liabilities

Other liabilities comprise the following items:

in euro million	30.6.2008	31.12.2007
Other taxes	670	537
Social security	39	46
Advance payments from customers	370	382
Deposits received	143	146
Liabilities to subsidiaries	19	75
Liabilities to other companies in which an investment is held	4	–
Deferred income	3,057	2,844
Sundry other liabilities	2,313	2,100
Other liabilities	6,615	6,130
thereof non-current	2,007	2,024
thereof current	4,608	4,106

[27] Related party relationships

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

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

For the second quarter 2008, the disclosure requirements contained in IAS 24 only affect the BMW Group with regard to business relationships with affiliated, non-consolidated entities, joint ventures, other equity investments as well as with members of the Board of Management and Supervisory Board of BMW AG.

The BMW Group maintains normal business relationships with affiliated, non-consolidated entities. Transactions with these entities are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Transactions of BMW Group companies with the joint venture, BMW Brilliance Automotive Ltd., Shenyang, all arise in the normal course of business and are conducted on the basis of arm's length principles. Group companies sold goods and services

to BMW Brilliance Automotive Ltd., Shenyang, during the first half of 2008 for an amount of euro 214 million, of which euro 100 million was recorded in the second quarter. At 30 June 2008, receivables of Group companies from BMW Brilliance Automotive Ltd., Shenyang, totalled euro 84 million. Payables of Group companies to BMW Brilliance Automotive Ltd., Shenyang, amounted to euro 62 million.

Business relationships with investee companies are on a small scale and all arise in the course of the ordinary activities of those companies. All transactions are conducted on the basis of arm's length principles.

Stefan Quandt is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v.d.H., which, via its subsidiaries, performed logistics services for the BMW Group during the second quarter 2008. In addition, companies of the DELTON Group purchased vehicles from the BMW Group. These service and sales contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG, and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Wesel. Altana AG, Wesel, purchased vehicles from the BMW Group during the second quarter 2008. The corresponding sales contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

Apart from these 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. The same applies to close members of the families of those persons.

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[28] Segment information

The activities of the various segments are described in the Group financial statements of BMW AG at 31 December 2007. Segment information for the second quarter 2008 is as follows:

Segment information by business segment in euro million	Automobiles		Motorcycles		Financial Services		Reconciliations		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
External revenues	10,743	11,247	391	394	3,381	2,990	37	52	14,552	14,683
Inter-segment revenues	3,011	3,010	1	2	496	459	-3,508	-3,471	-	-
Total revenues	13,754	14,257	392	396	3,877	3,449	-3,471	-3,419	14,552	14,683
Profit before financial result (EBIT)	395	824	56	59	39	181	-65	-45	425	1,019
Result from equity accounted investments	2	10	-	-	-	-	-	-	2	10
Other net financial result	-72	-33	-3	-3	25	8	225	64	175	36
Profit before tax	325	801	53	56	64	189	160	19	602	1,065
Return on sales	% 2.4	5.6	13.5	14.1	1.7	5.5	-	-	4.1	7.3
EBIT margin	% 2.9	5.8	14.3	14.9	1.0	5.2	-	-	2.9	6.9

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Segment information for the first half of 2008 is as follows:

Segment information by business segment in euro million	Automobiles		Motorcycles		Financial Services		Reconciliations		Group		
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	
External revenues	20,167	20,108	733	758	6,838	5,669	99	99	27,837	26,634	
Inter-segment revenues	5,749	5,567	4	5	896	863	-6,649	-6,435	-	-	
Total revenues	25,916	25,675	737	763	7,734	6,532	-6,550	-6,336	27,837	26,634	
Profit before financial result (EBIT)	1,014	1,485	92	95	118	369	28	-18	1,252	1,931	
Result from equity accounted investments	12	3	-	-	-	-	-	-	12	3	
Other net financial result	-162	-78	-5	-5	30	3	116	63	-21	-17	
Profit before tax	864	1,410	87	90	148	372	144	45	1,243	1,917	
Return on sales	%	3.3	5.5	11.8	11.8	1.9	5.7	-	-	4.5	7.2
EBIT margin	%	3.9	5.8	12.5	12.5	1.5	5.6	-	-	4.5	7.3

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Responsibility Statement pursuant to § 37y of the German Securities Trading Act (WpHG) in conjunction with § 37w (2) no. 3 WpHG

“To the best of our knowledge, and in accordance with the applicable principles for interim financial reporting, the interim Group financial statements give a true and fair view of the net assets, financial position and results of operation of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.”

Munich, 1 August 2008

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

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Annual Report 2008	18 March 2009
Annual Accounts Press Conference	18 March 2009
Financial Analysts' Meeting	19 March 2009
Quarterly Report to 31 March 2009	6 May 2009
Annual General Meeting	14 May 2009
Quarterly Report to 30 June 2009	4 August 2009
Quarterly Report to 30 September 2009	3 November 2009

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Investor Relations information is available directly at www.bmwgroup.com/ir.

Information about the various BMW Group brands is available at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.



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