

# BMW Group Corporate Communications

Media Information  
12 May 2005

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## **Statement by Dr. Helmut Panke, Chairman of the Board of Management of BMW AG, on the Occasion of the 85th Ordinary General Meeting of BMW AG, Munich, 12 May 2005**

Dear Shareholders and Shareholder Representatives,  
Dear Associates,  
Dear Guests,  
Ladies and Gentlemen,

Welcome on behalf of the entire Board of Management to the 85th Ordinary General Meeting of BMW AG! I also welcome all viewers joining us on the internet.

Today I will focus in particular on three key messages:

1. In the 2004 year of business, the BMW Group achieved new records in retail, revenues and earnings.
2. This success of the BMW Group results from the continuous, ongoing improvement of corporate processes as well as the advantages we are able to establish in this way in many areas.
3. Given the strengths of the BMW Group, we are able time and again to achieve more than many other companies.

Let us focus right away on the first point:

Last year we achieved new highs in automobile retail:

- Retail sales by the BMW Group were up in 2004 by 9.4 percent to more than 1.2 million BMW, MINI and Rolls-Royce brand automobiles.

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- For the first time, the number of BMW brand automobiles delivered to customers within a single year exceeded the one million mark at around 1.024 million units. This is an increase of 10.3 percent over the previous year. Thus, we have more than doubled the retail of BMW brand automobiles in the last 10 years.
- MINI brand retail was up by 4.5 percent to a total of more than 184,000 units in 2004, thus marking a new record once again in MINI's fourth year in the market. MINI's performance since 2001 has surpassed even our own expectations, proving that our decision was right to not only re-position the MINI brand, but rather to introduce a premium product in this segment.
- Our third luxury brand, Rolls-Royce, clearly took the lead in the super-luxury segment in 2004, with 792 Rolls-Royce Phantoms retailed worldwide. In achieving this success, the Rolls-Royce brand showed the highest retail figure in 14 years. This success proves that the brand has the potential we expected.

The Financial Services segment also continued in the year under report to expand business successfully: The volume of business as shown in the balance sheet was up to more than euro 32.5 billion, an increase by 13.6 percent over the previous year. The total number of new financing contracts with customers grew by more than 19 percent to more than euro 20.7 billion, also marking a new high.

Accounting for more than 92,200 units, retail in the motorcycle business in 2004 was only slightly below the previous year's record level.

Despite unfavourable currency effects, Group revenues in fiscal 2004 amounted to Euro 44.3 billion, exceeding the previous year's figure by 6.8 percent and marking a new record.

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As a result of the strong growth in automobile retail, the BMW Group was able to increase its already high earning power to an even higher level. Profits from ordinary activities rose significantly and, at more than euro 3.5 billion, surpassed the previous year's figure by 10.9 percent.

The figures for the 2004 year of business provide clear evidence that the BMW Group has again shown its efficiency and has continued successfully on a course of profitable growth. Last year we strengthened both our earning power and our competitive position. The new highs in retail, revenues and earnings show that our product and market initiative is yielding the results desired and planned:

- Comprising no less than ten model series, the BMW Group's product portfolio is larger today than ever before.
- With a total of 34 subsidiaries, the BMW Group shows greater international presence than ever before in the past.
- In particular, however, the Group's performance data proves that we have grown not only in quantitative, but also in qualitative, terms.

The 2004 year of business therefore met our expectations in full – and was completely in keeping with what we had publicly announced.

We want you, Ladies and Gentlemen, our shareholders, to participate in this excellent business result in the year 2004. This is why the Board of Management and the Supervisory Board propose at this General Meeting to increase the dividend paid by 4 euro cent for each common and preferred share.

In addition, the Board of Management and the Supervisory Board of BMW AG will request the General Meeting to authorize the buy-back of the Company's shares – with the aim to withdraw them from circulation – on a scale of up to 10 percent of the share capital. I will come back to this point later.

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On December 31, 2004, the BMW Group had a workforce of almost 106,000 associates worldwide, 1.6 percent more than on the same date a year before. Adjusted for transfers and disposals of Group entities, the BMW Group thus created 1,722 new jobs, three-quarters thereof in Germany. The number of apprentices was up last year by 3.7 percent to 4,464.

Looking at developments in recent years, we see that the BMW Group created more than 12,000 new jobs from the end of 2000 to the end of 2004, 11,000 of which are in Germany.

Ladies and Gentlemen,

This success in 2004 did not come easy. Rather, all associates within the BMW Group have worked hard for these outstanding achievements. We have demanded more of our associates than ever before. But in my opinion there is no other company where tasks and challenges are tackled with such great passion leading to such success.

Speaking on behalf of the entire of Board of Management, I therefore take this opportunity to sincerely thank our associates worldwide for their outstanding performance.

Our thanks also go to our dealers and importers in our global dealer organization as well as our suppliers. Showing great personal commitment, these partners once again made their contribution to the BMW Group in reaching our targets last year.

I also wish to thank the members of the Supervisory Board – both the representatives of shareholders and the representatives of our workforce. The very good and constructive co-operation of the Supervisory Board and the Board of Management remains a strong foundation in support of this Company and an essential guarantee for our success.

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Ladies and Gentlemen,

In recent weeks and months we have been asked time and again why the development of the BMW Group differs in such a positive manner from that of other companies.

In response to that question, let me say that we see and do many things differently from others. However, there is not some kind of simple formula easy to copy. Basically speaking, it is the unique corporate culture of the BMW Group which allows us to be so different.

In this context let me highlight two factors which, while not being solely responsible for our positive development, nevertheless play a very important role:

- First, the great commitment shown by our associates.
- Second, the continuous, ongoing improvement of our corporate processes.

The commitment – and, indeed, passion – shown by our associates is certainly crucial to the Company. I have already stated that this commitment makes a great contribution to the current success of the BMW Group.

Within the BMW Group we have a unique culture no other company is able to emulate. This culture is characterized by

- the extremely great identification of associates with the Company,
- the absolute will to be the best, and
- a particularly high level of performance, which also means consistently improving even good solutions and taking up difficult tasks with perseverance and determination.

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It is these factors that make up the special corporate culture of the BMW Group. Our associates are proud to work for this Company. They do their best day in and day out, because they are happy to be part of a successful team. They rightly see every success of the Company as part of their own success. And precisely this is why they mobilize additional resources where employees in other companies sometimes lack that final touch, that bit of extra power.

This gives us a decisive edge over the competition and makes us so confident for the future.

Our corporate culture is based on clear rules:

- We assume responsibility – and that means every associate at his or her workplace.
- We provide orientation.
- We promote cooperation.
- And we work in a culture of trust and good faith.

The crucial point is that these rules do not just exist somewhere on paper. And they have not been handed down “from above”. Instead, they have grown throughout many years of cooperation, becoming the common pledge and commitment of all associates within the Company.

In particular, each and every associate knows that he or she will benefit personally in many ways from contributing actively to our dedicated team of highly-committed individuals, making his or her contribution to the success of the Company.

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This is quite simply because the BMW Group clearly endorses and applies the principle of performance and counter-performance, of give and take: In return for their performance, our associates receive appropriate counter-performance from the Company in terms of attractive wages and salaries, performance benefits, corporate old-age pension, and further rewards and advantages. Hence, the success of the Company pays off directly for each and every associate. He or she receives a direct, an immediate share in this success. And that again is motivating.

This is why the share granted to associates in the success of the Company ranks right at the top throughout our industry: Should you, Ladies and Gentlemen, agree to the increase in dividends we propose this year, the share in the success of the Company paid to associates under the collective wage and salary agreement for the year 2004 will be 155.9 percent of their gross monthly salary.

Paying this success bonus, we wish to express our thanks for the peak performance of our associates last year. And at the same time we are giving them an incentive to contribute once again in full to the success of the Company this year.

Ladies and Gentlemen,

So much on the subject of motivation – the motivation of our associates.

The second point I wish to highlight in the context of our ongoing success involves the continuous improvement of our corporate processes.

I would like to present three examples in this context, each representing the numerous processes we conduct within the Company.

First, our flexibility in production:

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More than virtually any other automobile maker, the BMW Group is in a position to respond highly flexibly to fluctuations in demand and to vary its production output very quickly, depending on requirements. Our plant in Dingolfing, for example, builds the BMW 5 Series, the BMW 6 Series, and the BMW 7 Series at the same time on one single production line. When, some time ago, demand for our BMW 3 Series increased most significantly, we also built the 3 Series in Dingolfing. This we were able to do thanks to our flexible structures.

While many other companies in our industry are suffering from over-capacities, we use our production capacities more than 95 percent. That is an absolute record in our industry.

Flexibility in terms of working times is one of the prerequisites for flexible production. And precisely this takes me on to my second example:

Up to the year 1985, our industry as a whole and therefore also our BMW plants worked a rigid, firm 80 hours a week, with concepts of flexible working hours still being very new and underdeveloped. Starting out at our Regensburg Plant in 1986 we were then able to increase plant operating hours to 99 hours a week, improving this flexibility even further through the introduction of working time accounts.

At our new Plant in Leipzig we have now gone yet a step further, agreeing on fully flexible operating times from 60 – 140 hours a week. This increases our flexibility in production once again, while remaining within the firmly agreed individual working hours per week under the collective wage and salary agreement. We have therefore split plant operating hours from the personal working hours of our associates.

The third example of our processes is the Customer-Oriented Sales and Production Process – the KOVP Process, to use the German abbreviation:

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I already referred to KOVP at last year's Annual General Meeting, emphasizing that this process enables us to offer our customers highly personalised products tailored in every respect to their individual wishes.

Giving the customer his "dream" automobile on his "dream" date secures us a decisive edge against the competition and helps to loyalize our customers.

KOVP enables us to cater even more efficiently and appropriately for the growing wish among customers to have an automobile tailored to their personal preferences. Meeting this wish, we offer the customer genuine added value and live up to our brand's premium claim.

At the same time KOVP really makes sense also from the Company's perspective, since most of the modifications customers are able to request of their dealer through KOVP until shortly before the start of assembly are high-quality options and special equipment, meaning that the price of the vehicle increases accordingly.

Experience shows that our customers use this option to change their specifications on average more than 140,000 times a month.

Ladies and Gentlemen,

These are just three examples of many, showing how we differ from our competitors.

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These examples also show that there is not one single, decisive criterion for lasting, sustained success. Rather, it is the many individual processes which, taken together, tip the scales in our favor, naturally in conjunction with the great motivation of our associates.

We see the optimization of processes as an ongoing task and commitment. New ideas and progress in technology offer new opportunities time and again in making very good processes even better.

As a result, we work consistently and continuously on our processes.

All this helped to make the BMW Group more successful than other companies in 2004. And since we are continuing to improve our processes also in 2005, we will retain this competitive edge also in the current 2005 year of business.

As of April of this year, the BMW Group's retail figures in the Automobiles Segment were 8.6 percent over the same period last year.

- The BMW brand itself showed an increase in retail by 8.2 percent.
- MINI was up over the previous year by 11.1 percent.
- Only the Rolls-Royce brand was down as of April by 11.7 percent beneath retail in the same period last year.

Based on the success we achieved in the 2004 year of business and the good start into 2005, the BMW Group has set itself the goal for the 2005 year of business to achieve a new record in retail. As already reported since the beginning of the year, we are looking at an increase in retail in the high single-digit percentage range. And the latest figures confirm this outlook.

Looking at fiscal 2005 as a whole, we are aiming at achieving approximately the high level of earnings of the previous year.

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I must nevertheless add particularly in this context that this year we are facing exceptionally severe external burdens resulting from the high level of competition in markets, the value of the US dollar, and the above-average increase in the prices of major raw materials. This makes our objective for the year 2005 a great challenge for us all.

Our product initiative this year focuses in particular on the new BMW 3 Series Sedan and the updated BMW 7 Series. Market introduction of the new BMW 3 Series Sedan in Germany started on March 5, and we will introduce this new automobile successively in one market after the other. The updated version of the BMW 7 Series, in turn, entered the market on April 9.

BMW Motorrad has launched no less than three new models in good time for the start of the 2005 motorcycle season.

Other new models will be following in the months to come:

- In September the BMW 1 Series will be enhanced by the 130i, the most powerful model within this range.
- In mid-September we will start the market launch of the new BMW 3 Series Touring.
- And before the end of this year Rolls-Royce will begin production of a second variant of the Phantom with a long wheelbase.

All of these new products will help the BMW Group continue its success once again this year.

Ladies and Gentlemen,

The year 2004 and our perspectives for 2005 confirm that the BMW Group, with its premium brand strategy as well as the associated, ongoing product and market initiative, is going the right way.

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And in the process the Company is proceeding today from a new level quite different from our status just a few years ago:

- Not too long ago, the Company was made up of the BMW brand alone with three model series. Today we offer our customers three brands and a total of ten model series.
- A bit more than ten years ago, we were just in the process of building our new Plant in the USA, in Spartanburg. Today we are a Business Group with National Sales Companies in 34 countries and 22 production plants in 12 countries. We have made great progress above all in North America and Asia.

The crucial point in this context is that we have not only become larger, but also – and, in particular – stronger . We have gained quality. This we see in particular from the achievements we are able to make possible today:

- We are continuing the BMW Group's product and market initiative.
- At the same time we are expanding our production network.
- And in parallel we are using the financial strength of the Company to give you – our shareholders – an even greater share in the current success of the BMW Group.

Allow me to refer to these points in somewhat greater detail:

First, a few comments on our product initiative:

As we announced in Geneva in early March, we will be launching two new and independent model series within the BMW brand.

Forming part of our product initiative, both of these vehicles represent our expansion into segments not even in existence today in their current form.

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With these two vehicles we will win over new customers for the BMW brand – simply because there is an ongoing trend among customers to increasingly demand new vehicles allowing them to stand out more from others. And precisely this is what we will offer through our new BMW models. They are different from everything we have at the moment – and they are different from the models offered by our competitors.

The particular feature of one of the two new model series is its concept of space and the combination of functionality and variability, on the one hand, and sporting performance plus dynamism, on the other. We are therefore interpreting the concept of “space and functionality” in that typical BMW fashion. The driver and passengers will experience a special, individual feeling of space, combined with the dynamic performance and elegant, sporting look associated with the BMW brand. This vehicle is being developed under the working title of a “space-functional concept”.

This new model will be built in Germany, since in its parts, components and architectural features it will share common properties with the BMW brand models already built in this country. A further factor is that we expect demand for this particular type of automobile to be greatest in Europe at the moment.

The second new model series will also enable BMW to define a new segment, since here, too, there is nothing comparable on the market right now.

This vehicle is a combination of a sports car, a coupe, and a sports activity vehicle. In other words, we are combining different characteristics in a form that has never existed before: a raised seating position, high ground clearance, all-wheel drive, and the outer appearance and elegance of a coupe. It will be a four-seater with a luggage compartment not requiring any compromises in terms of space. And all this will be typical of BMW – that is with all the driving characteristics of a sporting automobile.

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Since we currently see the USA as the most important market for this vehicle, it will be built at our US Plant in Spartanburg.

These two new models should make their appearance in the market as of 2008.

This takes me on to our market initiative:

A recent example of the investments we are making in our sales organization is the opening of our Sales Company in Portugal in January 2005. Through this new company, we now ensure direct cooperation with the dealer organizations in all EU member countries of Western Europe.

With our new Sales Company in Hungary starting operations last year, the BMW Group is now represented by 34 sales subsidiaries and 22 production sites worldwide.

India is a market with a substantial growth potential in the long term. Hence, we already have specific ideas for our entry into the Indian market.

Our plans in this direction have however not been concluded yet – currently we are still considering the various options and are discussing matters of importance. But the fact remains that India will certainly gain significance in the long term. It is also a market with a future – and we will be part of that future.

This, Ladies and Gentlemen, takes us on to the ongoing expansion of our production network.

Due to our high level of flexibility, our production network has successfully mastered the increase in retail in recent years.

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At the same time we have invested consistently in the last few years in our existing plants, with capital expenditure of more than euro 6.7 billion incurred on our plants worldwide since 2001, the year in which we decided to build our new Plant in Leipzig. And more than euro 4.0 billion hereof has gone into the expansion of our existing plants in Germany alone.

This point is very important to me: Even though the focus tomorrow will obviously be on our new Plant in Leipzig involving capital expenditure of approximately euro 1.3 billion, we should not overlook the fact that we have additionally invested more than three times that amount in our other facilities in Germany. In other words, we have invested funds of the same magnitude as in Leipzig once again in each of our three major plants in Germany – Munich, Dingolfing, and Regensburg.

At the same time we have invested another euro 1.4 billion in our foreign production plants. In this way, we are consistently keeping all our plants absolutely up-to-date in every respect, featuring the latest state of the art.

It has always been our policy to plan our plants for operation at full capacity and not to build additional capacities until we were able to foresee that such capacities would really be required in the long term. In this way we are creating a margin for expansion while avoiding over-capacities, which would just be a waste of resources.

To ensure the successful implementation and further planning of our product and market initiative, we decided in the year 2000 to build a new automobile production plant complete with its own bodyshop, paintshop, and assembly. And in July 2001 we took the decision in favor of Leipzig as our new location.

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Ladies and Gentlemen,

Considering the public debates we experience day in and day out, such a decision in favor of Germany as a place for industry would not seem that obvious at first sight. And believe me, we did not make this decision easy for ourselves. On the contrary: We conducted comprehensive and consistent analyses of numerous locations, checking a total of 250 offers according to various criteria. Taking this approach, we determined specific aspects which, considered by themselves, would have tipped the scales in favor of a foreign location. But considering all factors, Leipzig finally won the race as a German location.

So once again, Germany still has what it takes for success against international competition.

Taking the sum total of quality features we find here in Germany – education and training, infrastructure, high quality and motivation of employees, high quality of the supplier industry, as well as tradition – and ultimately also considering the good and constructive climate of cooperation with representatives of the workforce on plant level, we remain in the position, as before, to build top products in the automotive industry. And, again as before, we can still do so at competitive terms and conditions.

As I have already said, we did not take the decision easily. Ultimately, it was the high level of flexibility which, in our conviction, was able to set off the disadvantages.

An important highlight in this context is BMW's "Formula for Work" we have developed jointly with the representatives of our workforce in order to give our new Plant in Leipzig a level of flexibility never seen before. This allows us to optimize the use and capacity of the Plant to an unprecedented standard.

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To be specific, BMW's Formula for Work enables us to operate machines and facilities in production between 60 and 140 hours a week, while maintaining the individual working hours of our associates as set forth in the collective wage and salary agreement. This concept shows that with intelligent planning and goodwill among all parties involved you can still work successfully and efficiently in Germany today.

This does not mean that we can now sit back and rest on our laurels. On the contrary – it is undeniable that in an international comparison we are struggling against high costs, and that Germany as a base for industry is over-regulated at least in part.

We also get the impression from time to time that important sectors of industry such as the automotive industry and the industrial base in Germany as a whole are harmed for short-sighted and populist reasons in public debates, simply for careless, non-factual and incomprehensible motives.

I believe it would be far more appropriate to return to down-to-earth, straightforward discussions instead of becoming involved in such ideological debates. Together, we must work hard to not only maintain, but rather to further enhance and strengthen, the international competitive edge of the automotive industry as such and of German industry as a whole.

With this in mind, we believe that Germany requires maximum flexibility in terms of job and working conditions, flexibility of the kind crucial to success particularly in our industry.

But now let me come back to our new Plant in Leipzig:

Construction of the Plant, including integration and trial operation, took just under three years. Total capital expenditure on the Plant is euro 1.3 billion.

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BMW Plant Leipzig will have a production capacity in the medium term of up to 650 vehicles a day. Currently some 2,500 associates are employed at the site. Once it has reached full capacity, the Plant is to provide approximately 5,500 jobs. In our experience, approximately the same number of additional jobs will be created in the Plant's surrounding area.

The new BMW Plant in Leipzig began operations on schedule on March 1 of this year with series production of the 3 Series Sedan. The Plant's official opening ceremony will be tomorrow.

Our new Plant in Leipzig is however only one step in adjusting our production capacity and thus giving us the flexibility and margin we require for additional growth.

A further step is planned with MINI: Given the great success of the MINI brand, we will be expanding the Oxford Plant and will be making an additional investment at the Plant of more than £ 100 million up to the year 2007. Most of these resources will go into the further optimization of production capacities, in particular a new body construction building as well as the modernization of the paintshop.

MINI is a story of success only a few had really expected. At the beginning there were very many sceptics, who did not believe we would be able to successfully re-position the brand. The fact is, however, that today we are selling twice as many MINIs as we originally assumed. And precisely that makes it essential to provide new capacities through our capital expenditure in Oxford. At the same time we are setting the foundation for the ongoing enhancement of flexibility in production for various models within the MINI family.

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Ladies and Gentlemen,

This takes me on to the greater participation of shareholders in the success of the Company.

The increase in dividends will allow you as shareholders to benefit from the financial strength of the Company. However, we wish to go a step further, integrating you even more closely in the success of the BMW Group. Precisely this is why the Board of Management requests you to authorize the buy-back of shares of up to 10 percent of our stock capital.

We are proposing this reduction of capital by buying back shares in the market because your Company is in such a strong position today, allowing us to take this step without making concessions elsewhere.

Through its product and market initiative, the BMW Group has grown into a new dimension in recent years. At the same time we have successively increased our cash flow. And our plans show that we are strong enough to generate a high cash flow also in future. In the first quarter 2005 alone, for example, we were able to boost our cash flow compared with the same period last year by no less than 13 percent. This allows us, first, to continue our course of growth and expansion. And, second, it gives us the margin required for buying back shares.

We seek to take this step in addition to the increase in dividends in order to increase the value of your shares. At the same time, as you see from this example, we are using all the tools of modern money market management.

Buying back and subsequently withdrawing shares, we will be spreading out the high value of the Company on a smaller number of shares in future. To put it in simple terms, you will then have an additional stake in the BMW Group for each and every one of your shares.

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Ladies and Gentlemen,

The steps I have described to you

- continuation of our product and market initiative,
- expansion of our production network,
- and greater participation of our shareholders,

represent a big challenge for a company, even if you take such steps individually, one by one.

We are taking all these steps in one go. We are not required to pay for our investments in new products by delaying the development of new markets or postponing our capital expenditure. And our proposal to give you, the shareholders, a greater share in the success of the Company will not in any way detract from our product and market initiative.

It has always been our policy also in the past to optimize our structures and processes – even in times of more positive economic conditions, when the optimization of processes as such was not a general issue. Our consistent cost management in good times has helped us keep our costs under control to this very day.

This also means setting new trends, vehicles such as the BMW X5 and the X3, the 1 Series and the MINI succeeding in entering and penetrating new market segments for the Company. Now these new products enable us to maintain our growth in retail also in difficult times.

Not least, it was the far-sighted strategic outlook of our predecessors on the Board of Management which enabled us decades ago to start developing the entire world market as one complete retail area covered by the BMW Group. Stepping up our involvement in the USA by building our Plant in Spartanburg

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somewhat more than 10 years ago or our most recent move to China are particularly important milestones in our process of consistent globalization.

The much larger footprint we have today in international markets enables us to maintain an active policy to this very day – without being forced to merely react. The BMW Group is now, therefore, reaping the benefits of expansion planned carefully and pursued consistently over the years.

The result of this clearly focused planning process is constant, ongoing development of the Company.

Our focus, therefore, remains fully on our strengths:

- The development and production of clearly positioned premium products.
- The conquest of new markets and segments.
- And the appropriate participation of both our shareholders and associates in the success of the Company.

We are strong enough, despite all the priorities in the projects that lie ahead, to follow up all these objectives at the same time and with the same driving force. And in the process we will maintain our focus on our successful premium brand strategy. Which means that your Company will continue also in future to stand for strong brands, desirable products, and a high level of profitability.

That is precisely the reason why your Company, Ladies and Gentlemen, will remain one of the most successful enterprises in the automobile industry also in the future.

Ladies and Gentlemen, thank you very much for your attention.