

Letter to Shareholders for the 2000 Fiscal Year

BMW Group



Dear Shareholders,

In all, the year 2000 was a very successful year for the BMW Group with new records in the production and deliveries of BMW Automobiles and Motorcycles and in Financial Services.

Sales by segments

in euro million	1999	2000	Change in %
BMW Group	34,402	35,356	2.8

Segments

BMW Automobiles	24,610	29,644	20.5
BMW Motorcycles	769	927	20.5
Rover Automobiles	8,638	3,896	- 54.9
Financial Services	6,153	7,050	14.6
Other	- 5,768	- 6,161	- 6.8

Sales amounted to a new record figure of 35.36 billion euro, an increase by 2.8 per cent over 1999. This growth is attributable to the increase in sales and its regional distribution, the higher level of equipment fitted, and the introduction of new model variants. Accordingly, the BMW Group was able to over-compensate the decrease in Rover/Land Rover sales following the sale of these two companies.

The BMW Group was successfully reoriented in the first half of the year 2000, the British Phoenix Consortium assuming responsibility for the development, production and sales of Rover Cars with immediate effect as of 9 May 2000. Ford Motor Company, in turn, took over Land Rover on 30 June 2000. Accounts were drawn up for both of these corporate transactions.

Differences arising out of the BMW Group valuation of certain items in the Rover Cars' accounts and the valuation by the Phoenix Consortium are, after detailed negotiations, currently in the contractually agreed arbitration process, which has not yet been concluded.

The provisions set aside for the reorientation of the BMW Group cover all risks possibly arising in this process.

Following its reorientation, the BMW Group is the only multi-brand car manufacturer in the world to pursue a consistent, pure premium brand strategy. The BMW Group concentrates in full on the premium segments of those parts of the market showing an ongoing

potential for further growth, suitably reflecting the character of the respective brand and generating an attractive return.

The BMW brand will range in future from the upper end of the lower medium segment all the way to the luxury segment, consistently developing attractive niches in the market and introducing new concepts. The first steps in this direction will be the enlargement of the X-family and the introduction of a small model series. The MINI and, as of the year 2003, Rolls-Royce will serve as premium brands to strategically supplement and strengthen the brand portfolio of the BMW Group at the lower and top ends of the range.

Despite the burden on business results caused by the operative Rover/Land Rover business affecting the BMW Group up to the respective points in time at which those two companies were sold, the BMW Group succeeded in the year 2000 in outperforming the former record result achieved in 1997.

Dynamism of worldwide automobile markets remains generally intact in the year 2000

The North American automobile market benefitted from the ongoing dynamism of the economy also in the year 2000, both passenger cars and light trucks again exceeding the previous year's figures. The market only started to calm down towards the end of the year.

Demand in Western Europe varied from one market to another, the overall picture being negatively affected by the weak market in Germany showing a decline of more than 10 per cent. Outside Germany, registrations of new cars in Western Europe were slightly higher than the previous year's figure.

In Japan accumulated demand for new cars and the general trend in the market starting to pick up momentum led to a slight increase in sales.

Most of the major car markets outside of the Triad countries also showed a positive development in the year under report and the high level of passenger car sales already achieved in the previous year was exceeded once again.

Record production by BMW – expansion of our plant network to ensure ongoing growth

The production of BMW cars once again achieved a new, absolute record in the year 2000. In all, 835,000 BMW cars came off the production lines at BMW Group plants in Munich, Dingolfing, Regensburg, Spartanburg, and Rosslyn, an increase by 10.5 per cent. This was only possible thanks to the goodwill of the associates boosting production capacity by working additional shifts and a further increase in the efficiency of the production systems.

To ensure the success of the BMW Group also in the years to come, the Board of Management decided in the year 2000 to initiate additional investment projects expanding the BMW Group's production capacity. Towards the middle of the year the BMW Group announced an investment of another 300 million US \$ in the Spartanburg Plant in South Carolina in order to meet the great, higher than expected demand for the BMW X5 Sports Activity Vehicle.

Making this investment and creating 500 additional jobs in the process, the BMW Group will be increasing the overall capacity of the Spartanburg Plant from just over 50,000 units in 1999 to a maximum of 115,000 units in the year 2001.

BMW Group investments

in euro million	1999	2000	Change in %
	2,155	2,139	- 0.7

In May 2000 the BMW Group opened its first wholly-owned plant in Asia. This new facility in Amata, Thailand, has a capacity of up to 10,000 units a year and is intended initially to build the BMW 3 Series for the Thai market. The plant is also in a position to export cars to other ASEAN countries.

The BMW Group also invested in the production of engines in the year 2000. To meet growing demand for diesel engines, the BMW Group built an additional production line for 4-cylinder diesels at the Steyr Engine Plant in Austria, the new line starting operation on 8 January 2001.

With an increase in the annual production capacity by 25 per cent to approximately 300,000 engines a year now made possible by this expansion, the output of diesel engines in Steyr has more than doubled since 1998.

On 1 March 2001 production of the new generation of 4-cylinder petrol engines will be starting at the BMW Group's new plant in Hams Hall, Great Britain. Built with an investment of approximately 1 billion DM according to the most advanced standards, this new plant will be the exclusive supplier of 4-cylinder petrol engines for BMW cars.

Taking up series production of the F 650 GS single-cylinder machine (following the production of the former model by Aprilia), the motorcycle plant in Berlin further expanded its production volume in the year 2000 by more than 26 per cent to a new record figure of more than 74,000 units.

Worldwide success of the BMW brand creates and secures jobs

The worldwide success of the BMW brand is reflected by the positive development of jobs. Contrary to the general trend in the automotive industry as a whole, the BMW Group succeeded in increasing the number of jobs in the year 2000 in both the BMW Automobiles and Motorcycle segments, in Financial Services and other areas by more than 3,800 new jobs to a total of 93,600. Particularly in Development, Production and Sales the BMW Group created 2,200 new jobs in Germany alone. Thanks to the success of the BMW X5 successfully introduced into the market in the year 2000, more than 1,000 new associates were hired at the Spartanburg Plant in the USA. The excellent stock of orders resulting in particular from great demand for the BMW 3 Series as well as BMW motorcycles, led furthermore to additional shifts at all BMW plants.

Workforce of the BMW Group at year-end

	1999	2000	Change in %
	114,952	93,625	- 18.6
Updated to eliminate personnel from restructured activities	89,794	93,625	4.3

Another successful activity by the BMW Group in the year 2000 was the continuation and expansion of training, the Group hiring more than 1,100 apprentices in Germany alone.

As a result of the restructuring process and the subsequent sale of Rover Cars and Land Rover, as well as the sale of the Group's aeroengine business to Rolls-Royce plc, the

overall number of BMW Group associates dropped in the course of the year 2000 by 18.6 per cent to 93,600. In concluding its involvement in Rover/Land Rover, the BMW Group gave top priority to the need to maintain as many jobs as possible at the plants in Great Britain, the Phoenix Consortium and Ford Motor Company taking over approximately 19,000 employees.

BMW Automobiles achieve record deliveries – BMW X5 Sports Activity Vehicle exceeds all expectations

Car deliveries to customers by the BMW brand reached a new record in the year 2000, with the number of deliveries increasing by 9.4 per cent over 1999 to a total of 822,000 cars delivered.

Production and deliveries to customers of BMW brand vehicles

	1999	2000	Change in %
Automobiles			
Production	755,547	834,519	10.5
Deliveries	751,272	822,181	9.4
Motorcycles			
Production*	69,157	74,397	7.6
Deliveries	65,168	74,614	14.5

* 1999 including the BMW F 650 assembled by Aprilia S.p.A.

This increase was borne in particular by great demand for the BMW 3 Series, sales of which were up by 12.6 per cent. For the first time ever the BMW Group sold more than half a million 3 Series in the year under report, in the guise of the saloon, coupé, convertible, touring and compact models. Sales of the Z3 roadster and Z3 coupé, in turn, amounted to a total annual volume of almost 40,000 units (previous year: 51,000).

Deliveries of the BMW 5 Series launched into the market in December 1995 developed positively in overall terms, despite a slight drop of 4.3 per cent to 193,000 units. Particularly the introduction of the new generation of 6-cylinder petrol engines in summer 2000 and the facelift featuring the striking light-ring headlights in autumn 2000 were crucial to this positive development.

In the last full year of its lifecycle, the 7 Series no longer reached the same sales volume as in 1999, as was to be expected, worldwide deliveries dropping by 9.6 per cent to just under 39,000 units.

The BMW X5 launched in the US market in late 1999 exceeded expectations by far in the year 2000, 38,000 units of the BMW sports activity vehicle being delivered to customers worldwide, almost three-quarters thereof in the US market alone. Demand in the European markets where the BMW X5 was introduced in late May 2000 exceeded the number of units shipped to Europe by far, resulting in long waiting lists. The success of the BMW X5 in the market is the result of the consistent implementation of the classic BMW values dynamics and sportiness combined with timeless, elegant design.

Deliveries of the BMW Z8 super-sportscar built by hand at the Munich Plant amounted to 1,400 units in the year 2000.

In Germany the BMW Group delivered more than 240,000 BMW cars to customers in the year 2000, an increase by 0.2 per cent over 1999. Given in particular the weak overall market, this success results above all from the BMW 3 Series with total sales increasing by 4.7 per cent to 151,000 units. The BMW X5 was introduced in the German market in late May, achieving a sales volume in Germany of 3,700 units, a figure restricted only by the limited availability of this model.

The USA, the BMW Group's second most important sales market, saw a new absolute record in deliveries of BMW brand cars in the year 2000. At 189,000 units, deliveries of BMW cars in the United States exceeded the previous year's figure by no less than 21.4 per cent, the volume of BMWs sold in the USA thus more than tripling in the course of the last 10 years.

Deliveries also increased in the other two NAFTA countries, with the total figure in Canada increasing by 22 per cent to 11,000 units and Mexico also showing a new record of 3,600 units, up by more than 60 per cent over the previous year.

The Asian markets continued the upward trend already recorded in 1999, deliveries of BMW Group cars increasing to more than 68,000 units equal to a growth rate of 13.7 per cent. The development of deliveries was particularly positive in China (with deliveries doubling

to 3,800 units, thereof almost 1,400 7 Series alone), South Korea (with deliveries doubling to 1,600 units), and Thailand (up by 31 per cent to 2,400 units). Japan remained the BMW Group's most important market in Asia also in the year 2000, with deliveries amounting to 36,000 units (+2 per cent). Demand was particularly great for the BMW 3 Series, with more than 23,000 units sold.

Diesel models continuing their positive development

The undaunted demand for diesel engines and the introduction of new, improved drive units led to growing sales of diesel models in all BMW model series in the year 2000. The models available in the market – from the 320d all the way to the 8-cylinder top-of-the-range 740d diesel – with their dynamic performance and driving pleasure so typical of BMW, accounted for a total sales volume of 189,700 units in the year 2000, an increase by 40 per cent over 1999.

The share of diesel models in overall sales by the BMW Group was therefore up from 18 per cent in 1999 to now 23 per cent.

CleanEnergy- hydrogen as the source of energy for the future

Introducing the 750hL, the BMW Group presented the world's first series-production hydrogen car in Berlin on 11 May 2000. Providing a shuttle service throughout the duration of the EXPO 2000 World Fair, these luxurious saloons then convincingly proved to their passengers that they fulfil the greatest demands in terms of comfort, dynamic performance, and everyday driving qualities. In the meantime these "zero-consumption cars" have covered a total distance of well over 100,000 km.

The BMW 750hL is driven by a hydrogen combustion engine offering considerable advantages in terms of cost, weight and performance over the combination of a fuel cell battery and an electric motor. In consideration of the undeniable advantages of the fuel cell in generating electric power, the BMW Group also uses this technology, some of the 750hL's being the world's first series-production cars with a fuel cell on board supplying electricity for the 42V on-board network. This allows the introduction of high-comfort functions such as air conditioning even when the car is at a standstill.

The prerequisite for the general use and operation of hydrogen cars is an adequate infrastructure of hydrogen filling stations of the type already to be seen as a pilot project at Munich Airport. In the medium term hydrogen must be recovered from regenerating sources of energy in order to reduce CO₂ emissions to zero. Together with other car makers and the petroleum industry, the BMW Group is working on the implementation of this technology as part of the German Transport Energy Strategy (TES), an initiative supported by the German Federal Government.

The BMW Group plans to introduce hydrogen cars into the market during the life-cycle of the new 7 Series scheduled for introduction in the course of this year.

Introducing two natural gas series-production models (316g compact and 518g touring), the BMW Group already set standards in the development of environmentally efficient cars back in 1995.

BMW motorcycles remain on a record course

BMW motorcycles again achieved a new sales record in the year 2000, now the 8th record in a row. With 74,600 units being delivered to customers worldwide, motorcycle deliveries were up by 14.5 per cent over 1999.

This development resulted in particular from a substantial increase in deliveries in the USA (+19 per cent to 12,000 units) as well as in the European markets Spain (+35 per cent to 3,600 units), Italy (+16.5 per cent to 9,100 units), and Germany (+5.5 per cent to 23,400 units).

Deliveries of the F 650 GS introduced in March as the world's first single-cylinder motorcycle with a three-way catalytic converter fitted as standard and ABS available as an option developed very successfully indeed, with a total volume of more than 13,000 units. BMW's best-selling motorcycle also in the year 2000 was the R 1150 GS accounting for a total volume of 15,000 units.

Customer deliveries of the C1, BMW's new, highly innovative vehicle concept, amounted to 3,300 units in Germany alone since the introduction in April and another 3,400 units in the course of the subsequent European market launch.

Financial Services showing substantial growth

The business volume of BMW Group Financial Services increased by approximately 10 per cent worldwide in the year 2000 to 20.6 billion euro, continuing to make Financial Services an important factor crucial to the market position and economic strength of the BMW Group.

Apart from geographical expansion, the growth of BMW Group Financial Services is being driven by the development and expansion of the strategic areas fleet management, multi-brand financing, as well as direct banking.

In all, approximately 1.23 million (previous year: 1.21 million) financing agreements were concluded in the year 2000. 583,000 (previous year: 574,000) contracts were for retail business, 642,000 (previous year: 638,000) agreements were for dealer financing.

The above-average market penetration of Financial Services in BMW new car sales, with more than 30 per cent of all new cars being financed worldwide, was achieved once again in the year 2000.

Finishing third in the Formula 1 Constructor's World Championship in the very first year

Finishing third in the Formula 1 Constructor's World Championship in the very first year, exceeding all expectations by far.

This best re-entry of an engine constructor into Formula 1 in 33 years is the result of excellent cooperation within the BMW WilliamsF1 Team, the performance of drivers Ralf Schumacher and Jenson Button, and not least the successful efforts made by BMW's engineers in the development of Formula 1 power units in close cooperation with the nearby Research and Development Centre in Munich.

The objective in the new season starting with the Grand Prix of Australia on 4 March 2001 is to defend the third place in the World Championship and to shorten the gap to the two top teams.

MINI – the second strong premium brand within the BMW Group

The MINI COOPER was presented to the public for the first time at the Salon Mondial de l'Automobile in September 2000. With MINI being a small car brand full of character and emotion, the BMW Group will be establishing a convincing premium offer in the small car segment becoming available worldwide. The first models of the MINI brand will be delivered to customers starting in summer 2001 (the entry-level MINI and the MINI COOPER).

By entering the small car segment, the BMW Group is pursuing several strategic targets: With the world car market growing increasingly in this segment in the years to come, the BMW Group with the MINI brand will have the opportunity to participate in this growth.

Through the MINI brand, the BMW Group will further enhance its appeal to young and modern customers. With its emotional character, MINI is tailored precisely to these target groups and meets the growing demand for premium offers also in the small car segment.

Furthermore, the MINI brand gives the BMW Group a convincing range of models in the small car segment, the MINI being the ideal second or third car for the BMW driver and other customers in the BMW segments.

Last but not least, MINI cars will make an additional contribution in reducing CO₂ emissions within the BMW Group model line-up, helping the Group fulfil the self-commitment of the European automotive industry to reduce CO₂ emissions.

BMW stock – above-average performance in the year 2000

The German DAX 30 stock index achieved a new record in March 2000 of 8,136 points. In the second quarter of the year there was then a period of consolidation in the German stock markets, in particular due to the insecure business development of many companies in the Neuer Markt, which lost two-thirds of its value from its annual peak by the end of the year. With volatility remaining relatively small, the DAX index stayed within a bandwidth of 7,000 – 7,500 points.

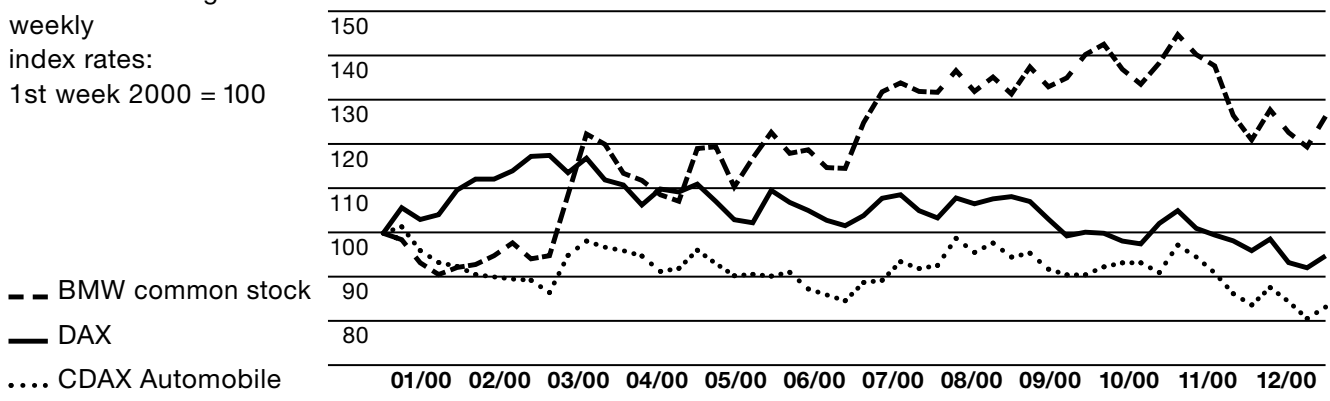
Increase in value of BMW AG stock versus stock indices

Based on average

weekly

index rates:

1st week 2000 = 100



As of September the DAX index then remained below 7,000 points, with the exception of an interim high in November. At the end of the year the DAX index of 6,433 points was 7.5 per cent below the index level of 6,958 points on 30 December 1999.

The CDAX Automobile index initially showed a development far inferior to the DAX index, dropping by almost 20 per cent by the middle of March. From then on it developed almost parallel to the DAX index, CDAX Automobile closing the year at 339.56 points or 21 per cent below the 1999 year-end index level of 431.14 points.

The development of BMW stock value was strongly characterised by the reorientation of the BMW Group. After entering the year at a price of 28.75 euro, BMW ordinary shares dropped to an annual low of 23.10 euro in the course of January. Then, following the announcement of the BMW Group's plans to terminate its involvement in Rover/Land Rover, BMW stock increased in value at an overproportional rate in the course of the year, BMW common stock reaching a new all-time high of 41.77 euro in October before declining again in the last two months of the year due to the general deterioration of the stock market and the more dismal outlook for the US economy.

Ending the year at a price of 34.90 euro, BMW common stock was approximately 15 per cent higher in value than in the previous year, the increase in value on a weekly average since the beginning of the year even amounting to more than 25 per cent.

BMW preferred stock showed an even more significant improvement than BMW common stock: Following the year's peak of 22.50

euro in November, BMW preferred stock was quoted at 20 euro at the end of the year, 43 per cent above its final price one year before.

The BMW Group is acknowledged in the automotive market as a world leader in the area of sustained development. Accordingly, the Dow Jones Sustainability Group Index first established in 1999 lauded the BMW Group as the leading company in the automotive sector for the second time running in the year 2000. This index focuses exclusively on the leading 10 per cent of all companies worldwide and encompasses not only economical, but also social and ecological criteria in the business strategy of the companies involved. All companies are subject to a detailed rating once a year.

World automobile market consolidating in the year 2001

Forecasting the period ahead, the BMW Group expects the world economy to continue its dynamic economic growth with only a minor decrease in development. Given this perspective, worldwide car sales are likely to consolidate at the high level of the previous year.

In North America the gradual cooling down of the economy is expected to leave its traces in the automobile market in the year 2001, showing a decline in the overall market.

Favourable economic conditions in Germany, on the other hand, will presumably ensure a substantial stimulation of automobile demand, thus contributing to the stabilisation of registrations in Western Europe remaining at a high level. In Eastern Europe, in turn, growth in the automobile markets will remain intact. In Japan the continuing but moderate growth of the economy will generate positive momentum

for the car market, registrations continuing to increase. The Emerging Markets in South America and East Asia, finally, will benefit to a greater extent from the stabilisation of the overall economy, car sales showing substantial growth rates in the year 2001.

The first new BMW to be introduced in the year 2001 will be the new 3 Series compact. The successor to the fifth body variant of the 3 Series presented for the first time in 1994 and selling to more than 400,000 customers will be available at dealerships as of June 2001, initially as the 316ti and 325ti. Further engine variants will follow in the course of time.

Rounding off the BMW 3 Series model family, the M3 convertible will be entering the market in spring 2001. With its 343 bhp high-speed straight-six power unit, this model ranks unique within the segment of four-seater convertibles.

The new BMW 7 Series will be launched at the Frankfurt Motor Show in September. Marking the new flagship in the BMW model range, this car will be a major step in the history of the BMW brand through its new technologies and striking design.

In summer 2001 the BMW Group will start deliveries to customers of the MINI and MINI COOPER. This premium product in the small car segment will initially be available in Europe, then entering the US and Asian markets in the year 2002.

The BMW Group will continue its profitable growth in future with new models and vehicles all positioned in the premium segments of the market, as well as a workforce made up of highly motivated associates.

Yours sincerely



Joachim Milberg
Chairman of the Board of Management
Bayerische Motoren Werke Aktiengesellschaft

Munich, January 2001

Annual General Meeting

The 81st Annual General Meeting of BMW AG will be held in the Olympic Hall at the Munich Olympic Park on Tuesday, 15 May 2001 at 10.00 am.

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The BMW Group in the Internet

Further information on the BMW Group is available in the Internet under www.bmwgroup.com. Information on the BMW brand is available at any time under www.bmw.com, information on the MINI brand under www.mini.com.