



Norbert Reithofer
Chairman of the Supervisory Board

Dear Shareholders,

The BMW Group faced numerous challenges in 2019. Despite retaining its leading position in the premium segment in terms of delivery volumes, it did not generate the level of earnings we aspire to. In our capacity as Supervisory Board, we stand firmly behind the Board of Management's objective of increasing profitability again in the coming years and continuing in the long and highly successful tradition of the BMW Group despite the difficult global economic conditions. Customer focus is always our highest priority. At the same time, the BMW Group is committed to assuming a pioneering role in the field of sustainability. The importance we attach to this topic is most evident in the rapid expansion of our range of electrified vehicles driven by the BMW Group's new model offensive this year.

With its product portfolio firmly on the right track, the BMW Group is well positioned to meet the challenges posed by technological change.

Focus of the Supervisory Board's activities during the past financial year

The Supervisory Board performed the duties incumbent upon it with the utmost diligence.

In 2019, we made major decisions regarding the leadership of the BMW Group, with Mr Oliver Zipse designated as new Chairman of the Board of Management and two new members appointed to the Board.

The Supervisory Board continuously monitored the running of the business in a thorough manner and advised the Board of Management on matters relating to the management and further development of the BMW Group. In five meetings of the full Supervisory Board (including one two-day meeting), we deliberated in detail with the Board of Management on the performance of the BMW Group. The Board of Management also kept the Supervisory Board well informed on matters of particular significance between meetings. Furthermore, the Chairman of the Supervisory Board was in frequent direct contact with the Chairman of the Board of Management, as was the Chairman of the Audit Committee with the Chief Financial Officer regarding current topics.

The work of the Supervisory Board focused in particular on the strategic development of the BMW Group against the backdrop of digitalisation and electrification, including the core topic of automated driving. Key cooperations, such as the joint venture with Daimler in the field of mobility services, were subject to intensive scrutiny.

The Audit Committee and the full Supervisory Board also deliberated at great length on the challenges posed by trade conflicts as well as the various Brexit scenarios.

I personally held a number of individual discussions with investor representatives on Supervisory Board-related matters, especially in light of the planned changes to the German Corporate Governance Code. The main topics discussed were the compensation of the Board of Management, the independence of Supervisory Board members and the planned change in the compensation system for the Supervisory Board.

In its regular reports on the BMW Group's current situation, the Board of Management reported to the Supervisory Board on new models and model revisions in the Automotive and Motorcycles segments, delivery volumes (in particular of electrified models) and the competitive situation, as well as the development of new and total business volume in the Financial Services segment. Any variances from budget were also brought to the Supervisory Board's attention. The Board of Management's status reports also covered changes in the workforce size as well as economic developments in key markets.

The Board of Management also informed us about important current topics such as the opening of the BMW plant in Mexico, the Battery Cell Competence Centre in Munich and the new #NEXTGen technology and future fair held at the BMW Welt site in Munich. The Board of Management also reported on the state of negotiations with FC Bayern and the BMW Group's participation at the IAA in Frankfurt. Moreover, the Board of Management kept the Supervisory Board well informed on matters of product quality, the joint venture with Great Wall Motor and the cooperation with Northvolt in the field of battery cell production.

The Supervisory Board also deliberated at length on important issues arising in the Board of Management's various areas of responsibility. For instance, the Board of Management presented the core elements of the Group's Finance function, including a description of its financing strategy. We also considered the strategy and risk profile of the Financial Services segment. In addition to strategy realignment within the sales organisation, a further topic of focus was the contribution of the Purchasing and Supplier Network to the profitability and future viability of the BMW Group. The Board of Management reported in detail on the current status of and overall strategy regarding the BMW brand.

We paid particular attention to the implementation of Strategy NUMBER ONE > NEXT. The Board of Management elaborated on the current status, highlighting changes in the market environment attributable to trade conflicts, regulatory issues – especially fleet CO₂ emissions – as well as corporate social responsibility considerations. Together with the Board of Management, we discussed in detail the decisions reached and measures taken to implement the strategy over the past 12 months. The Board of Management reported in detail on its strategies adopted for brands and design, for products as well as for customer experience and services, focusing in particular on the expansion of the Group's electrified product portfolio and the luxury segment. The strategic fields of technology and digitalisation were also the subject of intensive debate, specifically focusing on the core topics of electric mobility and automated driving.

In the third quarter, the Supervisory Board conferred extensively on the BMW Group's forecasts for the period from 2020 to 2025. In this context, the Board of Management outlined the currently volatile nature of external business conditions, highlighting in particular risks arising from trade policies and weaker economic forecasts for certain markets. The potential impact of a range of risk scenarios on forecasts was also discussed at length. After a thorough examination, the Supervisory Board approved the BMW Group's long-term corporate forecast. Based on this long-term assessment, the Board of Management presented the annual budget for the financial year 2020, which the Supervisory Board likewise deliberated upon at length.

The Board of Management also reported on the current status of diversity concepts for the Group.

With regard to Board of Management compensation, the Supervisory Board spent a significant amount of time addressing issues related to the Act on the Implementation of the Second Shareholder Rights Directive (ARUG II) and the new version of the German Corporate Governance Code as well as assessing any resulting need for change at the BMW Group. We intend to revise the compensation system for the Board of Management during the financial year 2020 and will put forward the revised system for shareholder approval at the Annual General Meeting to be held in the financial year 2021.

For the financial year 2019, the Supervisory Board examined the structure and level of compensation paid to the members of the Board of Management. In this context, we took into account trends in Group business performance, executive manager compensation and the remuneration of BMW Group employees in Germany. Based on comparative studies conducted by an external compensation consultant, we concluded that the compensation of the members of the Board of Management is commensurate. Detailed information on the compensation of the Board of Management is contained in the Compensation Report.

We also addressed the compensation of the Supervisory Board, which has remained unchanged since 2013, and spoke in favour of changing to a purely fixed compensation model. A corresponding proposal will be submitted for shareholder approval at the Annual General Meeting 2020.

We also deliberated intensively on corporate governance within the BMW Group and the application of the recommendations contained in the German Corporate Governance Code. In December, the Board of Management and the Supervisory Board issued their Declaration of Compliance with the German Corporate Governance Code. We intend to fully comply with all recommendations made in the Code in the version dated 7 February 2017, which was valid at the date of the Declaration. The wording of the Declaration of Compliance is available in the Statement on Corporate Governance on our website.

We also reviewed current targets for the composition of the Supervisory Board and the competency profile set out for its members. We concluded that the composition of the Supervisory Board at 31 December 2019 was in line with the targets stipulated in the diversity concept, the competency profile and other composition targets. In view of the major strategic importance of automated driving, we have decided to expand our competency profile to include the fields of digitalisation and artificial intelligence. The composition targets for the financial year 2020 were further developed in line with the recommendations contained in the draft version of the new German Corporate Governance Code. An overview of the members of the Supervisory Board, describing their specific fields of expertise, is available in the Statement on Corporate Governance on our website.

No conflicts of interest pertaining to members of the Supervisory Board arose during the year under report. Significant transactions with Supervisory Board members and other related parties as defined by IAS 24, including their close relatives and intermediary entities, were examined on a quarterly basis.

We reviewed the efficiency of our work on the Supervisory Board and prepared for the related deliberations within the full Supervisory Board based on a questionnaire and detailed individual

Description of Presiding Board and committee work

The Supervisory Board has established a Presiding Board and four committees, whose work during the financial year 2019 was reported on by their respective chairpersons at the subsequent meetings of the full Supervisory Board. You can read more about the tasks, the composition and the working methods of the Presiding Board and the various committees of the Supervisory Board in the Statement on Corporate Governance on our website.

The Presiding Board convened four times during the year under report. Its focus was on preparing the detailed agenda of full Supervisory Board meetings, unless a committee was responsible for doing so. Working closely with the Board of Management and senior heads of department, we made suggestions for topics to be reported on at Supervisory Board meetings. Furthermore, the Presiding Board devoted time to following the latest developments regarding corporate governance.

The Audit Committee held five meetings and two telephone conference calls during the financial year 2019.

The meeting held in February 2019 focused primarily on preparing for the Supervisory Board meeting at which the financial statements and on the planned change of the Group auditor were examined. The committee recommended to the full Supervisory Board that PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) be elected as Company and Group auditor at the Annual General Meeting 2019. Prior to this, PwC issued a Declaration of Independence, and the planned scope of non-audit services to be provided by PwC was discussed. In connection with the audits of the financial statements for the financial year 2018, which were performed for the last time by KPMG Wirtschaftsprüfungsgesellschaft mbH, the Audit Committee considered the scope of non-audit services provided by KPMG entities to the BMW Group in 2018. There were no indications of conflicts of interest, grounds for exclusion or lack of independence on the part of the auditor.

The Audit Committee discussed PwC's fee proposal for the audits of the Company and Group Financial Statements 2019 and for the review of the Half-Year Financial Report, and deemed it appropriate. Following the approval at the Annual General Meeting held in May 2019, the Audit Committee appointed PwC for the relevant engagements and specified audit focus areas. It also approved the scope of non-audit services to be provided by PwC and subsequently received regular reports on the relevant matters.

The quarterly financial reports were discussed with the Board of Management prior to their publication. Representatives of the external auditors were present when the Half-Year Financial Report was discussed at the end of July 2019.

During the year under report, the Audit Committee again dealt intensively with the topic of compliance within the BMW Group. In his regular report, the Chairman of the Compliance Committee provided a summary of ongoing compliance-related proceedings and presented the improvements being made to the compliance system, which is now known as "Compliance 4.0".

In February 2019, the Board of Management informed the Audit Committee of the result of the proceedings conducted by the Public Prosecutor's Office Munich regarding a faulty software update. Based on its classification as a misdemeanour, a fine of €8.5 million was imposed, which the Company accepted. The investigations undertaken by the Public Prosecutor did not identify any evidence of test-stand-related defeat devices, fraud or any other deliberate legal violations.

The Audit Committee continued to deal intensively with the EU Commission's investigation into the antitrust allegations in connection with the former working groups of several German automobile manufacturers. Subsequent to receiving the EU Commission's Statement of Objections in April 2019, which resulted in the BMW Group recognising a significant provision for a possible fine, the Audit Committee held a separate meeting on this topic. At that meeting, the Audit Committee was provided with detailed information concerning allegations made by the EU Commission and was fully briefed on the Company's viewpoint, which denies the allegations and intends to contest them – with all the legal means at its disposal if necessary. The Company's Chief Legal Counsel and a representative of the law firm engaged by the Company explained the Company's legal position to the Committee.

At the following meeting of the Supervisory Board, the Chairman of the Audit Committee reported on these matters in great detail. At the recommendation of the Audit Committee, the Supervisory Board decided to obtain a second opinion from an independent antitrust law expert in addition to the advice received from the law firm engaged by the Company. At a subsequent meeting of the Audit Committee, the expert confirmed the Company's legal opinion and its defence strategy.

The Board of Management also reported in detail to the Audit Committee on the mutually agreeable completion of proceedings initiated by the German Federal Cartel Office in 2016 regarding the purchase of long steel by the BMW Group. The proceedings were terminated in November 2019 with the imposition of a fine of €28 million, which the Company did not contest. The Board of Management stressed that the exchange of information in question had no effect on the selling prices of BMW Group vehicles.

Furthermore, the main results of the audits conducted by Group Internal Audit, along with details of further audit planning, were reported to the Audit Committee. The Audit Committee also discussed risk management and the BMW Group's current risk profile as well as the internal control system and the report on major legal disputes. The EMIR audit report ("European Market Infrastructure Regulation") pursuant to § 32 of the German Securities Trading Act (WpHG) was also presented to the Audit Committee by an auditor, and the effectiveness of the system in place at BMW AG to ensure compliance with regulatory requirements was confirmed.

The Audit Committee concurred with the decision of the Board of Management to raise the Company's share capital in accordance with Article 4 (5) of the Articles of Incorporation (Authorised Capital 2019) by €740,400 and to issue a corresponding number of new non-voting bearer shares of preferred stock in conjunction with an Employee Share Programme.

A key aspect of the Personnel Committee's work during its five meetings held during 2019 involved preparing decisions in connection with the composition of the Board of Management. The Personnel Committee held discussions on Board of Management compensation, not least against the background of the implementation of ARUG II and revision of the German Corporate Governance Code. In individual cases it also granted approval for Board of Management members to assume mandates outside the Group.

The Nomination Committee held one meeting during the financial year 2019, at which it addressed the subject of succession planning for shareholder representatives on the Supervisory Board going forward, taking into account the composition targets decided upon by the Supervisory Board.

The Mediation Committee, which is prescribed by law, did not need to convene during the financial year 2019.

Composition of the Board of Management

The Supervisory Board made several decisions regarding the composition of the Board of Management during the 2019 financial year:

The mandate of the Chairman of the Board of Management, Harald Krüger, was terminated by mutual agreement on 15 August 2019, after Mr Krüger had previously informed the Chairman of the Supervisory Board that he was not available for a further term of office. We wish to thank Mr Krüger for his outstanding work and the key momentum he provided with great enthusiasm during his long tenure at the BMW Group as Chairman and Member of the Board of Management as well as in his previous functions.

The Supervisory Board appointed Oliver Zipse as Chairman of the Board of Management with effect from 16 August 2019. Mr Zipse initially became a Board of Management member with responsibility for Production in 2015 and has worked for the BMW Group since 1991. Apart from his expertise in the field of production, he has also gained a wealth of experience in various strategic management functions.

On 16 August 2019, Dr Andreas Wendt was temporarily given Board responsibility for Production in addition to his role as Board member responsible for the Purchasing and Supplier Network.

With effect from 1 October 2019, Dr Milan Nedeljković was appointed member of the Board of Management and assumed responsibility for Production. Dr Nedeljković joined the BMW Group in 1993 and, after serving as Managing Director of the Leipzig and Munich production plants, most recently worked as Senior Vice President for Corporate Quality.

The mandate of Milagros Caiña Carreiro-Andree was terminated by mutual agreement with effect from 31 October 2019. We would like to thank Ms Caiña Carreiro-Andree for her positive contribution to the further development of human resource policies throughout the BMW Group.

With effect from 1 November 2019, Ilka Horstmeier was appointed member of the Board of Management with responsibility for Human Resources and as Labour Relations Director. Ms Horstmeier has worked for the BMW Group since 1995, most recently as Managing Director of the Dingolfing plant.

In 2019, we resolved to extend the mandate of one Board of Management member.

Peter Schwarzenbauer left the Board of Management on 31 October 2019 after reaching the stipulated retirement age. We wish to thank him for his dedication, his excellent work and the dynamic contribution he made to the field of digitalisation in particular. As part of the realignment of Board member portfolios, Mr Pieter Nota has been given combined responsibility for all BMW Group brands as head of "Customer, Brands, Sales" and the size of the Board has been reduced overall.

Composition of the Supervisory Board, the Presiding Board and the Supervisory Board's committees

Messrs Franz Haniel, Ralf Hattler and Jürgen Wechsler resigned from the Supervisory Board with effect from the end of the Annual General Meeting 2019. We would like to thank all three of them for their faithful, constructive cooperation during their respective periods of office on the Supervisory Board. Mr Haniel was a member of the Supervisory Board for a period of 15 years.

We therefore wish to express our gratitude to him in particular for his many years of loyal service to the BMW Group. Within the framework of elections pursuant to the German Co-Determination Act, the employees elected Verena zu Dohna-Jaeger and Dr Thomas Wittig as members of the Supervisory Board, the former as representative of IG Metall and the latter as executive staff representative. The remaining employee representatives were re-elected. The Annual General Meeting elected Dr Vishal Sikka, founder and CEO of Vianai Systems, Inc., as a new member of the Supervisory Board. Susanne Klatten and Stefan Quandt, both entrepreneurs, were re-elected as shareholder representatives.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year 2019. The Supervisory Board plans to make a mutually agreed change to the position of chair of the Audit Committee directly following the 2020 Annual General Meeting. As in the past, the future chairperson also needs to meet the required criteria as an independent financial expert. The composition of the Supervisory Board and its committees is contained in the Corporate Governance Report and the Statement on Corporate Governance, which is available on our website. You can also find the curricula vitae of the Supervisory Board members on our website.

Disclosure of attendance at meetings by individual members

The attendance rate at the meetings of the Supervisory Board and its committees was 99.6% overall. The following table shows attendance by individual member:

Supervisory Board Member	Meetings	Attendance	Attendance in %
Dr.-Ing. Norbert Reithofer	22	22	100
Manfred Schoch	21	21	100
Stefan Quandt	22	22	100
Stefan Schmid	21	21	100
Dr. Karl-Ludwig Kley	22	21	95
Christiane Benner	5	5	100
Dr. Kurt Bock	5	5	100
Verena zu Dohna-Jaeger ¹	4	4	100
Franz Haniel ²	1	1	100
Ralf Hattler ²	1	1	100
Dr.-Ing. Heinrich Hiesinger	5	5	100
Prof. Dr. Reinhard Hüttl	5	4	80
Susanne Klatten	6	6	100
Prof. Dr. Renate Köcher	5	5	100
Horst Lischka	5	5	100
Willibald Löw	5	5	100
Simone Menne	5	5	100
Dr. Dominique Mohabeer	5	5	100
Brigitte Rödig	5	5	100
Dr. Vishal Sikka ¹	4	4	100
Jürgen Wechsler ²	1	1	100
Dr. Thomas Wittig ¹	4	4	100
Werner Zierer	5	5	100

¹ Supervisory Board Member since 16 May 2019

² Supervisory Board Member until 16 May 2019

Examination of financial statements, including the separate non-financial report and the proposal for the appropriation of profits

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") was appointed as auditor for the first time for the financial year 2019. PwC conducted a review of the condensed Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2019 and presented the findings of its review to the Audit Committee. No issues were identified that might indicate that the condensed Interim Group Financial Statements and Interim Group Management Report had not been prepared in accordance with the applicable provisions in all material respects.

PwC audited the Company and Group Financial Statements of BMW AG for the financial year 2019 as well as the Combined Company and Group Management Report – as authorised for issue by the Board of Management on 10 March 2020 – and issued an unqualified audit opinion, signed by the auditor Petra Justenhoven as independent auditor (Wirtschaftsprüferin) and by Andreas Fell as independent auditor (Wirtschaftsprüfer) and auditor responsible for the performance of the engagement.

At its meeting held on 27 February 2020, the Audit Committee initially considered in detail the preliminary version of the Company and Group Financial Statements for the financial year 2019, the Combined Management Report (including the Statement of Corporate Governance), the auditor's long-form reports and the Board of Management's proposal for the appropriation of profits.

Immediately after authorising their issue, the Board of Management submitted the Company and Group Financial Statements for the 2019 financial year, the Combined Management Report (including the Statement of Corporate Governance) and the proposal for the appropriation of profits to the Supervisory Board. The long-form audit reports of the auditor were also made available to the Supervisory Board without delay.

At its meeting on 12 March 2020, the Audit Committee carefully examined and deliberated on these documents before they were considered in detail at the plenary session of the Supervisory Board.

At the respective meetings, the Board of Management provided the Audit Committee and the Supervisory Board with detailed explanations of the financial reports presented. Representatives of the external auditor were also present at both meetings. They reported on the main findings of their audit, explained the key audit matters and answered additional questions put by members of the Audit Committee and the Supervisory Board. The Audit Committee and the Supervisory Board reviewed the key audit issues and the related audit procedures in great detail.

The representatives of the external auditor confirmed that the risk management system established by the Board of Management is capable of identifying at an early stage any developments that might threaten the Company's going-concern status. They confirmed that no material weaknesses in the internal control system and risk management system with regard to the financial reporting process were identified. Similarly, they did not identify in the course of their audit work any facts that were inconsistent with the contents of the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) issued by the Board of Management and the Supervisory Board.

Based on a thorough examination conducted by the Audit Committee and the full Supervisory Board, we concurred with the results of the external audit. In accordance with the conclusion reached after the examination by the Audit Committee and the Supervisory Board, no objections were raised. The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2019 drawn up by the Board of Management were subsequently approved at our meeting held on 12 March 2020.

We also examined the proposal of the Board of Management to use the unappropriated profit to pay a dividend of €2.50 per share of common stock and €2.52 per share of non-voting preferred stock, in each case on shares entitled to receive a dividend. We consider the proposal appropriate and have therefore given it our approval.

Due to the rapidly deteriorating situation caused by the proliferation of coronavirus, the Board of Management resolved on 16 March 2020 to revise the forecast for the financial year 2020 and to draw up the Company and Group Financial Statements anew, together with the Combined Management Report. In a telephone conference of the Audit Committee held on the same day, the Board of Management reported in detail on the adjustments made. Representatives of the auditor reported on the supplementary audit performed and the findings identified and confirmed that no objections had arisen in the course of this work. After thorough examination and deliberation, the Audit Committee recommended that the Supervisory Board approve the revised versions of the Company and Group Financial Statements for the financial year 2019. After concluding its own examination, the Supervisory Board determined that it had no objections and accordingly approved the revised versions of the Company and Group Financial Statements for the financial year 2019 on 17 March 2020. The Company Financial Statements have therefore been adopted.

Furthermore, in conjunction with the presentation of the Sustainable Value Report, the Audit Committee and the Supervisory Board considered the separate non-financial report of BMW AG (Company and Group) at 31 December 2019 drawn up by the Board of Management. The Board of Management provided a detailed explanation of the reports at the meetings. Repr