



Norbert Reithofer
Chairman of the Supervisory Board

Dear Shareholders,

The BMW Group sold more than 100,000 electrified vehicles during the past year. With the move towards electrification of the fleet and the biggest model offensive ever undertaken in the company's history, the BMW Group is getting ready for the future. The BMW Group delivered an outstanding earnings performance in the financial year 2017 and once again confirmed its leading position in the premium segment with record deliveries.

Monitoring and advisory activities of the Supervisory Board

Throughout the financial year 2017, the Supervisory Board performed its duties with the utmost care in accordance with the law and the Articles of Incorporation. We provided the Board of Management in their strategic development and management of the BMW Group with constructive advice and closely and continuously monitored its running of the business.

The Board of Management reported regularly to us on the implementation of Strategy NUMBER ONE > NEXT. Key areas of focus included the BMW Group's strategy for drivetrain technology and progress in the field of electric mobility. Further major activities were the revised Board of Management compensation system and the Group business plan. At each of our five Supervisory Board meetings, we discussed in detail the current situation of the BMW Group with the Board of Management.

The Company's situation and development have been continually in our focus, also outside of meetings. The Board of Management reported to us regularly on the latest sales and workforce figures and provided us with information on matters of particular importance as they arose.

Between meetings, the Chairman of the Board of Management, Mr Harald Krüger, informed me directly and promptly in our regular consultations on the current state of major business transactions and projects.

Furthermore, when necessary, the Chairman of the Audit Committee, Dr Karl-Ludwig Kley, liaised directly with the Member of the Board of Management responsible for Finance, Dr Nicolas Peter, outside scheduled meetings.

In its regular reports on the BMW Group's current situation, the Board of Management provided us with information on the deliveries trend and the competitive environment in the Automotive and Motorcycles segments as well as the development of new contracts and business volumes in the Financial Services segment, also explaining any variances against forecast. The Board of Management also provided us with the latest workforce figures, reported on developments on key markets and explained business forecasts.

The Board of Management also highlighted in its situation reports important current transactions and projects, which we then followed up in our in-depth discussions. These included, for example, progress made in the areas of product quality and customer satisfaction. The Board of Management also reported on events such as the "diesel summit" in Berlin and the International Motor Show (IAA Cars) in Frankfurt. In addition, the Board of Management explained the status of various cooperation negotiations and transactions, such as the establishment of a joint venture with other manufacturers to build a European network of fast charging stations.

Regarding the Chinese market, the Board of Management provided us with detailed information on business developments and specific local requirements and explained the strategy pursued in this region.

At the beginning of the year, the Board of Management presented to us the new models and model revisions due for market launch in 2017.

One Supervisory Board meeting was held at the Dingolfing plant. A major focus of this meeting was the report of the Board of Management on the development of the worldwide production network, highlighting in particular international cooperation between the plants. It also explained how Industry 4.0 innovations are being applied in production, for example in the field of logistics, where components tracking increases supply reliability. The Group has already been exploiting the possibilities of additive manufacturing (3D printing) in production for several years. A further topic of the meeting was BMW Group's strategy in the area of taxes and customs duties. The Board of Management presented a range of scenarios on the operational and financial impact for the BMW Group of the United Kingdom's exit from the European Union. We were also briefed by the Board on the US administration's announcements regarding taxes and duties and the possible consequences for the BMW Group. We also discussed the CSR Directive Implementation Act and its impact on non-financial reporting for the BMW Group. In this context, the Supervisory Board has amended its rules of procedure and expanded the tasks of the Audit Committee. We commissioned the audit firm PricewaterhouseCoopers GmbH to perform a voluntary, limited assurance review of the separate report on non-financial information. During a guided tour of the Dingolfing plant, we were able to learn about the future production of the BMW i NEXT, amongst others.

The two-day Supervisory Board meeting focused in particular on the Group's strategy and the long-term corporate plan.

During the first part of the meeting we discussed the annual review of Strategy NUMBER ONE > NEXT with the Board of Management. The Board of Management explained the decisions taken in each strategic area, such as the expansion of digital services and products and developments in the field of autonomous driving. It also presented various scenarios for the development of drivetrain systems and outlined the measures it has taken to respond flexibly to customer requirements. The Board of Management also provided us with a detailed account of the competitive environment in the electric mobility sector. We support the Board of Management's initiatives to expand the charging infrastructure.

In the course of a vehicle presentation, we had the opportunity to drive the current BMW Group models with various drivetrain concepts on a test track. We were able to see for ourselves the progress made in the field of autonomous driving. Selected vehicles, including various battery-electric vehicles (BEVs), and technologies were also presented and explained to us through models and exhibits.

In the second part of the meeting, we reviewed in detail the long-term corporate plan for the years 2018 to 2023 and discussed in depth various risk scenarios with the Board of Management. The Board of Management explained the Performance NEXT programme, which will support the financing of future topics by leveraging potential on the performance and cost side. After careful examination and discussion, we approved the plan and urged the Board to implement systematically the measures proposed and to drive ahead with electric mobility at the BMW Group, in order to act from a position of strength.

We also took a close look at the BMW Group's IT strategy. The Board of Management explained the steps already taken towards further digitalisation of the BMW Group. At the same time, it informed us on the threat of cyberattacks and outlined the safeguards and defence measures within the IT security management system.

At our final meeting of the financial year 2017, the Board of Management presented the annual planning for the financial year 2018. We reviewed in detail the opportunities and risks and discussed them with the Board of Management.

With respect to vehicle architecture, the Board of Management explained measures taken to implement the electrification strategy and presented the specific benefits.

In addition, the Board of Management addressed the allegations made against BMW in various media outlets with regard to emissions treatment and confirmed that the BMW Group engages in no activities or technical measures to influence the test mode for measurement of emissions.

Furthermore, the Board of Management reported in detail on the performance, risk situation and business strategies of the Financial Services segment. It described the measures in place to comply with regulatory requirements and provided information on the status of regulatory proceedings against a locally based financial services company.

Within the Personnel Committee and Supervisory Board, we closely examined the structure and amounts of compensation for members of the Board of Management. In our review, we took into account the development of the Group, as well as compensation of the executive management and the overall workforce in Germany over time. In addition, we consulted studies of the compensation at DAX-listed companies. We were assisted here by an independent external compensation consultant. After a detailed examination and discussion, we concluded that the compensation of the Board of Management for the financial year 2017, including pension entitlements, is appropriate.

While leaving the existing overall upper limits unchanged, we have revised the compensation system for the Board of Management. Apart from an increase in Board members' base salary, the focus was on revising the system for variable remuneration. We have paid special attention to linking variable remuneration even more closely to sustainable business development and the long-term business plan. A new multi-year component has been introduced, in the form of a performance cash plan. Other provisions contained in the standard service contract for Board members were also updated. With the agreement of its members, all Board of Management service contracts have been amended with effect from 1 January 2018. Further information on Board of Management compensation and on the new compensation system with effect from the financial year 2018 is provided in the Compensation Report (see section Statement on Corporate Governance).

A further topic reported on by the Board of Management was the current status of the diversity concept. The Board informed us on the targets they have set for increasing the proportion of women in the workforce, particularly in the management, and the current level of target achievement. In addition, the Board of Management explained the measures it has taken to encourage cultural diversity and a mixed age structure in the workforce.

Together with the Board of Management, we gave careful consideration to the corporate governance standards of the BMW Group as well as the provisions of the German Corporate Governance Code. The same also applies to the proposal that the Chairman of the Supervisory Board should engage in dialogue with investors on subjects specific to the Supervisory Board. As a result of the revision of the compensation system with effect from the financial year 2018, it was necessary to retrospectively cancel the previous performance targets for variable compensation for the years 2018 and 2019 and replace them with the new, more ambitious target system. The current Declaration of Compliance pursuant to § 161 AktG is included in the Corporate Governance Report.

The Supervisory Board had already adopted detailed targets for its own composition which included competence-related criteria. These targets were confirmed in the form of the “competency profile”. Based on a self-review conducted by the Supervisory Board, it was concluded that the current composition of the Supervisory Board is in line with the targets of the diversity concept and competency profile, as well as other targets set for its composition at 31 December 2017.

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

Following a detailed efficiency examination in the previous year, the Supervisory Board reviewed the efficiency of its activities in 2017 on the basis of a structured questionnaire. Moreover, members of the Supervisory Board had the opportunity to discuss matters with me individually. The self-review was discussed in the full Supervisory Board. Overall, the work of the Supervisory Board was deemed efficient. No significant need for change was identified. Proposals, for example with respect to the reports provided by the Board of Management, were taken into account.

Average attendance of the five Supervisory Board meetings held in the financial year 2017 was 94 %. An individualised overview of attendance at meetings of the Supervisory Board and its committees for the financial year 2017 has been published on the BMW Group’s website. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and those committees to which they belonged during their term of office in the financial year 2017.

Description of Presiding Board activities and committee work

In order to increase efficiency and ensure better preparation of its plenary meetings, the Supervisory Board has established a Presiding Board and four committees. Committee chairpersons reported in detail and in a timely manner on Presiding Board and committee work at the following meeting of the Supervisory Board. The shareholder representatives were informed by myself of the activities of the Nomination Committee. A detailed description of the duties, composition and work procedures of the various committees is provided in the Corporate Governance Report.

The Presiding Board convened five times during the financial year under report. Assuming no other committee was responsible, the focus of our activities was on preparing the detailed agenda for the meetings of the full Supervisory Board. Complex and wide-ranging topics, such as the long-term plan, were prepared together in detail with the Board of Management and senior heads of department on the basis of written and oral reports. We also selected further topics for full Supervisory Board meetings and made suggestions for reports submitted to the full Supervisory Board.

The Audit Committee held five meetings and two telephone conference calls during the financial year 2017. In the course of those conference calls and at one meeting together with the Board of Management, we reviewed the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present during the presentation of the Half-Year Financial Report.

The Audit Committee's meeting in spring 2017 focused primarily on preparing for the Supervisory Board meeting at which the financial statements were to be examined. Before recommending to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft be elected as Company and Group auditor at the Annual General Meeting 2017, we obtained a Declaration of Independence from KPMG. We also considered the scope and composition of non-audit services, including tax advisory services provided by KPMG entities to the BMW Group. We found no indications of grounds for exclusion, conflicts of interest, or risk to the independence of the auditor.

The fee proposals for the audit of the year-end Company and Group Financial Statements 2017 and the review of the Half-year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting 2017, we therefore appointed KPMG AG Wirtschaftsprüfungsgesellschaft for the relevant engagements and specified additional audit focus areas.

During the financial year 2017, the Head of Group Controlling reported to the Audit Committee on the current risk profile of the BMW Group. In this context, we reviewed in depth a number of individual topics, such as risk management with regard to suppliers.

The Head of Group Financial Reporting presented to us current developments in the internal control system (ICS) underlying financial reporting. The tests performed highlighted no material ICS weaknesses which would jeopardise the system's effectiveness.

The Head of Group Internal Audit presented the main findings of Group internal audits performed during the year under report and outlined the areas of focus for planned audits. He also informed us about an external quality assessment of Group audit activities, which concluded that the relevant German and international standards were met.

A key focus of the Audit Committee's work was on compliance. The Chairman of the BMW Group Compliance Committee informed us about the status of compliance within the Group, initially in the regular report at the end of June. He presented here new IT systems designed to support compliance management. Immediately after the appearance of media reports on cartel allegations at the end of July in connection with the so-called "circle of five", we held a meeting of the Presiding Board and the Audit Committee. The Board of Management informed us in detail of the status of the internal investigation that it had immediately launched and which is being conducted with the support of an international law firm. The Head of Legal Affairs and Patents explained the legal background of the allegations. We also discussed the BMW Group Compliance Management's existing preventive measures with respect to antitrust compliance. The progress of the internal investigation was analysed in detail at the two subsequent Audit Committee meetings, both of which were attended by a representative of the appointed law firm. As a precautionary measure, the Chairman of the Audit Committee also had the representative of the appointed law firm report on the progress of the investigation without members of the Board of Management or myself being present. These issues were discussed at length at the subsequent meetings of the Supervisory Board.

Another area of focus for the Audit Committee was preparing for the change in external auditor with effect from the 2019 financial year. In this context, we organised a tender procedure in accordance with new statutory requirements and, after carefully examining the applicants, made a recommendation to the full Supervisory Board. The non-audit services provided by the auditor were also regularly scrutinised.

An independent auditor engaged by us to conduct the mandatory audit of over-the-counter derivative transactions confirmed the effectiveness of the system that BMW AG currently employs to ensure compliance with regulatory requirements.

In conjunction with the Employee Share Programme, the Audit Committee approved the decision of the Board of Management to raise the Company's share capital in accordance with § 4 (5) of the Articles of Incorporation (Authorised Capital 2014) by €491,000 and to issue a corresponding number of new non-voting bearer shares of preferred stock, each with a par value of €1, at favourable conditions to employees.

The Personnel Committee convened four times during the financial year 2017. The meetings focused on preparations for revising the Board of Management compensation system and related service contracts.

The Personnel Committee also undertook the preparatory work for the Supervisory Board's decision to appoint a new Board of Management member to head the Sales and Brand BMW, Aftersales BMW Group, taking account of the requirements profile and diversity concept agreed upon for the Board of Management.

In individual cases, we also gave our approval to Board of Management members to assume mandates outside the Group.

The Nomination Committee convened once during the financial year 2017. We reviewed the succession planning for shareholder representatives and made recommendations for the proposal of candidates for the Supervisory Board election of the Annual General Meeting 2018, taking into account the composition targets previously resolved by the Supervisory Board.

The statutory Mediation Committee did not need to convene during the financial year 2017.

Composition of the Board of Management

The composition of the Board of Management changed at the turn of the year following the appointment of Pieter Nota as a Member of the Board of Management with effect from 1 January 2018. Mr Nota has joined the BMW Group with a wealth of international experience in the areas of sales and marketing. He succeeds Dr Ian Robertson as Board member responsible for Sales and Brand BMW, Aftersales BMW Group. In agreement with the Supervisory Board, Dr Robertson retired from the Board of Management with effect from the end of 31 December 2017. He will continue to support the BMW Group with his expertise as ambassador of the BMW Group in the United Kingdom until 30 June 2018. With his energy and commitment, Dr Robertson contributed to the BMW Group's outstanding growth and success during an almost ten-year term of office on the Board. We wish to express our appreciation and thank Dr Robertson for his dedicated services.

In addition, we decided in three cases to renew the appointment of members of the Board of Management.

Composition of the Supervisory Board, the Presiding Board and Supervisory Board Committees

In view of the applicable age limit, with effect from the end of the Annual General Meeting 2017, Professor Henning Kagermann stepped down from the Supervisory Board, of which he had been a member since 2010. We thank Professor Kagermann for his valuable work and the trustful cooperation with which he served on the Supervisory Board. At the Annual General Meeting 2017, Dr.-Ing. Heinrich Hiesinger was elected as new shareholder representative for a five-year term of office.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year. The Corporate Governance Report includes a summary of the composition of the Supervisory Board and its committees.

Examination of financial statements and the profit distribution proposal

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft (BMW AG). It also conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2017. The results of the review were presented to the Audit Committee by representatives of KPMG AG Wirtschaftsprüfungsgesellschaft. No issues were identified that might indicate that the abridged Interim Group Financial Statements and Interim Group Management Report had not been prepared in all material respects in accordance with the applicable provisions.

The Group and Company Financial Statements of BMW AG for the year ended 31 December 2017 and the Combined Management Report – as authorised for issue by the Board of Management on 15 February 2018 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

The Auditor's Report has been signed since the financial year 2016 by Christian Sailer, as independent auditor (Wirtschaftsprüfer), and since the financial year 2014 by Andreas Feege, as independent auditor (Wirtschaftsprüfer) responsible for the performance of the engagement.

The financial statements for the financial year 2017, the Combined Management Report, the reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in a timely manner.

The Audit Committee closely examined and discussed these documents at a meeting held on 26 February 2018. The Audit Committee reviewed in detail the key audit matters raised in the auditor's report of the Company and Group Financial Statements and the related audit procedures performed by KPMG.

The Supervisory Board examined the relevant drafts of the Board of Management at its meeting on 8 March 2018, after hearing the committee chairman's report on the meeting of the Audit Committee. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives of the external auditor were present at both meetings. They reported on the main findings of their audit, explained the key audit matters in the audits of the Company and Group Financial Statements and answered additional questions of members of the Supervisory Board.

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 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 AktG, issued by the Board of Management and the Supervisory Board.

Based on thorough examination 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 full Supervisory Board, no objections were raised. The Group and Company Financial Statements of BMW AG for the financial year 2017 prepared by the Board of Management were approved at the Supervisory Board meeting held on 8 March 2018. The financial statements have therefore been adopted.

We also examined the proposal of the Board of Management to use the unappropriated profit to pay an increased dividend of €4.00 per share of common stock and €4.02 per share of non-voting preferred stock. We consider the proposal appropriate and have therefore approved it.

On presentation of the Sustainable Value Report, the Audit Committee and the Supervisory Board also reviewed the separate non-financial report of BMW AG (Company and Group) at 31 December 2017, which has been drawn up for the first time by the Board of Management. The audit firm PricewaterhouseCoopers GmbH has performed a "limited assurance" review of these reports and issued an unqualified opinion thereon. The documents were carefully examined by the Audit Committee at its meeting on 26 February 2018 and by the Supervisory Board at its meeting on 8 March 2018. The Board of Management gave a detailed explanation of the reports at both meetings. Representatives of the auditors attended both meetings, reported on significant findings and answered additional questions raised by the members of the Supervisory Board. The Supervisory Board acknowledged and approved the separate non-financial report (Company and Group) drawn up by the Board of Management.

Expression of appreciation by the Supervisory Board

We wish to express our appreciation to the members of the Board of Management and the entire workforce worldwide of the BMW Group for their joint efforts and hard work, which have contributed to the outstanding performance for the financial year 2017.

Munich, 8 March 2018

On behalf of the Supervisory Board

Yours


Norbert Reithofer
Chairman of the Supervisory Board