



Norbert Reithofer
Chairman of the Supervisory Board

Dear Shareholders,

In the course of 2018, our company had to tackle a variety of challenges within its business environment. However, we were able to master them and achieve a good result, despite the adversities. At the same time, the Group is systematically laying the foundations for long-term success going forward. The continuous expansion of our range of electrified vehicles is one good example of this strategy. Particularly in these times of fundamental change, the BMW Group maintains a leading position in the automotive industry, shaping technological transformation with determination, passion and professional excellence.

Monitoring and advisory activities of the Supervisory Board

In our capacity as Supervisory Board, we provided the Board of Management with in-depth advice on matters relating to the management and further development of the BMW Group and monitored the Board of Management's running of the business, both continuously and thoroughly. The full Supervisory Board met five times in the course of the year, including one two-day meeting, and on each occasion deliberated in detail with the Board of Management on the Group's performance. In addition to these meetings, the Board of Management provided us with information on matters of particular significance. Furthermore, the Chairman of the Supervisory Board was in frequent contact with the Chairman of the Board of Management, as was the Chairman of the Audit Committee with the Chief Financial Officer, in order to deal with current topics as they arose.

The Chairman of the Supervisory Board also held individual discussions with representatives of various investors as well as with a shareholders' association. Topics of these consultations included the treatment of strategy by the Supervisory Board, the involvement of the Supervisory Board in sustainability issues and the new compensation system for the Board of Management.

The work of the Supervisory Board focused in particular on the strategic development of the BMW Group's business models against the backdrop of digitalisation, drivetrain electrification and other key trends. We also debated exhaustively on the challenges posed by trade conflicts, the imminent Brexit crisis and supply distortions resulting from the difficulties encountered by some of our competitors in converting to the new European WLTP testing cycle.

In its regular reports on the BMW Group's current situation, the Board of Management provided us with information about new vehicle models, delivery volume trends and market developments in the Automotive and Motorcycles segments as well as new and total business volumes in the Financial Services segment, in each case highlighting any planning variances. The Board of Management also presented us with the latest workforce figures and reported on economic developments in key markets.

The status reports also included information on other current transactions and projects of key importance, which the Supervisory Board considered in detail. These topics included important cooperation projects such as the joint venture with Great Wall Motor, in particular regarding the production of all-electric MINI vehicles in China, the joint venture with Daimler in the field of mobility services and collaboration in the field of autonomous driving. The Supervisory Board also discussed the possible introduction of driving bans for certain diesel-powered vehicles in individual cities in Europe and the future prospects of diesel engines in general. Furthermore, the Board of Management reported on the temporary market disruptions caused by discount campaigns initiated by competitors in the run-up to the introduction of the new WLTP measurement procedures. It informed the Supervisory Board about the increased extent of statutory and non-statutory warranty measures as well as major vehicle recalls. International trade conflicts, trade risks and their impact on the BMW Group were repeatedly the subject of the status reports provided.

In addition to the status reports, the Supervisory Board focused on a number of specific areas in greater detail. For example, the Board of Management reported on the current status and strategy of Group financing. Further topics focused on were market developments and business performance in North America, in the course of which trade risks and financial challenges in the region were also addressed. Moreover, the Board of Management reported in detail on the current status of and the overall strategy regarding the BMW brand.

The Supervisory Board discussed the current situation and strategy regarding the Group's direct operations and joint ventures in China. In particular, the Board of Management described its plans to expand local production through the BMW Brilliance Automotive Ltd. joint venture (BBA) and its intention to increase its stake in BBA. The Supervisory Board supports the Board of Management's strategically significant plan to increase the BMW Group's stake in BBA's share capital by 25 percentage points to 75 % by 2022 and gave its approval for the transaction.

The Board of Management explained the current status of the customer ecosystem to the Supervisory Board and provided an outlook on the further development of the Digital Services and Mobility Services business fields. In the process, questions of data sovereignty and data security regarding data collected within the Group's vehicles were also a topic of debate. Furthermore, the Supervisory Board discussed the Group's global added value strategy across the production network and the criteria influencing the decision to locate the planned new production site in Eastern Europe.

The Supervisory Board held lengthy discussions with the Board of Management regarding the current status of the Strategy NUMBER ONE > NEXT and the decisions taken in previous months to implement it. In particular, the Board of Management discussed recent changes in the market environment (such as customs duty increases, restrictive trade policies and Brexit scenarios) and explained how the current strategy enables the BMW Group to respond to the respective challenges. Among other matters, strategies regarding the electrification of the product range, drivetrain technology and digitalisation as well as autonomous driving were presented in detail. The Supervisory Board emphatically supports the continued implementation of the Strategy NUMBER ONE > NEXT.

We also deliberated intensively on the BMW Group's forecasts for the period from 2019 to 2024. In this context, the Board of Management addressed the volatile nature of global economic and political conditions and their influence on planning. Risk scenarios and their possible effects on long-term planning were also presented. After thorough review, the Supervisory Board approved the BMW Group's long-term corporate plan. Based on this plan, the Board of Management presented the annual budget for the financial year 2019, which we also discussed at great length.

We also gave lengthy consideration to the business performance, risk situation and strategy of the Financial Services segment. The strategy for the further development of the MINI brand and cooperation with the Chinese company Great Wall Motor in this respect were also the subject of our deliberations. In addition, the Board of Management reported on the current status of diversity concepts for the Company.

The Supervisory Board examined the structure and the level of compensation paid to the members of the Board of Management. In this context, we took into account trends in business performance, executive manager compensation and the remuneration of the workforce in Germany over time. 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 Board of Management members is provided in the Compensation Report.

The new compensation system in place since the beginning of 2018 was approved by the Annual General Meeting in May 2018. The structure of compensation systems for members of the Board of Management and reporting thereon is currently the subject of draft amendments to the German Stock Corporation Act and the German Corporate Governance Code. For this reason, we have decided not to make any changes to the compensation system for the BMW Group's Board of Management decided on as recently as 2017, but to await the results of the above-mentioned reforms.

We also discussed 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 comply with all of the recommendations of the current version of the Code with only one exception (the use of model tables for Board of Management compensation). The wording of the Declaration of Compliance is shown in the Corporate Governance Report.

We also reviewed existing targets for the composition of the Supervisory Board and the competence profile set out for its members. We concluded that the composition of the Supervisory Board at 31 December 2018 was in line with the targets stipulated in the diversity concept, the competency profile and other composition targets. We have decided to continue using the competency profile and the targets for the composition of the Supervisory Board for the financial year 2019.

No conflicts of interest arose on the part of members of the 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, are examined on a quarterly basis.

We reviewed the efficiency of our work in the Supervisory Board, having prepared the related discussion at the full Supervisory Board meeting on the basis of a questionnaire. Overall, the work of the Supervisory Board was deemed efficient. No significant need for change was identified. Average attendance at the five Supervisory Board meetings was 94%. An individualised overview of attendance at meetings of the Supervisory Board and its committees for the financial year 2018 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 2018.

Description of Presiding Board activities and committee work

The Supervisory Board has established a Presiding Board and four committees. Committee chairpersons reported in detail on Presiding Board and committee work at the subsequent meetings of the full Supervisory Board. A detailed description of the duties, composition and working procedures of the Presiding Board and the committees is provided in the Corporate Governance Report.

The Presiding Board convened four times during the year under report. Assuming no committee was responsible, the focus of our activities was on preparing the detailed agenda for the meetings of the full Supervisory Board. Together with the Board of Management and senior heads of department, we prepared the various items on the agenda for Supervisory Board meetings in a thorough manner and made suggestions for reports to be submitted to the full Supervisory Board.

The Audit Committee held five meetings and three telephone conference calls during the financial year 2018. In the course of those conference calls, together with the Board of Management we examined and discussed the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present when discussing the Half-Year Financial Report.

The meeting of the Audit Committee held in February 2018 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 (KPMG) be re-elected as Company and Group auditor at the Annual General Meeting 2018, the Audit Committee obtained a Declaration of Independence from KPMG and, in this context, also considered the scope of non-audit services provided by KPMG entities to the BMW Group. There were no indications of conflicts of interest, grounds for exclusion or lack of independence on the part of the auditor.

The fees proposed by KPMG for the audits of the year-end Company and Group Financial Statements 2018 and for the review of the Half-Year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting held in May 2018, the Audit Committee therefore appointed KPMG for the relevant engagements and specified audit focus areas.

During the year under report, the Audit Committee again dealt intensively with the topic of compliance in the BMW Group. In his regular report, the Chairman of the Compliance Committee provided us with a summary of ongoing compliance-related proceedings. He also explained the results of a voluntary external audit of the BMW Group's compliance management system in the context of antitrust law with the aim of verifying its appropriateness. On this basis, the Compliance Committee submitted a concept to develop the Compliance Management System, which was confirmed by the Board of Management. The Audit Committee discussed the concept at length and supports the corresponding further development of the Compliance Management System.

The Committee received continuous and detailed information on the status of the internal investigations and the EU Commission's investigation into the antitrust allegations in connection with the former working groups of several German automobile manufacturers. A representative of the law firm engaged by the company also regularly took part in the discussions.

The Board of Management reported to the Audit Committee on engine control software for certain earlier model versions of two vehicle types, which, in the BMW Group's opinion, was originally developed correctly, but later fitted with a software module not intended for this type of vehicle. The BMW Group attributes the software error to a manual, human error in an update and not to a deliberate manipulation of the engine control and exhaust gas cleaning systems. The Board of Management also explained this process at the Annual General Meeting in 2018. The Public Prosecution Office Munich delivered a decision on 25 February 2019 regarding notice of a fine of €8.5 million due to a minor offence. The investigation of the Public Prosecution Office found no evidence of use of a deactivation device in emissions testing, fraud, or deliberate statutory violations. The Company has accepted the penalty.

Furthermore, the Audit Committee dealt with the main results of the audits conducted by Group Internal Audit and with further audit planning. The Audit Committee also discussed risk management and the assessment of current risks. Other topics included the internal control system, export control and the report on major legal disputes.

The Audit Committee continued to make preparations for the change in external auditor for the financial year 2019 in line with plan. It also regularly examined the non-audit services provided by the current auditor. An independent auditor engaged 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.

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 2014) by €521,500 and, in conjunction with the Employee Share Programme, to issue a corresponding number of new non-voting bearer shares of preferred stock.

The Personnel Committee convened four times during the financial year 2018 and held two telephone conferences. In particular, it dealt with the change in the Board of Management for the Purchasing and Supplier Network and prepared the relevant decisions of the Supervisory Board. The Personnel Committee also discussed issues relating to the compensation of the Board of Management and gave members of the Board of Management their approval to accept mandates outside the Group in a number of cases.

The Nomination Committee convened twice during the financial year 2018. At those meetings, we deliberated on succession planning for shareholder representatives and made recommendations for proposed nominations of candidates for election to the Supervisory Board at the Annual General Meetings 2018 and 2019, taking into account the composition targets previously decided upon by the Supervisory Board.

The Mediation Committee, which is prescribed by law, did not need to convene during the financial year 2018.

Composition of the Board of Management

Pieter Nota was appointed to the Board of Management with effect from 1 January 2018. He succeeded Dr Ian Robertson as member of the Board of Management responsible for Sales and Brand BMW, Aftersales BMW Group.

On 24 July 2018, the Supervisory Board resolved to revoke the appointment of Markus Duesmann as a member of the Board of Management and release him from his duties for the remaining term of his contract. Mr Duesmann had previously informed the Chairman of the Supervisory Board of his intention to move to the management board of a competitor. The Purchasing and Supplier Network headed by Mr Duesmann was temporarily taken over by Oliver Zipse, member of the Board of Management responsible for Production. With effect from 1 October 2018, the Supervisory Board appointed Dr Andreas Wendt to the Board of Management as member with responsibility for Purchasing and Supplier Network. Previously, he was head of the largest German BMW Group plant in Dingolfing.

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

Dr Robert Lane resigned from the Supervisory Board with effect from the end of the Annual General Meeting 2018. He resigned his mandate in mutual agreement with the Company. We wish to thank Dr Lane for his valuable contributions and steadfast cooperation during his nine years on the Supervisory Board. The Annual General Meeting elected the former Chairman of the Board of Management of BASF SE, Dr Kurt Bock, as new member of the Supervisory Board. The Supervisory Board members Professor Reinhard Hüttl, Dr Karl-Ludwig Kley and Professor Dr Renate Köcher were re-elected as members of the Supervisory Board.

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

Examination of financial statements and the profit distribution proposal

The Company and Group Financial Statements of the Company for the financial year 2018 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. KPMG also conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2018. The results of the review were presented to the Audit Committee by representatives of KPMG AG. 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 for the year ended 31 December 2018 and the Combined Management Report – as authorised for issue by the Board of Management on 19 February 2019 – were audited by KPMG AG 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 2018, 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 carefully examined and discussed these documents at its meeting held on 27 February 2019. 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 the independent auditor.

At its meeting held on 15 March 2019, the full Supervisory Board discussed in depth the draft of the Company and Group Financial Statements submitted by the Board of Management. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. 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 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 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 Section 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 BMW AG for the financial year 2018 prepared by the Board of Management were approved at the Supervisory Board meeting held on 15 March 2019. The financial statements have therefore been adopted.

The Supervisory Board also examined the proposal of the Board of Management to use the unappropriated profit to pay a dividend of €3.50 per share of common stock and €3.52 per share of non-voting preferred stock. We consider the proposal appropriate and have therefore approved it.

Furthermore, in conjunction with the presentation of the Sustainable Value Report, the Audit Committee and the Supervisory Board reviewed the separate non-financial report of BMW AG (Company and Group) at 31 December 2018, which has been drawn up by the Board of Management. The audit firm PricewaterhouseCoopers GmbH has performed a “limited assurance” review of these reports and issued an unqualified statement thereon. The documents were carefully examined by the Audit Committee at its meeting on 27 February 2019 and by the Supervisory Board at its meeting on 15 March 2019. The Board of Management provided an in-depth explanation of the reports at both meetings. Representatives of the auditors attended both meetings, reported on significant findings and answered additional questions raised by members of the Supervisory Board. The Supervisory Board acknowledged and approved the separate non-financial report (Company and Group) drawn up by the Management Board.

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 of the BMW Group worldwide for their dedication, their ideas and their achievements during the financial year 2018, which form the bedrock of the enduring success and sustainability of our Company – both now and in the future.

Munich, 15 March 2019

On behalf of the Supervisory Board

Yours


Norbert Reithofer
Chairman of the Supervisory Board