



**Norbert Reithofer**  
Chairman of the Supervisory Board

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## Dear Shareholders,

In 2016, BMW AG celebrated its 100th anniversary. Quite fittingly, the BMW Group finished its centenary year with record earnings. With its Strategy NUMBER ONE > NEXT, the BMW Group is moving forward with a sense of purpose into the challenging era of digitalisation and electrification and fully intends to continue playing an active role in shaping technological change within the automobile industry.

### **Main emphases of the Supervisory Board's monitoring and advisory activities**

Throughout the financial year 2016, we performed the duties incumbent on the Supervisory Board in accordance with the law and the Articles of Association. We continuously monitored the Board of Management's governance of the business and provided advice on important projects and plans.

One of the main areas of emphasis with regard to reporting and our consultations in 2016 was the enhanced development of the BMW Group's corporate strategy. We also deliberated at length on succession planning for the Board of Management. Corporate planning was a further key area of focus. We discussed the current performance and financial position of the BMW Group at each of our five Supervisory Board meetings.

We carefully monitored the overall performance of the BMW Group, both at scheduled meetings and at other times as the situation required. The Board of Management informed us of all key sales and workforce figures on a regular basis. The Chairman of the Board of Management informed me personally and in a prompt manner regarding all important transactions and key projects.

Similarly, Dr Karl-Ludwig Kley, the Chairman of the Audit Committee, and Dr Friedrich Eichiner, member of the Board of Management responsible for Finance, consulted on matters directly, both at scheduled meetings and as the need arose.

At the beginning of the year, the Board of Management presented us with a summary of new and revised vehicle models scheduled for market launch in 2016.

The Board of Management reported to us regularly and comprehensively on the BMW Group's financial condition, providing information on sales volume developments, market competition issues relevant for the Automotive and Motorcycles segments, and changes in the size of the workforce. It also kept us informed of economic developments in the world's key regions and the prospects for business in each of them. The Board of Management provided us with regular updates on new business with retail customers and business volumes in the Financial Services segment, including explanations of variances against the forecast.

In its regular business status reports, the Board of Management kept us well informed regarding the progress of important current projects and transactions, which we then deliberated upon in greater detail. For example, the Board of Management briefed us on the BMW Group's collaboration with Mobileye and Intel aimed at developing technologies for highly and fully automated driving. It also provided information on the planned joint venture with other automobile manufacturers to establish a charging infrastructure for electric vehicles that is compatible with every brand. Other items reported on included the complete acquisition of the parking space service provider ParkMobile and the enlargement of the group of shareholders for the HERE mapping service. The Board of Management also informed us on the impact of an earthquake in Japan on security of supply for certain components.

We reviewed business developments on various key markets in some depth, particularly those in China and the USA. The referendum held in the United Kingdom on the country leaving the European Union prompted us to obtain an assessment from the Board of Management regarding possible future consequences for the BMW Group.

The Board of Management kept us up-to-date at all times on the further development of the Group's corporate strategy. Based on a thorough analysis of the changing environment in which the BMW Group operates, the Board of Management set out the strategic targets of Strategy NUMBER ONE > NEXT, which is designed to reconcile the need to ensure operational excellence, invest in forward-looking areas and maintain profitability at a stable level. After the various presentations, we discussed individual points of strategy with the Board of Management, including digitalisation, electric mobility and lightweight construction.

One Supervisory Board meeting was held in Goodwood, England, the headquarters and location of the Rolls-Royce Motor Cars manufacturing plant. In the course of this meeting we dealt with several topics, including a Board of Management report on product quality and customer satisfaction. The Board of Management described various existing and planned emissions requirements on key markets and presented measures designed to ensure compliance with those requirements, including the further electrification of the BMW Group's fleet of vehicles. Furthermore, the Board of Management explained the strategy and risk management measures in place for Group financing. While visiting the Rolls-Royce manufacturing plant, we gathered information on topics such as the implementation of individual customer requirements as a way of optimising customer orientation.

Corporate strategy and long-term corporate planning were considered in a meeting held over two days. In the first part of the meeting we discussed the Strategy NUMBER ONE > NEXT in great detail, including the implementation measures developed by the Board of Management.

The Board of Management elaborated on topics that included the measures adopted for defined key areas of technology, such as Efficient Dynamics NEXT.

Together with the Board of Management, we also debated at length on the topic of digitalisation in sales and production and the related requirements. After thorough deliberation, the members of the Supervisory Board approved the Strategy NUMBER ONE > NEXT.

We also took the opportunity to personally test-drive a variety of series vehicles on a test track, including the current BMW plug-in hybrid vehicles and other individual models currently being developed. In addition, selected vehicle models were presented and explained to us. In this context, the new brand strategy, a key element of Strategy NUMBER ONE > NEXT, was considered at length.

On the second day of the meeting, we focused on the long-term corporate plan for the years 2017–2022. The Board of Management also took the opportunity to point out various risk scenarios, such as a possible further tightening of emissions regulations. The long-term plan was approved after exhaustive analysis and consultation. We urged the Board of Management to maintain close control over fixed costs and profitability in order to secure the necessary levels of future investment.

The Board of Management reported to us comprehensively on the performance, risk situation and business strategies of the Financial Services segment. It also provided information on the current status of regulatory proceedings involving a locally based financial services company.

Towards the end of the year under report, we studied the annual budget for the financial year 2017 presented to us by the Board of Management. We carefully reviewed the opportunities and risks attached to the budget and discussed them thoroughly with the Board of Management.

In both the Personnel Committee and the full Supervisory Board, we examined not only the structure, but also the amounts of compensation paid to the various members of the Board of Management. In this context, we reviewed trends in business performance and board compensation over a period of several years. We also gave general consideration to the remuneration paid to executive managers and employees of BMW AG within Germany over the course of time. A compensation consultant, independent of both the Board of Management and BMW AG, was called upon to provide expert advice and assist us in our evaluation of DAX-related compensation studies. We concluded that the level of compensation paid to board members, including their pension entitlements, is appropriate and in keeping with other DAX-listed companies. The Supervisory Board therefore resolved not to propose any changes to the system of Board of Management compensation in 2016. Further information on the amounts of compensation paid to the members of the Board of Management is provided in the Compensation Report (see section "Statement on Corporate Governance").

Together with the Board of Management, we undertook an in-depth review of the corporate governance standards currently in place within the BMW Group as well as the rules set out in the German Corporate Governance Code. The latest Declaration of Compliance, issued in December 2016, is included in the Annual Report.

We also discussed with the Board of Management the probable impact of technological changes on future workforce requirements. We were informed about the range of measures implemented to incorporate Strategy NUMBER ONE > NEXT in the BMW Group's corporate culture and brought up to date on activities aimed at attracting young talent. The Board of Management also provided details of actual and planned additions to the workforce in defined growth areas.

The Board of Management also reported on the latest status of the BMW Group's diversity concept. The report presented figures for the percentage of female executives in the BMW Group, in particular the proportions in the two executive management levels below the Board of Management, the targets set, and the latest status of these two levels.

We again decided upon a target for the proportion of female members on the Board of Management, including a time frame for target attainment. As its target for the period from 1 January 2017 to 31 December 2020, we stipulated that the Board of Management should continue to have at least one female member. We consider it a key aim to increase the proportion of women on the Board of Management and fully support the Board's endeavours to increase the percentage of women employed at the highest executive management levels within the BMW Group. Moreover, we developed a diversity concept for the composition of the Board of Management.

The composition targets for the Supervisory Board, which represent the basis for a diversity concept, were not changed during the financial year 2016. Compliance with the composition targets set for 31 December 2016 was determined by way of self-assessment.

No conflicts of interest arose on the part of members of either of the two boards 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.

The Supervisory Board also assessed the efficiency of its own work with the aim of further improving its internal procedures and the work of its committees. With this point in mind, I also conducted individual discussions with the members of the Supervisory Board. The matter was also considered at a meeting of the full Supervisory Board. Additional topics for report were identified as part of the overall conclusion reached.

Each of the five Supervisory Board meetings during the financial year 2016 was attended on average by over 90 % of its members, a fact that can be tied in to the analysis of attendance fees for individual members disclosed in the Compensation Report. During their term of office in the period under report, none of the members of the Supervisory Board took part in only half or less than half of the meetings of the Supervisory Board, the Presiding Board or the committees to which any given member belongs.

### **Description of Presiding Board activities and committee work**

The Supervisory Board has established a Presiding Board and four committees. The chairpersons of the various committees reported to the Supervisory Board in depth on any committee meetings held since the previous meeting of the full Supervisory Board. I brought the representatives of the shareholders up to date regarding the deliberations 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 four times during the year under report. Assuming no other committee was responsible, the Presiding Board prepared the detailed agenda for the meetings of the full Supervisory Board, including the careful preparation of topics on the basis of written and oral reports provided by members of the Board of Management and senior heads of department. We also stipulated further topics for full Supervisory Board meetings and made suggestions for reports submitted to the Supervisory Board.

The Audit Committee held four meetings and three telephone conference calls during the financial year 2016. In the course of those conference calls, together with the Board of Management we deliberated on the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present during the telephone conference call held in conjunction with the Half-year Financial Report.

The Audit Committee Meeting held in spring 2016 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 2016, we obtained a Declaration of Independence from KPMG AG Wirtschaftsprüfungsgesellschaft. We also considered the scope and composition of non-audit services, including tax advisory 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 fee proposals for the audit of the year-end Company and Group Financial Statements 2016 and the review of the Half-year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting 2016, we therefore appointed KPMG AG Wirtschaftsprüfungsgesellschaft for the relevant engagements and specified audit focus areas.

As in previous years, the Head of Group Controlling reported during the financial year 2016 on the current risk profile of the BMW Group and provided an overview of the changes made to the risk management system in view of new internal and external requirements.

The Head of Group Financial Reporting informed us about the internal control system (ICS) underlying financial reporting and explained measures being taken to develop the system further. No material ICS weaknesses were identified which would jeopardise the system's effectiveness.

The BMW Group Compliance Committee chairman provided information on the current status of compliance within the Group as well as changes in the BMW Group Compliance Organisation aimed at strengthening local compliance management, including the next steps to be taken in this area.

The Head of Group Internal Audit reported on internal audit matters, including a description of the significant internal audit findings and the planned areas of focus on the industrial and financial services sides of the business.

On repeated occasions, the Audit Committee dealt with the new requirements for financial year-end audits, particularly the rules applying to non-audit-related services provided by the auditor and the procedure for changing the external auditor. In accordance with statutory requirements, we approved a list of non-audit-related services that may be provided by the external auditor. Furthermore, we performed our statutory duties in connection with the mandatory audit of over-the-counter trading with derivatives pursuant to § 20 of the Securities Trading Act (WpHG). An external auditor confirmed the effectiveness of the system that BMW AG currently employs to ensure compliance with regulatory requirements. Furthermore, in the Audit Committee we concurred with 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 €305,000 and, in conjunction with the Employee Share Programme, 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 five times during the financial year 2016. One of the principal duties of this committee is to prepare decisions of the full Supervisory Board relating to the composition of the Board of Management. In specific cases, we also gave our approval for members of the Board of Management to accept non-BMW Group mandates.

The Nomination Committee convened twice during the financial year 2016. At these meetings, we deliberated on succession planning for mandates of the shareholders' representatives and, taking account of the composition targets set, made one recommendation for a proposed nomination of a candidate for election at the Annual General Meeting 2017.

The statutory Mediation Committee was not required to convene during the financial year 2016.

### **Composition and organisation of the Board of Management**

During the period under report, the composition of the Board of Management changed as part of the process of amicably agreed succession planning.

With effect from 1 October 2016, the Supervisory Board appointed Markus Duesman as member of the Board of Management. Mr Duesmann has many years of management experience in the automobile industry and has been with BMW AG since 2007. Most recently, he was head of powertrain and the related process chain within the development area. Mr Duesmann took over board responsibility for the Purchasing and Supplier Network from Dr Klaus Draeger, whose mandate ended on 30 September 2016.

With effect from 1 January 2017, we appointed Dr Nicolas Peter as member of the Board of Management. Dr Peter joined BMW AG in 1991 and most recently worked as head of the European sales region. He took over board responsibility for Finances from Dr Friedrich Eichiner, who retired from the Board of Management with effect from the end of 2016.

We would like to extend our special thanks to Dr Draeger and Dr Eichiner for their many years of dedicated work in the interests of the BMW Group, both in highly successful years and during the challenging period of the global financial and economic crisis. We equally wish to thank them for their personal contribution to the BMW Group's long-term success.

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

In 2016, the Annual General Meeting re-elected Simone Menne to the Supervisory Board for a term of five years. Ulrich Kranz resigned his mandate as executive staff representative with effect from the end of 2016. As elected substitute member, Ralf Hattler became a member of the Supervisory Board with effect from 1 January 2017. We thank Mr Kranz for the trusting and constructive working relationship within the Supervisory Board.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year 2016. 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**

KPMG AG Wirtschaftsprüfungsgesellschaft conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2016. 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 Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2016 and the Combined Management Report – as authorised for issue by the Board of Management on 14 February 2017 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

KPMG AG Wirtschaftsprüfungsgesellschaft is the external auditor for BMW AG and the BMW Group. The Auditor's Report has been signed with effect from the financial year 2016 by Christian Sailer, as independent auditor (Wirtschaftsprüfer), and with effect from the financial year 2014 by Andreas Feege, as independent auditor (Wirtschaftsprüfer), responsible for the performance of the engagement.

The Financial Statements and the Combined Management Report, the long-form audit 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.

In a first step, the Audit Committee diligently examined and discussed these documents at a meeting held on 24 February 2017. The Supervisory Board subsequently examined the relevant drafts of the Board of Management at its meeting on 9 March 2017, 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 auditors attended both meetings, reported on significant findings and answered any additional questions raised by the members of the Supervisory Board. They confirmed that the risk management system established by the Board of Management is capable of identifying developments at an early stage that might impair the Company's going-concern status. They also confirmed that no material weaknesses in the internal control system and risk management system were found with regard to the financial reporting process. Similarly, they confirmed that they had not identified any issues in the course of their audit work that were inconsistent with the contents of the Declaration of Compliance issued jointly by the two boards.

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 Bayerische Motoren Werke Aktiengesellschaft for the financial year 2016 prepared by the Board of Management were approved at the Supervisory Board meeting held on 9 March 2017. The separate 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 €3.50 per share of common stock and €3.52 per share of non-voting preferred stock. We consider the proposal appropriate and therefore concur with it.

### **Expression of appreciation by the Supervisory Board**

The Supervisory Board wishes to thank the members of the Board of Management and the entire staff of the BMW Group worldwide for their efforts and hard work, which contributed to the overall success of the BMW Group in its centenary year.

### **Pro-actively shaping change**

The Group corporate culture, the spirit of innovation, and the passionate commitment of our workforce provide a strong foundation for taking on the challenges of the future. Building on this firm base, the BMW Group will continue to play a formative and leading role in shaping technological change, with the clear aim of emerging on the winning side.

Munich, 9 March 2017

On behalf of the Supervisory Board

Yours  


**Norbert Reithofer**  
Chairman of the Supervisory Board