

REPORT OF THE SUPERVISORY BOARD

The excellent collective performance of the BMW Group gives the **SUPERVISORY BOARD** confidence as we go into 2021.



Norbert Reithofer
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

We look back on 2020 as an exceptionally challenging year, dominated as it was by the impact of the coronavirus pandemic. The year unfolded very differently from the way we had anticipated at the end of 2019. Nevertheless, despite the challenging conditions, the BMW Group remained focused on its targets and pressed ahead with its future-oriented projects. Thanks to resolute crisis management and rigorous digital teamwork at all levels, the BMW Group achieved a respectable result for the year, with deliveries to customers in the fourth quarter at their highest level to date. This excellent collective performance gives us confidence as we go into 2021. Sustainable, digitalised mobility, combined with an outstanding overall customer experience, are the key supporting pillars of the BMW Group's corporate strategy. As a pioneer of new technologies and champion of sustainability in economic, social and ecological terms, the BMW Group will continue on its transformational journey to becoming a tech company, thereby strengthening its position in the premium segment in the process.

Focus of Supervisory Board activities during the past financial year

The Supervisory Board performed the duties incumbent upon it with the utmost diligence in 2020, rigorously monitoring the management of the BMW Group in a conscientious manner. It also advised the Board of Management on matters relating to the leadership and strategic evolution of the company. In five meetings of the full Supervisory Board – all lasting significantly longer than usual due to the circumstances and including one two-day meeting – together with the Board of Management we deliberated in great detail on the operating performance of the BMW Group. The Board of Management also kept the Supervisory Board informed of any matters of significance outside the framework of formal meetings as the need arose. In addition, the Chairmen of the Supervisory Board and the Board of Management engaged in direct dialogue on current issues, as did the Chairman of the Audit Committee and the Board of Management member responsible for Finance. Conference calls were also held between the Members of the Board of Management, the Board of Management member responsible for Finance, the Chairman of the Supervisory Board and the Chairman of the Audit Committee as a supplementary measure.

The Board of Management's regular reports on the Group's current performance were dominated by pandemic-related matters during the year under report. In view of the rapid spread of coronavirus in the spring, additional meetings of the Audit

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Committee and the Presiding Board were scheduled to facilitate the monitoring of production, sales and liquidity developments in a prompt manner. The Board of Management kept us constantly informed regarding the impact of the pandemic on the BMW Group's business performance, providing up-to-date status reports on sales, production, liquidity and the Financial Services segment. Information on vehicle deliveries to customers was separately analysed by market and model, focusing particularly on the electrified variants. The reports also dealt with the competitive situation in general and the development of new business and transaction volume as well as the risk situation in the Financial Services segment. The Board of Management pointed out deviations from the original forecast and presented measures to mitigate the impact of the pandemic. It also outlined potential developments based on a range of possible scenarios. The size of the workforce and the attainment of the decarbonisation targets set out by the EU Commission were also a subject of discussion.

Furthermore, the Board of Management provided us with information on a number of important current topics, including the opening of the Competence Centre for electric drivetrain production in Dingolfing and BMW Brilliance Automotive's second battery centre in China as well as the new communication concept for the futuristic technology showcase #NEXT Gen 2020, which was held virtually for the first time. The reports also addressed the topics of product quality and the progress of the HERE joint venture.

The Supervisory Board deliberated in depth on the BMW Group's evolving corporate strategy, which is now clearly focused on the progressive transformation of its drivetrain technology towards electric mobility. The Board of Management outlined to us the renewed production network strategy, which is based on converting the Munich plant to assemble the new vehicle architecture and the planned cluster architecture at the BMW Group plant in Hungary. As a core component of the BMW Group's overarching corporate strategy, we also took an in-depth look at the sustainability aspect, which is embedded at every stage along the supply chain, the production process and the entire life cycle of our products.

The Supervisory Board also deliberated at length on important issues arising within the Board of Management's various key areas of responsibility. Purchasing, for instance, reported on the status of the supply chain and the purchasing strategy regarding raw materials for electric mobility. The Board of Management member responsible for Finance gave a talk on the Group's financing system, focusing in particular on liquidity management and financial market risk management. When reporting on the Financial

Services segment, the main focus was on strategy as well as business performance and the risk situation. We also analysed the BMW Group's strategic cooperations in great detail, particularly the further course of the "Your Now" joint venture strategy and the market situation in China.

In light of the coronavirus pandemic and the accompanying restrictions on events involving large numbers of people, in early April we agreed that the 2020 Annual General Meeting should be held as a virtual event without the physical presence of shareholders.

An important topic for the Supervisory Board in 2020 was the revision of the Board of Management's remuneration system for the financial years 2021 and beyond, in line with the new version of the German Corporate Governance Code. After the Personnel Committee had completed the initial groundwork, in the third quarter we intensively discussed proposals for a new remuneration concept with the help of an independent remuneration consultant. On this basis, in December we worked through the details of the revised remuneration system, focusing in particular on setting targets for the variable remuneration components. The Supervisory Board finally passed a resolution approving the new remuneration system, including a standardised service agreement, new target remuneration levels and total remuneration caps.

The Supervisory Board reviewed the structure and level of Board of Management remuneration for the financial year 2020, whilst also taking into account the BMW Group's business performance in 2020. The salaries of senior executives and employees within Germany as a whole were also taken into account. After analysing comparative studies provided by an external remuneration consultant, we concluded that the remuneration of Board of Management members is appropriate. Detailed information on the remuneration of the Board of Management is provided in the Remuneration Report.

The change to the system of Board of Management remuneration was also the focus of one-on-one discussions between myself and investor representatives concerning Supervisory-Board-related issues, including the question of the independence of Supervisory Board members.

In the third quarter, the Supervisory Board devoted a great deal of time to examining the BMW Group's revised forecast for the period from 2021 to 2026. The Board of Management outlined the fundamental changes made to mitigate the impact of the coronavirus pandemic compared with the forecast presented one year earlier as well as the ambitious long-term targets in the forecast. It also pointed out the higher degree of volatility and uncertainty in terms of external framework conditions, whilst reiterating the aim of achieving continuous overall growth, particularly in the field of electric mobility. After thorough examination, the Supervisory Board approved the BMW Group's long-term corporate plan.

At the final meeting held in 2020, the Board of Management presented the annual budget for corporate development in the financial year 2021 and discussed it in exhaustive detail with the Supervisory Board.

With the advance of digitalisation, data protection and cybersecurity are becoming increasingly important issues. For this reason, we requested a report on the current status from the Board of Management.

We also discussed the topic of diversity at considerable length. The Board of Management reported on the current status of the diversity concepts developed by the Group and the target achievement at various levels as well as future targets. As its target for the proportion of women on the Board of Management from 1 January 2021 to 31 December 2025, the Supervisory Board has stipulated that the Board of Management should continue to include at least one female member.

The Supervisory Board's agenda also included a number of internal issues during the year under report. For example, the Supervisory Board updated its rules of procedure and published them online in accordance with the recommendation of the revised German Corporate Governance Code. At the Supervisory Board meeting held in March, we also discussed the results of our annual efficiency self-assessment in detail. The Supervisory Board has also benefited from advances in digitalisation, a key element of our corporate strategy, by setting up a digital boardroom to improve the flow of information. Due to coronavirus-related restrictions, beginning in the spring, the meetings themselves were held as face-to-face events with digital participation offered to enable all members to attend.

The main focus of
SUPERVISORY BOARD
WORK was on the continued
development of corporate
strategy, particularly the
expansion of electric mobility.

We also discussed corporate governance standards at the BMW Group. Based on a self-assessment, we concluded that the composition of the Supervisory Board at 31 December 2020 was in line with the targets stipulated in the diversity concept, the competency profile and other composition targets. We updated the competency profile and broadened the definition of the various areas of expertise. An overview showing each individual Supervisory Board member's areas of expertise is provided in the Statement of Corporate Governance on our website.

In December, the Board of Management and the Supervisory Board issued their Declaration of Compliance with the German Corporate Governance Code. We will comply with the recommendations of the Code as amended on 16 December 2019 without exception. The wording of the Declaration of Compliance can be found in the Statement of Corporate Governance on our website.

The Supervisory Board took part in a variety of further training measures in 2020. In July, for instance, we visited the BMW Autonomous Driving Campus in Unterschleißheim near Munich and discussed the topic of automated driving at great length through several presentations. The presentation held by an external expert on artificial intelligence gave us additional food for thought on the importance of software for the future of the automotive industry, which we then explored in greater depth in a subsequent discussion. In September, the Supervisory Board attended a workshop on drivetrain technology at the BMW and MINI Driving Academy in Maisach near Munich, including a driving session.

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

We reviewed the efficiency of our work in the Supervisory Board by completing a revised and expanded questionnaire as well as holding supplementary discussions with the Chairman. Overall, there is a high degree of satisfaction with the work of the Supervisory Board. Cooperation, both within the Supervisory Board itself and with the Board of Management, was unanimously assessed as being constructive and trusting. However, we intend to discuss suggestions for improving individual aspects of cooperation in the new financial year.

**Sustainability is at the heart
of the BMW Group's broader
strategy, encompassing
all relevant aspects, from the
supply chain to production
and the product life cycle.**

Description of Presiding Board activities and committee work

The Supervisory Board has established a Presiding Board and four committees. The chairpersons of these two bodies reported in detail on the work of their committees at each subsequent Supervisory Board meeting. You can read more about the duties, the composition and the working methods of the Presiding Board and various other Supervisory Board committees in the Statement of Corporate Governance on our website.

Due to the exceptional challenges of the past financial year caused by the coronavirus pandemic, the Presiding Board and the Audit Committee intensified their work in order to fulfil their duties in a suitable manner. Additional meetings were held to provide the Presiding Board with prompt information on the current status of sales and production and the Audit Committee with information on liquidity and the Financial Services business.

The **Presiding Board** held six meetings and one conference call during the financial year 2020. Together with the Board of Management and senior heads of department, we prepared the detailed agenda of full Supervisory Board meetings (unless a committee was responsible for doing so) and made suggestions for topics to be reported on at Supervisory Board meetings.

The **Audit Committee** held seven meetings and three conference calls during the year under report.

The meetings held in February and March 2020 focused primarily on preparing the Supervisory Board meeting at which the financial statements for the financial year 2019 were to be discussed and examined. After obtaining the auditor's Declaration of Independence, the Audit Committee recommended to the full Supervisory Board that PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") be proposed for election as auditor at the 2020 Annual General Meeting. 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 audits of the year-end Company and Group Financial Statements 2020 and the review of the Half-Year Financial Report and deemed it appropriate. Following approval by the Annual General Meeting held in May 2020, 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 quality of the audit was a subject of discussion at the Supervisory Board meetings held in February and June. The Board concluded that the audit was of good quality.

The Board of Management presented us with the Sustainable Value Report as well as the separate combined non-financial report of BMW AG and the BMW Group for the financial year 2019. Moreover, the representatives of PwC presented the findings of their review, which had been performed as a "limited assurance" engagement.

At our meetings we also discussed preparations for the new Integrated Group Report and the procedural changes required with regard to reporting and the external audit. We decided that the non-financial (Group) statement should again be reviewed by PwC in the form of a "limited assurance" engagement.

We also discussed the quarterly statement 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 beginning of August 2020.

The Audit Committee again dealt intensively with the topic of compliance within the BMW Group during the year under report. In his regular report, the Chairman of the Compliance Committee provided a summary of ongoing compliance-related proceedings and presented a raft of measures aimed at promoting the continuous improvement of the compliance system. The Head of Corporate Quality also reported on the subject of technical compliance. The relevant head of department also presented the Supervisory Board a description of tax and customs compliance management.

Furthermore, the Audit Committee regularly discussed the status of the EU Commission's investigation into the antitrust allegations connected with the former working groups of several German automobile manufacturers and was provided with updates from the Board of Management regarding the potential further course of proceedings.

In relation to proceedings initiated by the German Federal Cartel Office and terminated in 2019 with a fine of €28 million regarding the purchase of long steel by the BMW Group, the Supervisory Board addressed the question of whether it had a duty to act on this matter. The Supervisory Board sought counsel from external lawyers in order to obtain legal certainty. On the recommendation of the Audit Committee and after carefully considering the advantages and disadvantages for the BMW Group, based

on an expert legal opinion and oral explanations, the Supervisory Board decided not to assert any claims for damages against current or former members of the Board of Management of BMW AG in connection with the fine imposed by the German Federal Cartel Office on 21 November 2019.

In addition, the main findings of internal audits conducted by Corporate Audit as well as details of advance audit planning were reported to the Audit Committee. We discussed the effectiveness of the BMW Group's current risk profile and risk management system on several occasions, including ongoing measures to improve the internal control system on a continuous basis.

The Audit Committee was regularly provided with detailed information regarding major legal disputes and proceedings. These included, in particular, an investigation initiated in December 2019 by the US Securities and Exchange Commission (SEC) into possible violations of US securities laws in relation to the reporting of vehicle delivery figures in the USA. The case was concluded in September 2020 with a settlement of 18 million US dollars.

Our agenda also included considering an audit report relating to the European Market Infrastructure Regulation (EMIR). In this context, the independent auditor confirmed the effectiveness of the system currently applied by BMW AG to ensure compliance with the 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 2019) by €822,000 and issue a corresponding number of new non-voting bearer shares of preferred stock in conjunction with the Employee Share Programme.

The **SUPERVISORY BOARD**
and the **BOARD OF**
MANAGEMENT will comply
with the recommendations
of the German Corporate
Governance Code without
exception.

The **Personnel Committee** focused primarily on the topic of Board of Management remuneration. In its five meetings during the year under report, the Personnel Committee reviewed the appropriateness of the Board of Management's remuneration for the financial year 2019, duly taking the impact of the coronavirus pandemic into account. During the second half of the year, the Committee focused on revising the remuneration system for Board of Management members. The Personnel Committee also performed the groundwork for the full Supervisory Board to appoint a Board of Management member responsible for Development and granted approval for members of the Board of Management to assume mandates outside the Group in exceptional cases.

The **Nomination Committee** convened twice during the financial year 2020. Taking into account the German Corporate Governance Code (DGCC) and the composition requirements adopted by the Supervisory Board, the Nomination Committee addressed the issue of potential replacements for shareholder representatives on the Supervisory Board in the coming years.

The Mediation Committee, which is prescribed by law, did not need to convene during the financial year 2020.

Composition of the Board of Management

With effect from 1 July 2020, Klaus Fröhlich retired from his position as Board of Management member responsible for Development. We would like to thank Mr Fröhlich for his many years of successful and effective work for BMW AG and particularly wish to express our appreciation for the momentum he generated over a 30-year period in advancing the BMW Group's role as a pioneer of new technologies.

The Supervisory Board appointed Frank Weber to the Board of Management as his successor with effect from 1 July 2020. Mr Weber joined the BMW Group in 2011 as Head of Total Vehicle Development and was most recently responsible for the Rolls-Royce product line as well as the BMW luxury class. In light of the various management positions he has previously held in development, Mr Weber is excellently qualified to assume responsibility for Development at the BMW Group and we certainly wish him all the best in his new role.

The Supervisory Board extended the mandate of one Board of Management member during the year under report.

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

Prof. Renate Köcher left the Supervisory Board with effect from the end of the Annual General Meeting 2020. We would like to thank Prof. Köcher for her many years of constructive work and faithful cooperation while serving on the Supervisory Board. The Annual General Meeting elected Anke Schäferkordt as a new member of the Supervisory Board. Ms Schäferkordt has a wealth of knowledge and experience in the field of communication and media, and, in her capacity as an independent financial expert, ideally complements the Supervisory Board's overall composition. The Annual General Meeting re-elected me as a member of the Supervisory Board and I was again elected Chairman at the subsequent meeting of the Supervisory Board.

In view of the considerable length of time he has been a member of the Supervisory Board and mindful of the Supervisory Board's efforts to appoint an independent chairperson to the Audit Committee as defined in the German Corporate Governance Code, Dr Karl-Ludwig Kley resigned his membership and chairmanship of the Audit Committee with effect from the end of the 2020 Annual General Meeting. We wish to thank Dr Kley for his many years of knowledgeable and committed leadership of the Audit Committee and are delighted that he will continue to contribute his expertise as a member of the Supervisory Board. Dr Kurt Bock was subsequently elected as member and Chairman of the Audit Committee. Dr Bock has been a member of the Supervisory Board since 2018 and, as a former long-serving Chief Financial Officer and Chairman of the Board of Executive Directors of BASF SE, has a great deal of expertise in the fields of accounting, financial reporting and auditing. An overview of the composition of the Supervisory Board and its committees is provided both [in this report](#) and in the separate Statement on Corporate Governance, which is available on our website together with the curricula vitae of Supervisory Board members.

Disclosure of attendance at meetings by individual members

The attendance rate at the meetings of the Supervisory Board, its committees and the Presiding Board was over 99%. The table below shows attendance by individual member:

Supervisory Board Member	Meetings	Attendance	Attendance in %
Dr.-Ing. Norbert Reithofer	29	29	100
Manfred Schoch	27	27	100
Stefan Quandt	29	29	100
Stefan Schmid	27	27	100
Dr. Karl-Ludwig Kley	24	24	100
Dr. Kurt Bock	10	10	100
Christiane Benner	5	5	100
Verena zu Dohna-Jaeger	5	5	100
Dr.-Ing. Heinrich Hiesinger	5	5	100
Prof. Dr. Reinhard Hüttl	5	5	100
Susanne Klatten	7	7	100
Prof. Dr. Renate Köcher ¹	1	1	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
Anke Schäferkordt ²	4	4	100
Dr. Vishal Sikka	5	4	80
Dr. Thomas Wittig	5	5	100
Werner Zierer	5	5	100

¹ Supervisory Board Member until 14 May 2020.

² Supervisory Board Member since 14 May 2020.

Examination of financial statements and the profit distribution proposal

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") was appointed as external auditor for the financial year 2020. PwC conducted a review of the condensed Interim Group Financial Statements and the Interim Group Management Report for the six-month period ended 30 June 2020 and presented its findings 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, for the second time, audited the Company and Group Financial Statements for the financial year 2020 as well as the Combined Management Report, including the Statement on Corporate Governance for the financial year 2020 – in each case authorised for issue by the Board of Management on 9 March 2021 – and issued an unqualified audit opinion, signed for the second year in succession 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 26 February 2021, the Audit Committee initially considered in detail the preliminary version of the Company and Group Financial Statements, the Combined Management Report (including the Combined Non-financial (Group) Statement), the Statement of Corporate Governance, the draft versions of the auditor's reports and the Board of Management's proposal for the appropriation of profit.

Immediately after authorising their issue, the Board of Management submitted the Company and Group Financial Statements for the financial year 2020 and the Combined Management Report (including the Combined Non-financial (Group) Statement), the Statement of Corporate Governance and the proposal for the appropriation of profit to the Supervisory Board. The auditor's long-form audit reports were also made available to the Supervisory Board in a prompt manner.

At its meeting on 10 March 2021, the Audit Committee diligently examined and deliberated on these documents before they were considered in detail at the plenary session of the Supervisory Board on 11 March 2021.

At the two respective meetings, the Board of Management provided the Audit Committee and the Supervisory Board with detailed explanations of the financial reports presented. The representatives of the external auditor present at the meetings reported on the main findings of their audit and answered additional questions put by members of the Audit Committee and the Supervisory Board. The focus of these meetings was on key audit matters as well as the related audit procedures, which were discussed at length by the Audit Committee and 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 also confirmed that no material weaknesses in the internal control system and risk management system were identified with regard to the financial reporting process. Similarly, in the course of their audit work they did not identify any facts 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 by the Audit Committee and the Supervisory Board after the examination, no objections were raised. The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2020 drawn by the Board of Management were subsequently approved at our meeting held on 11 March 2021. The Company Financial Statements for the year ended 31 December 2020 have therefore been adopted.

We also examined the proposal of the Board of Management to use the unappropriated profit to pay a dividend of €1.90 per share of common stock and €1.92 per share of non-voting preferred stock, in each case on shares entitled to receive a dividend. We considered the proposal appropriate and therefore gave it our approval.

The Audit Committee and the Supervisory Board also considered at length the combined Non-financial (Group) Statement for the year ended 31 December 2020, which was drawn up by the Board of Management for the first time as part of the Integrated Group Report. The Board of Management provided an in-depth explanation of the statement during the relevant meetings. Representatives of the external auditor presented key findings of their audit and answered additional questions posed

by the members of the Supervisory Board. The "limited assurance" audit performed by PwC received an unqualified opinion, which was duly signed by Andreas Fell as independent auditor (Wirtschaftsprüfer) and by Nicolette Behncke as independent auditor (Wirtschaftsprüferin). The Supervisory Board acknowledged and approved the combined Non-financial (Group) Statement drawn up by the Board of Management.

Expression of appreciation by the Supervisory Board

We would like to express our special thanks to the members of the Board of Management and the entire workforce of the BMW Group worldwide for their remarkable achievements in the financial year 2020. Their outstanding degree of motivation, adaptability and strong team spirit made this result possible, despite the extremely difficult conditions.

We are confident that the Board of Management and the employees of the BMW Group, with their courage and willingness to adapt, will ensure your company a leading position in the field of sustainable and digitalised mobility going forward.

Munich, March 2021

On behalf of the Supervisory Board

Yours


NORBERT REITHOFER

Chairman of the Supervisory Board