
CORPORATE GOVERNANCE

- Page 190 **Statement on Corporate Governance (§289a HGB)
(Part of the Combined Management Report)**
- Page 190 **Information on the Company's Governing Constitution**
- Page 191 **Declaration of the Board of Management and
of the Supervisory Board pursuant to § 161 AktG**
- Page 192 **Members of the Board of Management**
- Page 193 **Members of the Supervisory Board**
- Page 196 **Composition and Work Procedures of the Board of Management
of BMW AG and its Committees**
- Page 198 **Composition and Work Procedures of the Supervisory Board
of BMW AG and its Committees**
- Page 204 **Disclosures pursuant to the Act on Equal Gender Participation**
- Page 205 **Information on Corporate Governance
Practices Applied beyond Mandatory Requirements**
- Page 207 **Compliance in the BMW Group**
- Page 212 **Compensation Report**

- Page 223 **Responsibility Statement by the Company's
Legal Representatives**

- Page 224 **BMW Group Auditor's Report**

4

4

**Corporate
Governance**

Company's Govern-
ing Constitution
Board of
Management
Supervisory Board
Compliance
Compensation
Report

STATEMENT ON CORPORATE GOVERNANCE

Good corporate governance – acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis – is an essential requirement for the BMW Group embracing all areas of the business. Corporate culture within the BMW Group is founded on transparent reporting and communication, corporate governance in the interest of all stakeholders, fair and open cooperation between the Board of Management and the Supervisory Board as well as among employees, and compliance with existing laws. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to §§ 289, 315 (5) HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution

The designation “BMW Group” comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) based on the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and authorities of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation and specified capital measures, and elects the shareholders’ representatives to the Supervisory Board. The Board of Management manages the enterprise under its own responsibility. Within this framework, it is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, at any time, revoke an appointment for important reasons. The Board of Management keeps the Supervisory Board informed of all significant matters regularly, promptly and comprehensively, following the principles of conscientious and faithful accountability and in accordance with prevailing law and the reporting duties allocated to it by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major transactions. The Supervisory Board is not, however, authorised to undertake management measures itself.

The close interaction between Board of Management and Supervisory Board in the interests of the enterprise as described above is also known as a “two-tier board structure”.

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the “Government Commission on the German Corporate Governance Code” pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft (“BMW AG”) declare the following regarding the recommendations of the “Government Commission on the German Corporate Governance Code”:

1. Since issuance of the last Declaration in December 2015, BMW AG has complied with all of the recommendations published officially on 12 June 2015 in the Federal Gazette (Code version dated 5 May 2015), as announced with the exception of section 4.2.5 sentences 5 and 6.
2. BMW AG will in future comply with all of the recommendations published officially on 12 June 2015 in the Federal Gazette (Code version dated 5 May 2015), with the exception of section 4.2.5 sentences 5 and 6.
3. It is recommended in section 4.2.5 sentences 5 and 6 of the Code that specified information pertaining to management board compensation be disclosed in the Compensation Report. These recommendations have not been and will not be complied with, due to uncertainties with respect to their interpretation and doubts as to whether the supplementary use of model tables would be instrumental in making the BMW AG’s Compensation Report transparent and generally understandable in accordance with generally applicable financial reporting requirements (see section 4.2.5 sentence 3 of the Code).

Munich, December 2016

Bayerische Motoren Werke
Aktiengesellschaft

On behalf of the
Supervisory Board

Dr.-Ing. Dr.-Ing. E. h.
Norbert Reithofer
Chairman

On behalf of the
Board of Management

Harald Krüger
Chairman

MEMBERS OF THE BOARD OF MANAGEMENT

Harald Krüger (*1965)

Chairman

Milagros Caiña Carreiro-Andree (*1962)

Human Resources, Industrial Relations Director

Dr.-Ing. Klaus Draeger (*1956)

Purchasing and Supplier Network
(until 30 September 2016)

Mandates

— TÜV SÜD AG (since 15 July 2016)

Markus Duesmann (*1969)

Purchasing and Supplier Network
(since 1 October 2016)

Mandates

— BMW Motoren GmbH (until 7 November 2016)

Dr. Friedrich Eichiner (*1955)

Finance
(until 31 December 2016)

Mandates

— Allianz Deutschland AG (until 30 June 2016)

— Allianz SE (since 4 May 2016)

— FESTO Aktiengesellschaft

— BMW Brilliance Automotive Ltd.
(Deputy Chairman, until 1 January 2017)

— FESTO Management Aktiengesellschaft

Klaus Fröhlich (*1960)

Development

Mandates

— HERE International B.V.

Dr. Nicolas Peter (*1962)

Finance

(since 1 January 2017)

Mandates

— BMW Brilliance Automotive Ltd.

(Deputy Chairman, since 1 January 2017)

Dr. Ian Robertson (HonDSc) (*1958)

Sales and Marketing BMW,
Sales Channels BMW Group

Mandates

— Weybourne Limited (since 3 January 2017)

— Weybourne Group Limited (since 25 February 2016)

— Weybourne Investments Holdings
(since 25 February 2016)

— Weybourne Management Limited
(since 25 February 2016)

Peter Schwarzenbauer (*1959)

MINI, Motorrad, Rolls-Royce,
Aftersales BMW Group

Mandates

— Rolls-Royce Motor Cars Limited (Chairman)

Oliver Zipse (*1964)

Production

Mandates

— BMW (South Africa) (Pty) Ltd. (Chairman)

— BMW Motoren GmbH (Chairman)

General Counsel:

Dr. Jürgen Reul

— Membership of other statutory supervisory boards.

— Membership of equivalent national or foreign boards of business enterprises.

- - - Other mandates.

MEMBERS OF THE SUPERVISORY BOARD

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer (*1956)

Member since 2015

Chairman

Former Chairman of the Board of
Management of BMW AG

Mandates

- Siemens Aktiengesellschaft
- Henkel AG & Co. KGaA (Shareholders' Committee)

Manfred Schoch¹ (*1955)

Member since 1988

Deputy Chairman

Chairman of the European
and General Works Council

Industrial Engineer

Stefan Quandt (*1966)

Member since 1997

Deputy Chairman

Entrepreneur

Mandates

- DELTON AG (Chairman)
- AQTON SE (Chairman)
- Entrust Datacard Corp.

Stefan Schmid¹ (*1965)

Member since 2007

Deputy Chairman

Chairman of the Works Council, Dingolfing

Dr. jur. Karl-Ludwig Kley (*1951)

Member since 2008

Deputy Chairman

Chairman of the Supervisory Board of the E.ON SE
(since 8 June 2016)

Mandates

- E.ON SE (Chairman, since 8 June 2016)
- Bertelsmann Management SE (until 9 May 2016)
- Bertelsmann SE & Co. KGaA (until 9 May 2016)
- Deutsche Lufthansa Aktiengesellschaft
- Verizon Communications Inc.

Christiane Benner² (*1968)

Member since 2014

Second Chairman of IG Metall

Mandates

- Robert Bosch GmbH

Franz Haniel (*1955)

Member since 2004

Entrepreneur

Mandates

- DELTON AG (Deputy Chairman)
- Franz Haniel & Cie. GmbH (Chairman)
- Heraeus Holding GmbH
- TBG Limited

Ralf Hattler³ (*1968)

Member since 1 January 2017

Head of Indirect Purchasing

Prof. Dr. rer. nat. Dr. h.c. Reinhard Hüttl (*1957)

Member since 2008

Chairman of the Executive Board
of Helmholtz-Zentrum Potsdam

Deutsches GeoForschungsZentrum - GFZ

University Professor

¹ Employee representatives (company employees).

² Employee representatives (union representatives).

³ Employee representatives (members of senior management).

— Membership of other statutory supervisory boards.

— Membership of equivalent national or foreign boards of business enterprises.

- - - Other mandates.

Prof. Dr. rer. nat. Dr.-Ing. E.h.**Henning Kagermann** (*1947)

Member since 2010

President of acatech – Deutsche Akademie
der Technikwissenschaften e.V.

Mandates

- Deutsche Bank AG
- Deutsche Post AG
- Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München

Susanne Klatten (*1962)

Member since 1997

Entrepreneur

Mandates

- ALTANA AG (Deputy Chairman)
- SGL Carbon SE (Chairman)
- UnternehmerTUM GmbH (Chairman)

Prof. Dr. rer. pol. Renate Köcher (*1952)

Member since 2008

Director of Institut für Demoskopie
Allensbach Gesellschaft zum Studium der
öffentlichen Meinung mbH

Mandates

- Allianz SE (until 3 May 2017)
- Infineon Technologies AG
- Nestlé Deutschland AG
- Robert Bosch GmbH

Ulrich Kranz³ (*1958)

Member from 2014 to 31 December 2016

Head of Product Line BMW i

Dr. h.c. Robert W. Lane (*1949)

Member since 2009

Former Chairman and Chief Executive Officer of
Deere & Company

Mandates

- General Electric Company

Horst Lischka² (*1963)

Member since 2009

General Representative of IG Metall Munich

Mandates

- KraussMaffei Group GmbH
- MAN Truck & Bus AG
- Städtisches Klinikum München GmbH

Willibald Löw¹ (*1956)

Member since 1999

Chairman of the Works Council, Landshut

Simone Menne (*1960)

Member since 2015

Member of Management of Boehringer
Ingelheim Gruppe, Finance
(since 1 September 2016)

Mandates

- Delvag Luftfahrtversicherungs-AG (Chairman)
(until 31 August 2016)
- Deutsche Post AG
- LSG Lufthansa Service Holding AG (Chairman)
(until 31 December 2016)
- Lufthansa Cargo AG
(until 31 December 2016)
- Lufthansa Technik AG
(until 31 December 2016)
- FWB Frankfurter Wertpapierbörse
(Exchange Council)
(until 31 August 2016)
- Miles & More GmbH (Chairman Advisory Board)
(until 31 August 2016)

¹ Employee representatives (company employees).² Employee representatives (union representatives).³ Employee representatives (members of senior management).

— Membership of other statutory supervisory boards.

— Membership of equivalent national or foreign boards of business enterprises.

--- Other mandates.

Dr. Dominique Mohabeer¹ (*1963)

Member since 2012

Member of the Works Council, Munich

Brigitte Rödiger¹ (*1963)

Member since 2013

Member of the Works Council, Dingolfing

Jürgen Wechsler² (*1955)

Member since 2011

Regional Head of IG Metall Bavaria

Mandates

— Schaeffler AG (Deputy Chairman)

— Siemens Healthcare GmbH (Deputy Chairman)

Werner Zierer¹ (*1959)

Member since 2001

Chairman of the Works Council, Regensburg

COMPOSITION AND WORK PROCEDURES OF THE BOARD OF MANAGEMENT OF BMW AG AND ITS COMMITTEES

The Board of Management governs the enterprise under its own responsibility, acting in the interests of the BMW Group with the aim of achieving sustainable growth in value. The interests of shareholders, employees and other stakeholders are also taken into account in the pursuit of this aim.

The Board of Management determines the strategic orientation of the enterprise, agrees upon it with the Supervisory Board and ensures its implementation. The Board of Management is responsible for ensuring that all provisions of law and internal regulations are complied with. Further details about compliance within the BMW Group can be found in the "Corporate Governance" section of the Annual Report. The Board of Management is also responsible for ensuring that appropriate risk management and risk controlling systems are in place throughout the Group.

During their period of employment for BMW AG, members of the Board of Management are bound by a comprehensive non-competition clause. They are required to act in the enterprise's best interests and may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise. They may only undertake ancillary activities, in particular supervisory board mandates outside the BMW Group, with the approval of the Supervisory Board's Personnel Committee. Each member of the Board of Management of BMW AG is obliged to disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

Following the appointment of a new member to the Board of Management, the BMW Group Corporate Governance Officer informs the new member of the framework conditions under which the board member's duties are to be carried out – in particular those enshrined in the BMW Group's Corporate Governance Code – as well as the duty to cooperate when a transaction or event triggers reporting requirements or requires the approval of the Supervisory Board.

The Board of Management consults and takes decisions as a collegiate body in meetings of the Board

of Management, the Sustainability Board, the Operations Committee and the Committee for Executive Management Matters. At its meetings, the Board of Management defines the overall framework for business strategies and the use of resources, takes decisions regarding the implementation of strategies and deals with issues of particular importance to the BMW Group. The full board also takes decisions at a basic policy level relating to the Group's automobile product strategies and product projects inasmuch as these are relevant for all brands. The Board of Management and its committees may, as required and depending on the subject matters being discussed, invite non-voting advisers to participate at meetings.

Terms of reference approved by the Board of Management contain a planned allocation of divisional responsibilities between the individual board members. These terms of reference also incorporate the principle that the full Board of Management bears joint responsibility for all matters of particular importance and scope. In addition, members of the Board of Management manage the relevant portfolio of duties under their responsibility, whereby case-by-case rules can be put in place for cross-divisional projects. Board members continually provide the Chairman of the Board of Management with all information regarding major transactions and developments within their area of responsibility. The Chairman of the Board of Management coordinates cross-divisional matters with the overall targets and plans of the BMW Group, involving other board members to the extent that divisions within their area of responsibility are affected.

The Board of Management takes its decisions at meetings generally held on a weekly basis which are convened, coordinated and headed by the Chairman of the Board of Management. At the request of the Chairman, decisions can also be taken outside of board meetings if none of the board members object to this procedure. A meeting is quorate if all Board of Management members are invited to the meeting in good time. Members unable to attend any meeting are entitled to vote in writing, by fax or by telephone. Votes cast by phone must be subsequently confirmed in writing. Except in urgent cases, matters relating to a division for which the responsible board member is not present will only be discussed and decided upon with that member's consent.

Unless stipulated otherwise by law or in BMW AG's statutes, the Board of Management makes decisions on the basis of a simple majority of votes cast at meetings. Outside of board meetings, decisions are taken on the basis of a simple majority of board members. In the event of a tied vote, the Chairman of the Board of Management has the casting vote. Any changes to the board's terms of reference must be passed

unanimously. A board meeting may only be held if more than half of the board members are present.

In the event that the Chairman of the Board of Management is not present or is unable to attend a meeting, the member of the board responsible for Finance will represent him.

Minutes are taken of all meetings and the Board of Management's resolutions and signed by the Chairman. Decisions taken by the Board of Management are binding for all employees.

The rules relating to meetings and resolutions taken by the full Board of Management are also applicable for its committees.

Members of the Board of Management not represented in a committee are provided with the agendas and minutes of committee meetings. Committee matters are dealt with in full board meetings if the committee considers it necessary or at the request of a member of the Board of Management.

A secretariat for Board of Management matters has been established to assist the Chairman and other board members with the preparation and follow-up work connected with board meetings.

At meetings of the Operations Committee (generally held every two weeks), decisions are reached in connection with automobile product projects, based on the strategic orientation and decision framework stipulated at Board of Management meetings. The Operations Committee comprises the Board of Management member responsible for Development (who also chairs the meetings), together with the board members responsible for the following areas: Purchasing and Supplier Network; Production; Sales and Marketing BMW, Sales Channels BMW Group; and MINI, Motorcycles, Rolls-Royce, Aftersales BMW Group. If the committee chairman is not present or unable to attend a meeting, the member of the board responsible for Production represents him. Resolutions taken at meetings of the Operations Committee are made online.

The full board usually convenes up to twice a year in its function as Sustainability Board in order to define strategy with regard to sustainability and decide upon measures to implement that strategy. The Head of Corporate Affairs and the Representative for Sustainability and Environmental Protection participate in these meetings in an advisory capacity.

The Board's Committee for Executive Management Matters deals with enterprise-wide issues affecting executive managers of the BMW Group, either in

their entirety or individually (such as the executive management structure, potential candidates for executive management, nominations for or promotions to senior management positions). This committee has, on the one hand, an advisory and preparatory role (e.g. making suggestions for promotions to the two remuneration groups below board level and preparing decisions to be taken at board meetings with regard to human resources principles with the emphasis on executive management issues) and a decision-taking function on the other (e.g. deciding on appointments to senior management positions and promotions to higher remuneration groups or the wording of human resources principles decided on by the full board). The Committee has two members who are entitled to vote at meetings, namely the Chairman of the Board of Management (who also chairs the meetings) and the board member responsible for Human Resources. The Head of "Human Resources Management and Services" as well as the Head of "Human Resources Executive Management" also participate in these meetings in an advisory function. At the request of the Chairman, resolutions may also be passed outside of committee meetings by casting votes in writing, by fax or by telephone if the other member entitled to vote does not object immediately. The Committee for Executive Management Matters convenes up to six times a year.

The Board of Management is represented by its Chairman in its dealings with the Supervisory Board. The Chairman of the Board of Management maintains regular contact with the Chairman of the Supervisory Board and keeps him informed of all important matters. The Supervisory Board has passed a resolution specifying the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by dint of law, the Board of Management submits its reports to the Supervisory Board in writing. To the extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time before the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has stipulated specific transactions which require the approval of the Supervisory Board. Whenever necessary, the Chairman of the Board of Management obtains the approval of the Supervisory Board and ensures that reporting duties to the Supervisory Board are complied with. In order to fulfil these tasks, the Chairman is supported by all members of the Board of Management. The fundamental principle followed when reporting to the Supervisory Board is that the latter should be kept informed regularly, without delay and comprehensively of all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual and budgeted figures.

COMPOSITION AND WORK PROCEDURES OF THE SUPERVISORY BOARD OF BMW AG AND ITS COMMITTEES

BMW AG's Supervisory Board is composed of ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected in accordance with the Co-Determination Act). The ten Supervisory Board members representing employees comprise seven Company employees, including one executive staff representative, and three members elected following nomination by unions. The Supervisory Board has the task of advising and supervising the Board of Management in its management of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group. The Supervisory Board appoints the members of the Board of Management and decides upon the level of compensation they receive. The Supervisory Board can revoke appointments for important reasons.

The Supervisory Board holds a minimum of two meetings per calendar half-year. Normally, five plenary meetings are held per calendar year. One meeting each year is planned to extend to several days and is used, among other things, to enable an in-depth exchange on strategic and technological matters. The main topics of meetings in the period under report are summarised in the Report of the Supervisory Board. Shareholder representatives and employee representatives generally prepare Supervisory Board meetings separately and occasionally with members of the Board of Management. Members of the Supervisory Board are specifically legally bound to maintain secrecy with respect to confidential reports they receive and confidential discussions in which they partake.

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, convenes and chairs its meetings, handles the external affairs of the Supervisory Board and represents it before the Board of Management.

The Supervisory Board has a quorum if all members have been invited to the meeting and at least half the members of whom it is required to comprise participate in the vote. A resolution relating to an agenda item not included in the invitation is only valid if none of the members of the Supervisory Board who were not present at the meeting object to the resolution and if a minimum of two-thirds of the members are present.

Resolutions of the Supervisory Board are generally passed by a simple majority. The German Co-determination Act contains specific legal requirements with regard to majorities and technical procedures, particularly with regard to the appointment and removal of management board members and the election of Chairman or Deputy Chairman of the Supervisory Board. In the event of a tied vote in the Supervisory Board, the Chairman of the Supervisory Board has two votes in a renewed vote, assuming it also results in a tie.

In practice, resolutions are regularly passed by the Supervisory Board and its committees at meetings. Supervisory Board members who are not present can submit their vote in written, fax or electronic form via another Supervisory Board member. This rule also applies for the second vote of the Chairman of the Supervisory Board. The Chairman of the Supervisory Board can also grant a period of time in which all members not present at a meeting may retrospectively vote. In special cases, resolutions may also be passed outside of meetings, in particular in writing, by fax or by electronic means. Resolutions and meetings are recorded in minutes, which are signed by the relevant Chairman.

Following its meetings, the Supervisory Board generally requests information on new vehicle models in the form of a short presentation.

Following the election of a new Supervisory Board member, the Corporate Governance Officer informs the new member of the main framework for performing duties, in particular the BMW Group Corporate Governance Code and individual contributions required in circumstances which trigger reporting obligations or are subject to Supervisory Board approval.

Members of the Supervisory Board of BMW AG take care to ensure that they have sufficient time to perform their mandate. If members of the Supervisory Board of BMW AG are also members of the management board of a listed company, they may not accept more than three mandates on non-BMW Group supervisory boards of listed companies or in other bodies with comparable requirements.

The Supervisory Board regularly assesses the efficiency of its activities. To this end, shared discussion is conducted within the Supervisory Board and individual meetings held with the Chairman, prepared on the basis of a questionnaire sent in advance, which is drawn up by the Supervisory Board.

Members of the Supervisory Board of BMW AG are obliged to act in the best interest of the organisation as a whole. They may not pursue personal interests in their decisions or take advantage of business opportunities intended to benefit the BMW Group.

Members of the Supervisory Board are obliged to inform the Supervisory Board of any conflicts of interest, in particular those resulting from a consulting or executive role with clients, suppliers, lenders or other business partners, so that the Supervisory Board can report to the shareholders at the Annual General Meeting on its treatment of the issue. Material and non-temporary conflicts of interest of a Supervisory Board member result in a termination of mandate.

In proposing candidates for election as members of the Supervisory Board, care is taken that the Supervisory Board collectively has the required knowledge, skills and expertise to perform its tasks appropriately.

The Supervisory Board has stated specific targets for its composition (see section "Composition targets for the Supervisory Board").

Members of the Supervisory Board are responsible for undertaking any training required for the performance of their duties. The Company provides them with appropriate assistance therein.

Taking into account the specific circumstances of the BMW Group and the number of Board members, the Supervisory Board has set up a Presiding Board and four committees: the Personnel Committee, the Audit Committee, the Nomination Committee and the Mediation Committee (see "Overview of Supervisory Board committees and their composition"). These serve to raise the efficiency of the Supervisory Board's work and facilitate handling of complex issues. Establishment and function of a mediation committee is prescribed by law. Committee chairpersons report in detail on committee work at each plenary meeting of the Supervisory Board.

Composition of the Presiding Board and the committees is based on legal requirements, the Articles of Incorporation, rules of procedure and corporate governance principles, while taking into particular account the expertise of Board members.

According to the rules of procedure, the Chairman of the Supervisory Board is, by virtue of this function, member and Chairman of the Presiding Board, the Personnel Committee and the Nomination Committee.

The number of meetings held by the Presiding Board and committees depends on requirements. The Presiding Board, the Personnel Committee and the Audit Committee generally hold several meetings in the course of the year (see "Report of the Supervisory Board" for details of the number of meetings held in 2016).

In line with the rules of procedure for the activities of the plenum, the Supervisory Board has set out procedural rules for the Presiding Board and committees. Committees only have a quorum when all members participate. Committee resolutions are passed by a simple majority, unless otherwise stipulated by law.

Members of the Supervisory Board may not delegate their duties to others. However, the Supervisory Board, the Presiding Board and the committees may call on experts and informed persons to attend meetings and advise on specific matters.

The Supervisory Board, the Presiding Board and committees also meet without the Board of Management when necessary.

BMWAG ensures that the Supervisory Board and its committees are appropriately equipped to carry out their duties. This includes providing a central Supervisory Board office to support Chairpersons in their coordination work.

In accordance with rules of procedure, the Presiding Board comprises the Chairman of the Supervisory Board and Deputies. The Presiding Board prepares Supervisory Board meetings to the extent that the subject matter does not fall within the remit of a committee. This includes, for example, preparing the annual Declaration of Compliance with the German Corporate Governance Code and assessment of Supervisory Board efficiency.

The Personnel Committee prepares decisions of the Supervisory Board with regard to the appointment and, where applicable, removal of members of the Board of Management and, together with the full Supervisory Board and the Board of Management, ensures long-term succession planning. The Personnel Committee also prepares decisions of the Supervisory Board with regard to Board of Management compensation and the regular review of the compensation system for the Board of Management. In conjunction with resolutions taken by the Supervisory Board regarding the compensation of the Board of Management, the Personnel Committee is responsible for drawing up, amending and revoking employment contracts or, when necessary, to prepare and conclude other relevant contracts with members of the Board of Management. In certain cases, the Personnel Committee is also authorised to grant the necessary approval of a business transaction on behalf of the Supervisory Board. This includes cases of providing loans to members of the Board of Management or Supervisory Board, certain contractual arrangements with members of the Supervisory Board, taking into account related parties, as well as ancillary activities of members of the Board of Management, including acceptance of non-BMW Group supervisory board mandates.

The Audit Committee deals in particular with the supervision of the financial reporting process, effectiveness of the internal control system, the risk management system, internal audit system and compliance as well as the performance of Supervisory Board duties in connection with audits pursuant to § 20 of the German Securities Trading Act (WpHG). It also oversees the audit of financial statements, auditor independence and any additional work performed by the auditor. It prepares the proposal for the election of the auditor at the Annual General Meeting, makes a relevant recommendation, issues the audit engagement and agrees on points of audit focus as well as the auditor's fee. The Audit Committee prepares the Supervisory Board's resolution relating to the Company and Group Financial Statements and discusses interim reports with the Board of Management prior to publication. The Audit Committee also decides on the Supervisory Board's agreement on the use of Authorised Capital 2014 (Article 4 no.5 of the Articles of Incorporation) and on amendments to the Articles of Incorporation which only affect its wording.

In line with the recommendations of the German Corporate Governance Code, the Chairman of the Audit Committee is independent, and not a former Chairman of the Board of Management, and has special knowledge and experience in the application of financial reporting standards and internal control procedures. He also fulfils the requirement of being a financial expert as defined by § 100 (5) and § 107 (4) AktG.

The Nomination Committee is charged with the task of finding suitable candidates for election to the Supervisory Board as shareholder representatives and to propose them to the Supervisory Board for election at the Annual General Meeting. In line with the recommendations of the German Corporate Governance Code, the Nomination Committee is exclusively composed of shareholder representatives.

The establishment and composition of a mediation committee are prescribed by the German Co-determination Act. The Mediation Committee has the task of making proposals to the Supervisory Board if a resolution for the appointment of a member of the Board of Management has not been carried by the necessary two-thirds majority of members' votes. In accordance with statutory requirements, the Mediation Committee comprises the Chairman and the Deputy Chairman of the Supervisory Board, one member selected by shareholder representatives and one by employee representatives.

Overview of Supervisory Board committees and their composition

Principal duties, basis for activities	Members
PRESIDING BOARD	
<ul style="list-style-type: none"> — preparation of Supervisory Board meetings to the extent that the subject matter to be discussed does not fall within the remit of a committee — activities based on terms of reference 	<p>Norbert Reithofer¹ Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley</p>
PERSONNEL COMMITTEE	
<ul style="list-style-type: none"> — preparation of decisions relating to the appointment and revocation of appointment of members of the Board of Management, the compensation and the regular review of the Board of Management's compensation system — conclusion, amendment and revocation of employment contracts (in conjunction with the resolutions taken by the Supervisory Board regarding the compensation of the Board of Management) and other contracts with members of the Board of Management — decisions relating to the approval of ancillary activities of Board of Management members, including acceptance of non-BMW Group supervisory mandates as well as the approval of transactions requiring Supervisory Board approval by dint of law (e.g. loans to Board of Management or Supervisory Board members) — set up in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference 	<p>Norbert Reithofer¹ Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley</p>
AUDIT COMMITTEE	
<ul style="list-style-type: none"> — supervision of the financial reporting process, the effectiveness of the internal control system, the risk management system, internal audit arrangements and compliance as well as the performance of Supervisory Board duties in connection with audits pursuant to § 20 of the German Securities Trading Act (WpHG) — supervision of external audit, in particular auditor independence and additional work performed by external auditor — preparation of proposals for election of external auditor at Annual General Meeting, engagement of external auditor and compliance of audit engagement, determination of areas of audit emphasis and fee agreements with external auditor — preparation of Supervisory Board's resolution on Company and Group Financial Statements — discussion of interim reports with Board of Management prior to publication — decision on approval for utilisation of Authorised Capital 2014 — amendments to Articles of Incorporation only affecting wording — establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference 	<p>Karl-Ludwig Kley^{1,2} Norbert Reithofer Manfred Schoch Stefan Quandt Stefan Schmid</p>
NOMINATION COMMITTEE	
<ul style="list-style-type: none"> — identification of suitable candidates (male / female) as shareholder representatives on the Supervisory Board to be put forward for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting — establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference 	<p>Norbert Reithofer¹ Susanne Klatten Karl-Ludwig Kley Stefan Quandt</p> <p>(In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.)</p>
MEDIATION COMMITTEE	
<ul style="list-style-type: none"> — proposal to Supervisory Board if resolution for appointment of Board of Management member has not been carried by the necessary two-thirds majority of Supervisory Board members' votes — committee required by law 	<p>Norbert Reithofer Manfred Schoch Stefan Quandt Stefan Schmid</p> <p>(In accordance with statutory requirements, the Mediation Committee comprises the Chairman and Deputy Chairman of the Supervisory Board and one member each selected by shareholder representatives and employee representatives.)</p>

¹ Chair.

² (Independent) financial expert within the meaning of §§ 100 (5) and 107 (4) AktG, no. 5.3.2 GCGC.

Board of Management succession planning, diversity concept

The Supervisory Board, in collaboration with the Personnel Committee and the Board of Management, ensures long-term succession planning. In their assessment of candidates for Board of Management positions, the underlying suitability criteria applied by the Supervisory Board are expertise in the relevant function, outstanding leadership qualities, proven track record and knowledge of the Company. The Supervisory Board has adopted a diversity concept for the composition of the Board of Management, which is also aligned with recommendations of the German Corporate Governance Code. In considering which individuals would best complement the Board of Management, the Supervisory Board also takes diversity into account. The criteria diversity is taken by the Supervisory Board to encompass in particular different, mutually complementary profiles, professional and life experiences also at the international level and an appropriate gender representation. In reaching its decisions, the Supervisory Board also considers the following:

- The members of the Board of Management should have a long-standing track record of management experience, ideally with experience in different professional fields.
- At least two members should have international management experience.
- At least two members of the Board of Management should have a technical background.
- The Board of Management should collectively have extensive experience in the fields of development, production, sales and marketing, finances and human resources.
- The Supervisory Board has stipulated a target for the proportion of women on the Board of Management. This is outlined in the section “Disclosures pursuant to the Act on Equal Gender Participation”. The Board of Management reports to the Personnel Committee and the Supervisory Board at regular intervals on the proportion and development of women in senior management positions, in particular at executive levels.
- In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has set a standard age limit for Board of Management membership. This aims at a retirement age of 60. Consideration is also given to achieving an appropriate age-mix within the Board of Management.

When selecting an individual for a particular Board of Management position, the Supervisory Board decides in the best interest of the Group and after due consideration of all relevant circumstances.

Composition objectives of the Supervisory Board, diversity concept

The Supervisory Board is to be composed in such a way that its members collectively possess the knowledge, skills and experience required to properly perform its tasks.

To this end, the Supervisory Board has approved the following concrete objectives for its composition, taking into account recommendations contained in the German Corporate Governance Code. These objectives also describe the concept for achieving diversity in the composition of the Supervisory Board (diversity concept):

- Four members of the Supervisory Board should if possible have international experience or specialist knowledge of one or more non-German markets important to the BMW Group.
- The Supervisory Board should include if possible seven members who have acquired in-depth knowledge and experience within the BMW Group, though no more than two former members of the Board of Management.
- Three of the shareholder representatives in the Supervisory Board should if possible be entrepreneurs or persons who have previous experience in the management or supervision of another medium or large-sized company.

- Three members of the Supervisory Board should if possible be figures from the worlds of business, science or research who have experience in areas relevant to the BMW Group, e.g. chemistry, energy supply, information technology, or who have specialist knowledge in fields relevant for the future of the BMW Group, e.g. customer requirements, mobility, resources or sustainability.
- When seeking qualified individuals for the Supervisory Board whose specialist skills and leadership qualities are most likely to strengthen the Board as a whole, consideration is also to be given to diversity. When preparing nominations, the extent to which the work of the Supervisory Board would benefit from diversified professional and personal backgrounds (including international aspects) and from an appropriate gender representation is also to be taken into account. It is the joint responsibility of all those participating in the nomination and election process to ensure that qualified women are considered for Supervisory Board membership.
- Of the 20 members of the Supervisory Board at least twelve should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code, including at least six as representatives of the Company's shareholders.
- Two independent members of the Supervisory Board should have expert knowledge of accounting or auditing.
- No persons carrying out directorship functions or advisory tasks for important competitors of the BMW Group may belong to the Supervisory Board. In compliance with applicable legislation, members of the Supervisory Board are to take care that no persons will be nominated for election with whom a serious, non-temporary conflict of interests could arise due to other activities and functions carried out by them outside the BMW Group, in particular advisory activities or directorships with customers, suppliers, creditors or other business partners.
- An age limit for membership of the Supervisory Board of 70 years should generally be applied. In exceptional cases, members may remain on the Board until the end of the next Annual General Meeting after reaching the age of 73, in order to fulfil legal requirements or to facilitate smooth succession in the case of key roles or specialist qualifications.
- As a general rule, members of the Supervisory Board should not hold office for longer than until the end of the Annual General Meeting at which the resolution is passed ratifying the member's activities for the 14th financial year after the beginning of the member's first period of office. This excludes the financial year in which the first period of office began. This rule does not apply to natural persons who either directly or indirectly hold significant investments in the Company. In the Company's interest, deviation from the general maximum period is possible, for instance in order to work towards another composition target, in particular diversity of gender and technical, professional and personal backgrounds.

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the period up to 31 December 2017. Proposals for nomination made by the Supervisory Board at the Annual General Meeting – insofar as they apply to shareholder Supervisory Board members – should take account of these objectives in such a way that they can be achieved with the support of the appropriate resolutions at the Annual General Meeting. The Annual General Meeting is not bound by nominations for election proposed by the Supervisory Board. The freedom of employees to vote for the employee members of the Supervisory Board is also protected. Under the rules stipulated by the German Co-Determination Act, the Supervisory Board does not have the right to nominate employee representatives for election. The objectives which the Supervisory Board has set itself with regard to its composition are therefore not intended to be instructions to those entitled to vote or restrictions on their freedom to vote.

In the Supervisory Board's opinion, its composition as at 31 December 2016 fulfilled the composition objectives detailed above. In order to make it easier to assess the actual composition and composition targets, brief curricula vitae of the current members of the Supervisory Board are available on the Company's website at → www.bmwgroup.com. Information relating to members' practised professions and to mandates in other statutory supervisory boards and equivalent national or foreign company boards, including the length of their periods of service on the Supervisory

**Statement on
Corporate
Governance**

- Composition and Work Procedures of the Supervisory Board of BMW AG and its Committees
- Disclosures Pursuant to the Act on Equal Gender Participation – Targets for the Proportion of Women on the Board of Management and at Executive Management Levels I and II
- Information on Corporate Governance Practices applied Beyond Mandatory Requirements

Board, is provided in the section “Statement on Corporate Governance”. Based on this information, it is evident that the Supervisory Board of BMW AG is very diversified, with significantly more than the targeted four members having international experience or specialist knowledge with regard to one or more of the non-German markets important to the BMW Group. In-depth knowledge and experience from within the enterprise are provided by seven employee representatives, as well as the Chairman of the Supervisory Board. Only one previous Board of Management member holds office in the Supervisory Board. At least four members of the Supervisory Board have experience in managing another company. The Supervisory Board also has three entrepreneurs as members. Most of the members of the Supervisory Board – including employee representatives – have experience in supervising another medium-sized or large company. Moreover, more than three members of the Supervisory Board have experience and specialist knowledge in subjects relevant for the future of the BMW Group, such as customer requirements, mobility, resources, sustainability and information technology. For the purpose of assessing the independence of its members, the Supervisory Board follows the recommendations of the German Corporate Governance Code. In the opinion of the Supervisory Board, the fact that a member has a substantial shareholding in the Company, or holds office as an employee representative, or was previously a member of the Board of Management, does not rule out that he or she is independent. A substantial and not merely temporary conflict of interests within the meaning of section 5.4.2. of the German Corporate Governance Code does not apply to any of the Supervisory Board members. Employees holding office in the Supervisory Board are protected by law when performing their duties. All other Supervisory Board members have a sufficient degree of economic independence from the Company. Business with entities, in which the members of the Supervisory Board carry out a significant function, is conducted on an arm’s length basis. The Supervisory Board has therefore concluded that all of its members are independent. At least three members meet the requirements for being designated as an independent financial expert. At the end of the reporting period, the Supervisory Board had six female members (30%), comprising three shareholder representatives and three employee representatives. The Supervisory Board has 14 male members (70%), comprising seven shareholder representatives and seven employee representatives. The Company therefore complies with the statutory gender quota of at least 30% female members applicable in Germany since 1 January 2016. The Supervisory Board does not currently have any members more than 70 years old.

DISCLOSURES PURSUANT TO THE ACT ON EQUAL GENDER PARTICIPATION – TARGETS FOR THE PROPORTION OF WOMEN ON THE BOARD OF MANAGEMENT AND AT EXECUTIVE MAN- AGEMENT LEVELS I AND II

The Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector (“Act on Equal Gender Participation”) was passed into German law in 2015.

In accordance with this legislation, the Supervisory Board of BMW AG is required to set a target for the proportion of women on its Board of Management and a time frame for meeting this target. Likewise, the Board of Management of BMW AG is required to establish targets and a time frame for attaining these targets with respect to the two executive management levels below the Board of Management. As its target for the Board of Management through to 31 December 2016, the Supervisory Board had stipulated that the Board of Management should continue to have at least one female member. This target was achieved: the Board of Management has one female member (12.5%).

As its target for the proportion of women on the Board of Management for the time frame from 1 January 2017 to 31 December 2020, the Supervisory Board has stipulated that the Board of Management should continue to have at least one female member. Assuming that the Board of Management continues to comprise eight members, this would correspond to a proportion of at least 12.5%. The Supervisory Board considers it desirable to increase the proportion of women on the Board of Management and fully supports the Board of Management’s endeavours to increase the proportion of women at the highest executive management levels within the BMW Group.

For the first target attainment time frame up to 31 December 2016, target ranges of 10 to 12% and 6 to 8% respectively were set by the Board of Management for the proportion of women to be represented in the first and second levels of executive management. On 31 December 2016, the proportion of women within the first and second executive management levels

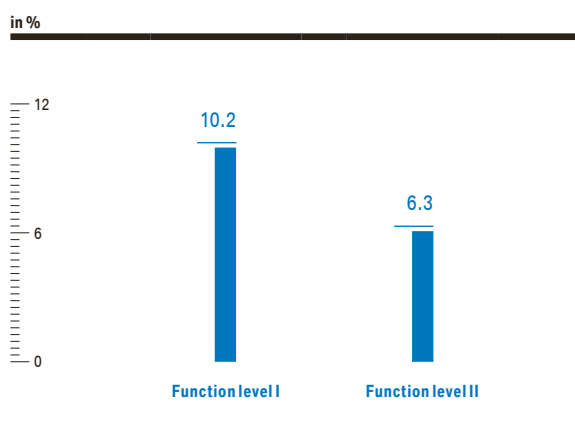
stood at 10.2% and 6.3% respectively. The targets were therefore achieved within the stipulated time frame.

For the next target attainment time frame, which has been selected to run to 31 December 2020, the Board of Management has set target ranges of 10.2 – 12% for the first level of executive management and 8 – 10% for the second.

Top management within the BMW Group is structured in terms of functions, following a consistent job evaluation system based on Mercer.

Proportion of female executives within management / function levels I and II at BMW AG

→ 65



Diversity contributes to greater competitiveness and innovation at BMW Group. Working together in mixed, complementary teams raises performance levels and helps sharpen the focus on the customer. The requirement of an appropriate gender balance is seen as an essential component of the BMW Group's diversity concept. Further increase in the proportion of women therefore remains an objective of the Board of Management.

During 2016, the proportion of women in both the workforce as a whole and in management positions increased, reflecting the positive impact of long-term measures, dialogue and information events. Further information on the topic of diversity within the BMW Group can be found in the section "Workforce".

INFORMATION ON CORPORATE GOVERNANCE PRACTICES APPLIED BEYOND MANDATORY REQUIREMENTS

Core values

Within the BMW Group, the Board of Management, the Supervisory Board and the employees base their actions on five core values which are the cornerstone of the success of the BMW Group:

Responsibility

We take consistent decisions and commit to them personally. This allows us to work freely and more effectively.

Appreciation

We reflect on our actions, respect each other, offer clear feedback and celebrate success.

Transparency

We acknowledge concerns and identify inconsistencies in a constructive way. We act with integrity.

Trust

We trust and rely on each other. This is essential if we are to act swiftly and achieve our goals.

Openness

We are excited by change and open to new opportunities. We learn from our mistakes.

Social responsibility towards employees and along the supplier chain

The BMW Group stands by its social responsibilities.

Our corporate culture combines the drive for success with openness, trust and transparency. We are well aware of our responsibility towards society. Socially sustainable human resource policies and compliance with social standards are based on various internationally recognised guidelines. The BMW Group is committed to the OECD's guidelines for multinational companies and the contents of the ICC Business Charter for Sustainable Development. Details of the contents of these guidelines and other relevant information can be found at → www.oecd.org and → www.iccwbo.org. The Board of Management signed the United Nations Global Compact in 2001 and, in 2005, together with employee representatives, issued a "Joint Declaration on Human Rights and Working Conditions in the BMW Group". This Joint Declaration was reconfirmed in 2010. With the signature of these documents, we have given our commitment to abide worldwide by internationally recognised human rights and with the fundamental working standards of the International Labour Organization (ILO). These include in particular freedom of employment, the principle of non-discrimination, freedom of association and the right to collective bargaining, the prohibition of child labour, appropriate remuneration, regulated working times and compliance with work and safety regulations. The complete text of the UN Global Compact and the recommendations of the ILO and other relevant information can be found at → www.unglobalcompact.org and → www.ilo.org. The Joint Declaration on Human Rights and Working Conditions in the BMW Group can be found at → www.bmwgroup.com under the menu items "Downloads" and "Responsibility".

For the BMW Group, worldwide compliance of these fundamental principles and rights is self-evident. Since 2005 employees' awareness of this issue has therefore been raised by means of regular internal communications and training on recent developments in this area. The "Compliance Contact" helpline and the BMW Group SpeakUP Line are available to employees wishing to raise queries or complaints relating to human rights issues. With effect from 2016, human rights have been incorporated as an integral component of the BMW Group's worldwide Compliance Management System, representing a further step in the systematic implementation of the UN Guiding Principles on Business and Human Rights.

Further information on social responsibility towards employees can be found in the section "Workforce".

Sustainable business management can only be effective, however, if it covers the entire value-added chain. That is why the BMW Group not only sets high standards for itself, but also expects its suppliers and partners to meet the ecological and social standards it sets and strives continually to improve the efficiency of processes, measures and activities. For instance, we consistently require our dealers and importers to comply with ecological and social standards on a contractual basis. Moreover, corresponding criteria are embedded throughout the entire purchasing system – including in enquiries to suppliers, in the sector-wide OEM Sustainability Questionnaire, in our purchasing terms and in our evaluation of suppliers – in order to promote sustainability aspects in line with the BMW Group Sustainability Standard. The BMW Group expects suppliers to ensure that the BMW Group's sustainability criteria are also adhered to by their sub-suppliers. Purchasing terms and conditions and other information relating to purchasing can be found in the publicly available section of the BMW Group Partner Portal at → <https://b2b.bmw.com>.

We also work in close partnership with our suppliers and promote their commitment to sustainability.

COMPLIANCE IN THE BMW GROUP

Responsible and lawful conduct is fundamental to the success of the BMW Group. It is an integral part of our corporate culture and the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations.

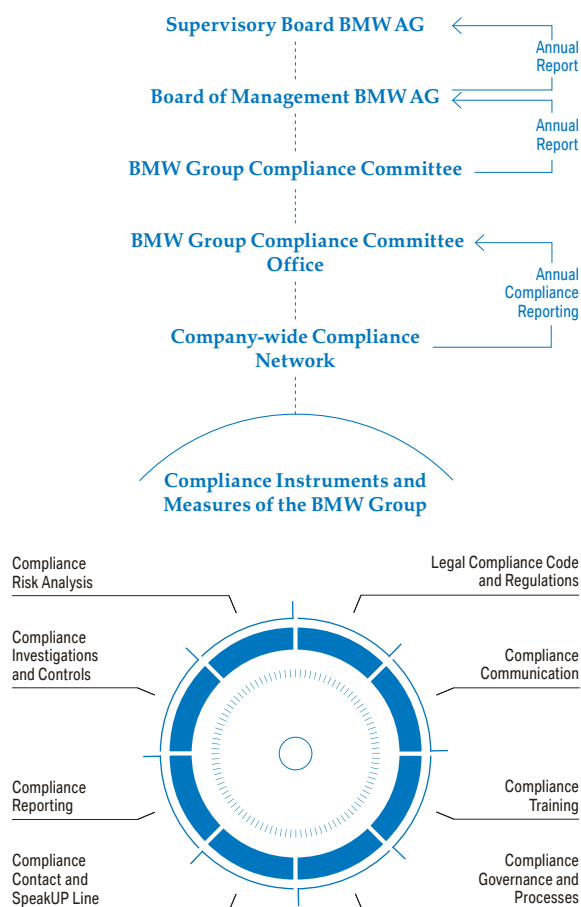
This principle has been embedded in BMW Group's internal rules of conduct for many years. In order to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee several years ago, mandated to establish a worldwide Compliance Management System throughout the BMW Group.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal Affairs, Corporate and Governmental Affairs, Corporate Audit, Group Reporting, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law. These activities include training, information and communication measures, compliance controls and following up cases of non-compliance.

The BMW Group Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in refining the BMW Group Compliance Management System, details of investigations performed, known infringements of the law, sanctions imposed and corrective/preventative measures implemented. This ensures that the Board of Management is immediately notified of any cases of particular significance.

BMW Group Compliance Management System

→ 66



The decisions taken by the BMW Group Compliance Committee are drafted in concept, and implemented operationally, by the BMW Group Compliance Committee Office. The BMW Group Compliance Committee Office comprises 13 employees and is allocated in organisational terms to the Chairman of the Board of Management.

The Chairman of the BMW Group Compliance Committee keeps the Audit Committee (which is part of the Supervisory Board) informed on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis as the need arises.

The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and input from the BMW Group Compliance Committee. Measures to improve the Compliance Management System are initiated on the basis of identified requirements. In 2016, to strengthen local compliance management, local compliance functions were established at 69 BMW Group affiliated companies. Their activities follow a standardised management process with clearly defined tasks and responsibilities.

A coordinated set of instruments and measures is employed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on compliance with antitrust legislation and the avoidance of corruption risks. Compliance measures are supplemented by a whole range of internal policies, guidelines and instructions, which in part reflect applicable legislation. The BMW Group Policy "Corruption Prevention" and the BMW Group Instruction "Corporate Hospitality and Gifts" deserve particular mention: these documents deal with lawful handling of gifts and benefits and define appropriate assessment criteria and approval procedures for specified actions. In 2016 a new BMW Group Policy "Antitrust Compliance", was introduced in 2016 to establish binding rules of conduct for all employees across the BMW Group to prevent unlawful restriction of competition.

Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment covering all 340 organisational units and functions worldwide within the BMW Group. The assessment of compliance risks is updated annually. Measures are realised with the aid of a regionally structured compliance management team covering all parts of the BMW Group, which oversees a network of more than 210 Compliance Responsibles.

The various elements of the BMW Group Compliance Management System are shown in the diagram on the previous page and are applicable for all BMW Group organisational units worldwide. To the extent that additional compliance requirements apply to individual countries or specific lines of business, these are covered by supplementary compliance measures.

The BMW Group Legal Compliance Code is the cornerstone of the Group's Compliance Management System, spelling out the Board of Management's commitment to compliance as a joint responsibility ("tone from the top"). This document, which was revised and expanded in 2016, explains the significance of legal compliance and provides an overview of the various areas relevant for the BMW Group. It is available both as a printed brochure and for download in German and English. In addition, translations into nine other languages are available in the BMW Group intranet.

Managers in particular bear a high degree of responsibility and must set a good example with regard to preventing infringements. Managers throughout the BMW Group acknowledge this principle by signing a written declaration, in which they also undertake to inform staff working for them of the content and significance of the Legal Compliance Code and make them aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate regularly with staff on this issue. Any indication of non-compliance with the law must be rigorously investigated.

More than 32,500 managers and staff worldwide have received training in essential compliance matters since the introduction of the BMW Group Compliance Management System. The training material is available on an Internet-based training platform in German and English and includes a final test. Successful completion of the training programme, which is documented by a certificate, is mandatory for all BMW Group managers. Appropriate processes are in place to ensure that all newly recruited managers and promoted staff undergo compliance training. In this way, the BMW Group ensures full training coverage for its managers in compliance matters.

In addition to this basic training, more in-depth training is also provided to certain groups of staff on specific compliance issues. Since 2013, employees have been trained related to an extended Antitrust law training, targeting employees who come into contact with antitrust-related issues as a result of their functions within sales and marketing, purchasing, production or development. Around 16,900 employees have already completed this training. The relevant divisions also implemented and stepped up further antitrust compliance measures and processes in 2016 to make employees who participate in meetings with competitors or work with suppliers or sales partners sufficiently aware of antitrust risks.

Additional compliance coaching has also been implemented for international sales and financial service locations in local markets. These multi-day classroom seminars strengthen the understanding of compliance in selected organisational units and enhance cooperation between the central BMW Group Compliance Committee Office and decentralised compliance offices. In 2016, market coaching was conducted in Italy, Belgium, Austria, China and Japan.

In order to avoid legal risks, all members of staff are expected to discuss compliance matters with their managers and with the relevant departments within the BMW Group, in particular Legal Affairs, Corporate Audit and Corporate Security. The BMW Group Compliance Contact serves as a further point of contact for both employees and non-employees for any questions regarding compliance.

Employees also have the opportunity to submit information – anonymously and confidentially – via the BMW Group SpeakUP Line about possible breaches of the law within the company. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local toll-free numbers in all countries in which BMW Group employees are engaged in activities.

Compliance-related queries and concerns are documented and followed up by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the Works Council and legal departments may be called upon to assist in the investigation process.

Through the group-wide reporting system, Compliance Responsibles throughout the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, on an ad hoc basis. This includes reporting on the compliance status of the relevant organisational units, on identified legal risks and incidences of non-compliance, as well as on corrective or preventative measures implemented.

Compliance with and implementation of the Legal Compliance Code are audited regularly by Corporate Audit and subjected to control checks by Corporate Security and the BMW Group Compliance Committee Office. As part of its regular activities, Corporate Audit carries out on-site audits. The BMW Group Compliance Committee also engages Corporate Audit to perform compliance-specific checks. In addition, three BMW Group Compliance Spot Checks, sample tests specifically designed to identify potential corruption risks, were carried out in 2016. Compliance control activities are coordinated by the BMW Group Panel

Compliance Controls. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

It is essential that employees are aware of and comply with applicable legal regulations. The BMW Group does not tolerate violations of the law by its employees. Culpable violations of the law result in employment-contract sanctions and may involve personal liability consequences for the employee involved.

To avoid this, BMW Group employees are kept fully up-to-date with the instruments and measures used by the Compliance Management System via various internal channels. As of 2014, all new staff receive a welcome email underscoring the BMW Group's special commitment to compliance when they join the company. The central means of communication is the Compliance website within the BMW Group's intranet, where employees can find compliance-related information and access training materials in both German and English. The website contains a special service area where various practical tools are made available to employees to help them deal with typical compliance-related matters. Since mid-2015, BMW Group employees have also had access to an IT system, which helps them verify legal admissibility and approve and document benefits, especially in connection with corporate hospitality.

In the same way that the BMW Group is committed to lawful and responsible conduct, it expects no less from its business partners. In 2012, the BMW Group developed a new Business Relations Compliance programme aimed at ensuring the reliability of its business relations. Relevant business partners are checked and evaluated with a view to identifying potential compliance risks. These procedures are particularly relevant for relations with sales partners and service providers, such as agencies and consultants. Depending on the results of the evaluation, appropriate measures – such as communication measures, training and possible monitoring – are implemented to manage compliance risks. The Business Relations Compliance programme has already been introduced in 37 organisational units since its launch and, over the coming years, will be rolled out successively throughout the BMW Group's worldwide sales organisation. In 2016, the company also continued integrating compliance clauses to protect contractual relationships into dealer and importer contracts. An IT system to verify customer integrity was developed and introduced in 20 markets under expanded anti-money-laundering measures.

The BMW Group is committed to respecting internationally recognised human rights, in particular the UN Guiding Principles on Business and Human Rights, the ten principles of the UN Global Compact and the ILO Core Labour Conventions. The company focuses on topics and areas of activity where it can leverage its influence as a commercial enterprise.

The BMW Group underlined its position back in 2005 with the Joint Declaration on Human Rights and Working Conditions at the BMW Group. This was followed by systematic introduction and upgrading of measures to protect human rights. Henceforth, these already established measures were integrated into the BMW Group's group-wide Compliance Management System in 2016.

Compliance is also an important factor in safeguarding the future of the BMW Group workforce. With this in mind, the Board of Management and the national and international employee representative bodies of the BMW Group have agreed on a binding set of Joint Principles for Lawful Conduct. In doing so, all parties involved made a commitment to the principles contained in the BMW Group Legal Compliance Code and to trustful cooperation in all matters relating to compliance. Employee representatives are therefore regularly involved in the process of refining compliance measures within the BMW Group.

In the interest of investor protection and to ensure that the BMW Group complies with regulations relating to potential insider information, the Board of Management appointed an Ad-hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members examine the relevance of issues for ad-hoc disclosure purposes. All persons working on behalf of the company who have access to insider information in accordance with existing rules have been, and continue to be, included in a corresponding, regularly updated list and informed of the duties arising from insider rules.

Reportable securities transactions ("Managers' transactions")

Pursuant to Article 19 of the EU Market Abuse Regulation (MAR), members of the Board of Management and the Supervisory Board and any persons closely related to those members are required to give notice to BMW AG and the Federal Agency for the Supervision of Financial Services (BaFin) of transactions with equity or debt instruments of BMW AG or with related derivatives or other financial instruments, if the total sum of such transactions reaches or exceeds an amount of €5,000 during any given calendar year. BMW AG publishes such information without delay and communicates it to the Companies Register for archiving. Notice of publication is issued to the Federal Agency for the Supervision of Financial Services. Securities transactions notified to BMW AG during the financial year 2016 are also reported on the Company's website.

Shareholdings of members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.99% of the Company's shares of common and preferred stock (2015: 43.00%), of which 16.25% (2015: 31.26%) relates to Stefan Quandt, Germany, and 11.73% (2015: 26.74%) to Susanne Klatten, Germany. The change from the previous year is almost entirely due to shares held by Johanna Quandt GmbH & Co. KG für Automobilwerte no longer being attributed to Stefan Quandt and Susanne Klatten following the dissolution of the community of heirs. The shareholdings of the members of the Board of Management total less than 1% of all issued shares.

Share-based compensation programmes for employees and members of the Board of Management

Three share-based remuneration schemes were in place at BMW AG during the year under report, namely the Employee Share Programme (under which entitled employees of BMW AG have been able to participate in the enterprise's success since 1989 in the form of non-voting shares of preferred stock), a share-based remuneration programme for Board of Management members, and a share-based remuneration programme for senior heads of department (relating in both cases to shares of common stock). The share-based remuneration programme for Board of Management members is described in detail in the Compensation Report (see also the "Share-based remuneration" section in the Compensation Report and → note 39 to the Group Financial Statements).

→ see
note 39

The share-based remuneration programme for qualifying heads of department, introduced with effect for financial years beginning after 1 January 2012, is closely based on the programme for Board of Management members and is aimed at rewarding a long-term, entrepreneurial approach to running the business on a sustainable basis.

→ see
notes
29 and 39

Under the terms of the programme, participants give a commitment to invest an amount equivalent to 20 % of their performance-based bonus in BMW common stock and to hold the shares so acquired for a minimum of four years. In return for this commitment, BMW AG pays 100 % of the investment amount as a net subsidy. Once the four-year holding period requirement has been fulfilled, the participants receive – for each three common stock shares held and at the Company's option – one further share of common stock or the equivalent amount in cash.

Under the terms of the Employee Share Programme, in 2016 employees were entitled to acquire packages of between four and eleven shares of non-voting preferred stock with a discount of €22.72 (2015: €20.83) per share compared to the market price (average closing price in Xetra trading during the period from 4 to 9 November 2016: €66.86). All employees of BMW AG and its (directly or indirectly) wholly owned German subsidiaries (if agreed to by the directors of those entities) were entitled to participate in the programme. Employees were required to have been in an uninterrupted employment relationship with BMW AG or the relevant subsidiary for at least one year at the date on which the allocation for the year was announced. Shares of preferred stock acquired in conjunction with the Employee Share Programme are subject to a blocking period of four years, starting from 1 January of the year in which the employees acquired the shares. A total of 305,029 (2015: 309,944) shares of preferred stock were acquired by employees under the programme in 2016; 305,000 (2015: 309,860) of these shares were drawn from Authorised Capital 2014, the remainder were bought back via the stock exchange. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in → notes 29 and 39 to the Group Financial Statements.

COMPENSATION REPORT

The following section describes the principles governing the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. In addition to explaining the compensation system, the components of compensation are also disclosed in absolute figures. Furthermore, the compensation of each member of the Board of Management and the Supervisory Board for the financial year 2016 is disclosed per individual member and analysed in its component parts.

1. Board of Management compensation

Responsibilities

The full Supervisory Board is responsible for determining and regularly reviewing Board of Management compensation. The necessary preparation for these tasks is undertaken by the Supervisory Board's Personnel Committee.

Principles of compensation

The compensation system for the Board of Management at BMW AG is designed to encourage a management approach focused on the sustainable development of the BMW Group. One further principle applied when designing remuneration systems at BMW is that of consistency at different levels. This means that compensation systems for the Board of Management, senior management and employees of BMW AG are composed of similar elements. The Supervisory Board carries out regular checks to ensure that all Board of Management compensation components are appropriate, both individually and in total, and do not encourage the Board of Management to take inappropriate risks on behalf of the BMW Group. At the same time, the compensation model used for the Board of Management needs to be sufficiently attractive for highly qualified executives in a competitive environment.

The compensation of members of the Board of Management is determined by the full Supervisory Board on the basis of performance criteria and after taking into account any remuneration received from Group companies. The principal performance criteria are the nature of the tasks allocated to each member of the Board of Management, the economic situation and the performance and future prospects of the BMW Group. The Supervisory Board sets ambitious and relevant parameters as the basis for variable compensation. It also ensures that variable components based on multi-year assessment criteria take account of both

positive and negative developments and that the package as a whole encourages a long-term approach to business performance. Targets and other parameters may not be changed retrospectively. The Supervisory Board reviews the appropriateness of the compensation system annually. In preparation, the Personnel Committee also consults remuneration studies. The Supervisory Board reviews the appropriateness of the compensation system in horizontal terms by comparing compensation paid by other DAX companies and in vertical terms by comparing board compensation with the salaries of executive managers and with the average salaries of employees of BMW AG based in Germany, in both cases with regard to their various levels and to changes over time. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Compensation system, compensation components

The compensation of the Board of Management comprises both fixed and variable remuneration as well as a share-based component. Retirement and surviving dependants' benefit entitlements are also in place.

Fixed remuneration

Fixed remuneration consists of a base salary (paid monthly) and other remuneration elements, which comprise mainly the use of company and leased cars as well as the payment of insurance premiums, contributions towards security systems and an annual medical check-up. Members of the Board of Management are also entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for employees.

The basic remuneration of members of the Board of Management was unchanged from the previous year, namely €0.75 million p. a. for a board member during the first term of office, €0.9 million p. a. for a board member from the second term of office or fourth year of office onwards and €1.5 million p. a. for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of Board of Management members comprises variable cash remuneration on the one hand and a share-based remuneration component on the other.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a cash bonus and share-based remuneration component equivalent to 20% of a board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration are also borne by the Company. In justified cases, the

Supervisory Board also has the option of paying an additional special bonus.

The bonus comprises two components, each equally weighted, namely a corporate earnings-related bonus and a personal performance-related bonus. The target bonus (100%) for a Board of Management member, for both components of variable compensation, totals €1.5 million p. a., rising to €1.75 million p. a. from the second term or fourth year of office onwards. The equivalent figure for the Chairman of the Board of Management is €3 million p. a. The bonus figure is capped for all Board of Management members at 200% of the relevant target bonus.

The corporate earnings-related bonus is based on the BMW Group's net profit and post-tax return on sales (which are combined in a single earnings factor) and the level of the dividend (common stock). The corporate earnings-related bonus is derived by multiplying the target amount fixed for each member of the Board of Management by the earnings factor and by the dividend factor. In exceptional circumstances, for instance when there have been major acquisitions or disposals, the Supervisory Board may adjust the level of the corporate earnings-related bonus.

An earnings and dividend factor of 1.00 would give rise to an earnings-based bonus of €0.75 million for the financial year 2016 for a member of the Board of Management during the first period of office and one of €0.875 million during the second term of appointment or from the fourth year in office. The equivalent bonus for the Chairman of the Board of Management is €1.5 million. The earnings factor is 1.00 in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6%. The dividend factor is 1.00 in the event that the dividend paid on the shares of common stock is between 101 and 110 cents. If the Group net profit were below €2 billion, or if the post-tax return on sales were less than 2%, the earnings factor for the financial year 2016 would be zero. In this case, no corporate earnings-related bonus would be paid.

The personal performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of its assessment of the contribution of the relevant Board of Management member to sustainable and long-term oriented business development. In setting the factor, equal consideration is given to personal performance and decisions taken in previous planning periods, key decisions affecting the future development of the business and the effectiveness of measures taken in response to changing external conditions as well as other activities aimed

at safeguarding the future viability of the business to the extent not included directly in the basis of measurement. Performance factor criteria include innovation (economic and ecological, e.g. reduction of carbon emissions), customer focus, ability to adapt, leadership accomplishments, shaping corporate culture and promoting integrity, contributions to the Company's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility. The target bonus and the key figures used to determine the corporate earnings-related bonus are fixed in advance for a period of three financial years, during which time they may not be amended retrospectively.

Share-based remuneration programme

The compensation system includes a share-based remuneration programme, in which the level of share-based remuneration is based on the amount of bonus paid. The system is aimed at creating further long-term incentives to encourage sustainable governance.

This programme envisages a share-based remuneration component equivalent to 20% of the board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are borne by the Company. As a general rule, the shares must be held for a minimum of four years. As part of a matching plan, at the end of the holding period the Board of Management members will normally receive from the Company either one additional share of common stock or an equivalent cash amount for three shares of common stock held, to be decided at the discretion of the Company (share-based remuneration component/matching component). Special rules apply in the case of death or invalidity of a Board of Management member or early termination of the contractual relationship before fulfilment of the holding period.

Retirement and surviving dependants' benefits

The provision of retirement and surviving dependants' benefits for Board of Management members was changed to a defined contribution system with a guaranteed minimum return with effect from 1 January 2010. However, given the fact that board members appointed for the first time prior to 1 January 2010 for the most part had a legal right to receive the benefits already promised to them, these board members were given the option to choose between the previous system and the new one.

In the event of the termination of mandate, Board of Management members appointed for the first time prior to 1 January 2010 are entitled to receive certain defined benefits in accordance with the rules of an older (defined benefit) pension plan. Under the

defined benefit plan, the entitlement to retirement benefits arises at the earliest on reaching the age of 60 or in case of invalidity. The amount of the pension comprises a basic monthly amount of €10,000 plus a fixed amount. The fixed amount is made up of approximately €75 for each year of service in the Company before becoming a member of the Board of Management plus between €400 and €600 for each

full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted based on the rules applicable for the adjustment of civil servants' pensions, i.e. the pensions of members of the Board of Management are adjusted when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5 % or in accordance with the Company Pension Act.

Overview of compensation system and compensation components

Component	Parameter / measurement base
BASIC COMPENSATION P. A.	
	Member of the Board of Management: <ul style="list-style-type: none"> — €0.75 million (first term of appointment) — €0.90 million (from second term of appointment onwards or fourth year in office)
	Chairman of the Board of Management: <ul style="list-style-type: none"> — €1.50 million
VARIABLE COMPENSATION	
Bonus	Target bonuses p. a. (if target is 100 % achieved): <ul style="list-style-type: none"> — €1.50 million (first term of appointment) — €1.75 million (from second term of appointment onwards or fourth year in office) — €3.00 million (Chairman of the Board of Management)
a) Corporate earnings-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	<ul style="list-style-type: none"> — Quantitative criteria fixed in advance for a period of three financial years — Formula: 50 % of target bonus x earnings factor x dividend factor (common stock) — The earnings factor is derived from the Group net profit and the Group post-tax return on sales
b) Performance-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	<ul style="list-style-type: none"> — Primarily qualitative criteria, expressed in terms of a performance factor aimed at measuring the board members' contribution to sustainable and long-term performance and the future viability of the business — Formula: 50 % of target bonus x performance factor — Criteria for the performance factor also include: innovation (economic and ecological, e.g. reduction of CO₂ emissions), customer orientation, ability to adapt, leadership accomplishments, corporate culture and promoting integrity, attractiveness as employer, progress in implementing the diversity concept and activities that foster corporate social responsibility
Special bonus payments	May be paid in justified circumstances on an appropriate basis, contractual basis, no entitlement
Share-based remuneration programme	<ul style="list-style-type: none"> — Requirement for Board of Management members to each invest an amount equivalent to 20 % of their total bonus (after tax) in BMW AG common stock
a) Cash compensation component	<ul style="list-style-type: none"> — Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions
b) Share-based remuneration component (matching component)	<ul style="list-style-type: none"> — Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash
OTHER COMPENSATION	
	Contractual agreement, main points: use of Company cars, insurance premiums, contributions towards security systems, medical check-up

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

Model	Principal features
a) Defined benefits (only applies to board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b))	Pension of €120,000 p. a. plus fixed amounts based on length of Company and board service
b) Defined contribution system with guaranteed minimum rate of return	Pension based on amounts credited to individual savings accounts for contributions paid and interest earned, various forms of disbursement Pension contributions p. a.: Member of the Board of Management: €350,000 – €400,000 Chairman of the Board of Management: €500,000

REMUNERATION CAPS (MAXIMUM REMUNERATION)

in € p. a.	Bonus	Share-based compensation programme		Possible special bonus	Total*
		Cash compensation for share acquisition	Monetary value of matching component		
Member of the Board of Management in the first term of appointment	3,000,000	700,000	700,000	1,000,000	4,925,000
Member of the Board of Management in the second term of appointment or from fourth year in office	3,500,000	800,000	800,000	1,200,000	5,500,000
Chairman of the Board of Management	6,000,000	1,400,000	1,400,000	1,500,000	9,850,000

*Including basic remuneration, other fixed remuneration elements and pension contribution. The overall cap is lower than the sum of the maximum amounts for each of the individual components.

If a mandate is terminated, the new defined contribution system provides entitlements which can be paid either (a) in case of death or invalidity as a one-off amount or in instalments, or (b) upon retirement – depending on the wish of the ex-board member concerned – in the form of a lifelong monthly pension, as a one-off amount, in instalments, or in a combined form (for instance a combination of a one-off payment and a proportionately reduced lifelong monthly pension). Former members of the Board of Management are entitled to receive the retirement benefit at the earliest upon reaching the age of 60, or in the case of entitlements awarded after 1 January 2012, upon reaching the age of 62.

The amount of the benefits to be paid is determined on the basis of the amount accrued in each board member's individual pension savings account. The amount on this account arises from annual contributions paid in, plus interest earned depending on the type of investment.

If a member of the Board of Management with a vested entitlement dies prior to the commencement of benefit payments, a surviving spouse or otherwise surviving children – in the latter case depending on their age and education – are entitled to receive benefits as surviving dependants. In case of invalidity or death, the minimum benefit promised is based on

the number of annual contributions possible up to the age of sixty (up to a maximum of 10). In addition, following the death of a retired board member who has elected to receive a lifelong pension, 60% of that amount is paid as a lifelong widow's pension. Pensions are increased annually by at least 1%.

Depending on the length of membership in the Board of Management and previous activities, the annual contribution to be paid amounts to between €350,000 and €400,000 for each member of the Board of Management and €500,000 for the Chairman of the Board of Management. The guaranteed minimum rate of return p. a. corresponds to the maximum interest rate used to calculate insurance reserves for life insurance policies (guaranteed interest on life insurance policies). When granting pension entitlements, the Supervisory Board considers the targeted level of pension provision in each case as well as the resulting expense for the BMW Group.

Contributions falling due under the defined contribution model are paid into an external fund in conjunction with a trust model that is also used to fund pension obligations to employees.

Income earned on an employed or a self-employed basis up to the age of 63 may be offset against pension entitlements. In addition, certain circumstances have

been specified, in the event of which the Company no longer has any obligation to pay benefits. Transitional payments are no longer provided.

Board of Management members who retire immediately after their service on the board and who draw a retirement pension are entitled to purchase vehicles and BMW Group services at conditions that also apply for Company pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of departments. Retired Chairmen of the Board of Management are entitled to use a BMW Group vehicle as a company car on a similar basis to senior heads of departments, and depending on availability and against payment, use BMW chauffeur services.

Termination benefits on premature termination of board activities, benefits paid by third parties

In conjunction with the consensual early termination of Dr Eichiner's Board of Management mandate with effect from the expiry of 31 December 2016, the Company also reached an agreement with Dr Eichiner concerning an amendment to his service contract, which ends on 31 May 2017. For the period from the termination of his board mandate through to 31 May 2017, he continues to receive fixed compensation of €0.38 million. A payment of €0.75 million, payable in 2017, was agreed to settle all other compensation entitlements for the remainder of the ↵

contractual period. The Company will make a final pension contribution of €0.167 million on behalf of Dr Eichiner for the financial year 2017.

No commitments or agreements exist to pay compensation for early termination of a board member's mandate in the event of a change of control or a takeover offer. No members of the Board of Management received any payments or benefits from third parties in 2016 on account of their activities as members of the Board of Management.

Remuneration caps

The Supervisory Board has stipulated caps for variable remuneration components and for the remuneration of Board of Management members in total. The caps are shown in the table "Overview of compensation system and compensation components".

Total compensation of the Board of Management for the financial year 2016 (2015)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2016 amounted to €37.6 million (2015: €35.5 million), of which €7.8 million (2015: €7.7 million) relates to fixed components (including other remuneration). Variable components amounted to €29.0 million (2015: €27.1 million) and the share-based remuneration component to €0.8 million (2015: €0.7 million).

in € million	2016		2015	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	7.8	20.8	7.7	21.7
Variable cash compensation	29.0	77.1	27.1	76.3
Share-based compensation component*	0.8	2.1	0.7	2.0
Total compensation	37.6	100.0	35.5	100.0

* Matching component; provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled.

Compensation of the individual members
of the Board of Management for the
financial year 2016 (2015)

in € or number of matching shares	Fixed compensation			Variable cash compensation	Share-based compensation component (matching component) ¹		Compensation Total	Total value of benefits allocated in financial year ²
	Basic compensation	Other compensation	Total		Number	Monetary value		
Harald Krüger	1,500,000	18,719	1,518,719	5,947,178	1,752	161,622	7,627,519	7,545,122
	(1,280,645)	(21,809)	(1,302,454)	(4,786,438)	(1,478)	(130,079)	(6,218,971)	(6,088,892)
Milagros Caiña Carreiro-Andree	900,000	74,461	974,461	3,469,214	1,097	101,198	4,544,873	4,443,675
	(825,000)	(74,717)	(899,717)	(3,058,588)	(1,014)	(89,242)	(4,047,547)	(3,958,305)
Klaus Draeger³	675,000	29,440	704,440	2,601,910	823	75,922	3,382,272	3,404,174
	(900,000)	(24,797)	(924,797)	(3,293,863)	(1,092)	(96,107)	(4,314,767)	(4,218,660)
Markus Duesmann⁴	187,500	13,929	201,429	743,403	288	21,629	966,461	944,832
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Friedrich Eichiner⁵	900,000	25,413	925,413	3,469,214	1,097	101,198	4,495,825	4,492,451
	(900,000)	(23,982)	(923,982)	(3,293,863)	(1,092)	(96,107)	(4,313,952)	(4,217,845)
Klaus Fröhlich	750,000	57,311	807,311	2,973,589	876	80,811	3,861,711	3,780,900
	(750,000)	(71,792)	(821,792)	(2,823,290)	(871)	(76,657)	(3,721,739)	(3,645,082)
Ian Robertson	900,000	18,735	918,735	3,469,214	1,097	101,198	4,489,147	4,483,005
	(900,000)	(14,501)	(914,501)	(3,293,863)	(1,092)	(96,107)	(4,304,471)	(4,208,364)
Peter Schwarzenbauer	862,500	32,689	895,189	3,345,313	1,058	97,601	4,338,103	4,240,502
	(750,000)	(31,101)	(781,101)	(2,823,311)	(936)	(82,377)	(3,686,789)	(3,604,412)
Oliver Zipse	750,000	114,694	864,694	2,973,589	876	80,811	3,919,094	3,838,283
	(475,806)	(44,089)	(519,895)	(1,791,119)	(457)	(48,602)	(2,359,616)	(2,311,014)
Total⁶	7,425,000	385,391	7,810,391	28,992,624	8,964	821,990	37,625,005	37,172,944
	(7,333,870)	(318,440)	(7,652,310)	(27,105,316)	(8,032)	(715,278)	(35,472,904)	(34,757,626)

¹ Provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled. See note 39 to the Group Financial Statements for a description of the accounting treatment of the share-based compensation component.

² Value of benefits granted for work performed on the Board of Management during the financial year 2016 plus the amount falling due for payment in conjunction with a share-based remuneration component granted in a previous year and for which the holding period requirements were met.

³ Member of the Board of Management until 30 September 2016.

⁴ Member of the Board of Management since 1 October 2016.

⁵ Member of the Board of Management until 31 December 2016.

⁶ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.

In addition, an expense of €2.8 million (2015: €2.6 million) was recognised in the financial year 2016 for current members of the Board of Management for the period after the end of their service relationship, which relates to the expense for allocations to pension provisions.

Total benefits paid to former members of the Board of Management and their surviving dependants for the financial year 2016 amounted to €6.5 million (2015: €8.0 million).

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €86.4 million (2015: €71.8 million), recognised in accordance with IAS 19.

Share-based component of the individual members
of the Board of Management for the
financial year 2016 (2015)

in €	Expense in 2016 in accordance with HGB and IFRS	Provision at 31.12. 2016 in accordance with HGB and IFRS ¹
Harald Krüger	279,932	557,844
	(166,581)	(369,498)
Milagros Caiña Carreiro-Andree	15,276	284,247
	(109,760)	(268,970)
Klaus Draeger²	102,338	465,494
	(90,275)	(497,690)
Markus Duesmann³	2,130	2,130
	(-)	(-)
Friedrich Eichiner⁴	127,176	489,900
	(133,415)	(497,259)
Klaus Fröhlich	76,878	111,253
	(34,245)	(34,375)
Ian Robertson	68,865	435,753
	(224,354)	(491,185)
Peter Schwarzenbauer	95,615	196,362
	(59,311)	(100,747)
Oliver Zipse	61,370	71,285
	(9,915)	(9,915)
Total⁵	829,579	2,614,266
	(1,106,057)	(2,959,655)

¹ Provisional number or provisional monetary value calculated on the basis of the closing price of BMW common stock in the Xetra trading system on 30 December 2016 (88.75 €) (fair value at reporting date).

² Member of the Board of Management until 30 September 2016.

³ Member of the Board of Management since 1 October 2016.

⁴ Member of the Board of Management until 31 December 2016.

⁵ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.

Pension entitlements

in €	Service cost in accordance with IFRS for the financial year 2016 ⁵	Service cost in accordance with HGB for the financial year 2016 ⁵	Present value of pension obligations (defined benefit plans), in accordance with IFRS ⁵	Present value of pension obligations (defined benefit plans), in accordance with HGB ⁶
Harald Krüger	507,444	510,811	4,764,941	4,763,838
	(175,287)	(358,331)	(3,993,819)	(3,992,702)
Milagros Caiña Carreiro-Andree	358,490	360,785	1,879,851	1,879,263
	(360,767)	(364,656)	(1,427,599)	(1,427,072)
Markus Duesmann¹	87,500	87,500	622,236	620,307
	(-)	(-)	(-)	(-)
Friedrich Eichiner²	189,754	407,706	6,856,658	5,622,284
	(201,018)	(408,960)	(5,465,539)	(5,163,692)
Klaus Fröhlich	354,365	356,743	1,935,142	1,935,142
	(350,000)	(350,000)	(1,510,725)	(1,510,706)
Ian Robertson	424,411	408,564	4,469,471	3,502,860
	(448,139)	(411,555)	(3,279,690)	(2,968,379)
Peter Schwarzenbauer	357,203	359,548	1,481,134	1,480,940
	(360,305)	(364,312)	(1,081,408)	(1,081,155)
Oliver Zipse	355,045	357,410	1,621,507	1,620,978
	(221,667)	(221,667)	(1,188,313)	(1,187,721)
Total³	2,634,212	2,849,067	23,630,940	21,425,612
	(2,301,249)	(2,888,441)	(23,198,892)	(22,343,033)
Klaus Draeger⁴	174,793	407,706	7,864,591	5,649,230
	(184,066)	(408,960)	(5,251,799)	(5,011,606)

¹ Member of the Board of Management since 1 October 2016.

² Member of the Board of Management until 31 December 2016.

³ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.

⁴ Member of the Board of Management until 30 September 2016.

⁵ Service cost differs due to the different valuation bases used to measure pension obligations for HGB purposes (expected settlement amount) and for IFRS purposes (present value of the defined benefit obligation).

⁶ Based on a legal right to receive the benefits already promised to them, Board of Management members appointed for the first time prior to 1 October 2010 were given the option of choosing between the previous defined benefit model and the new defined contribution model.

2. Supervisory Board compensation

Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is specified either by a resolution of the shareholders at the Annual General Meeting or in the Articles of Incorporation. The compensation regulation valid for the financial year under report was resolved by shareholders at the Annual General Meeting on 14 May 2013 and is set out in Article 15 of BMW AG's Articles of Incorporation, which can be viewed and/or downloaded at → www.bmwgroup.com/ir under the menu items "Facts about the BMW Group" and "Corporate Governance".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives a fixed compensation component as well as a Company performance-related compensation component, which is oriented toward sustainable growth and based on a multi-year assessment. The Company performance-related component is based on average earnings per share of common stock for the remuneration year and the two preceding financial years.

The fixed and performance-related components in combination are intended to ensure that the compensation of Supervisory Board members is appropriate in relation to the tasks of Supervisory Board members and the Company's financial condition and also takes account of business performance over several years.

In accordance with the Articles of Incorporation, each member of BMW AG's Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €70,000 (payable at the end of the year) as well as a Company performance-related compensation of €170 for each full €0.01 by which the average amount of (undiluted) earnings per share (EPS) of common stock reported in the Group Financial Statements for the remuneration year and the two preceding financial years exceed a minimum amount of €2.00 (payable after the Annual General Meeting held in the following year). An upper limit corresponding to twice the amount of the fixed compensation is in place for the Company performance-related compensation. The limit for a member of the Supervisory Board with no additional compensation-relevant function is therefore set at €140,000.

With this combination of fixed compensation elements and a Company performance-related compensation component oriented toward sustainable growth, the compensation structure in place for BMW AG's Supervisory Board complies with the recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the German Corporate Governance Code (version dated 5 May 2015).

The German Corporate Governance Code also recommends in section 5.4.6 paragraph 1 sentence 2 that the exercising of chair and deputy chair positions in the Supervisory Board as well the chair and membership of committees should also be considered when determining the level of compensation.

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Provided the relevant committee convened for meetings on at least three days during the financial year, each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one-and-a-half times the amount of the remuneration of a Supervisory Board member. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function that is remunerated with the highest amount.

In addition, each member of the Supervisory Board receives an attendance fee of €2,000 for each full meeting of the Supervisory Board (Plenum) which the member has attended (payable at the end of the financial year). Attendance of more than one meeting on the same day is not remunerated separately.

The Company also reimburses to each member of the Supervisory Board reasonable expenses and any value-added tax arising on the member's remuneration. The amounts disclosed below are net amounts.

For performance of his duties, the Chairman of the Supervisory Board has the use of an office with administrative support, as well as the BMW car service.

Total compensation of the Supervisory Board for the 2016 financial year

In accordance with Article 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2016 totalled 7

€5.4 million (2015: €5.1 million). This amount includes fixed compensation of €2.0 million (2015: €2.0 million) and variable compensation of €3.4 million (2015: €3.1 million).

in € million	2016		2015	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	2.0	37.0	2.0	39.2
Variable compensation	3.4	63.0	3.1	60.8
Total compensation	5.4	100.0	5.1	100.0

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory and/or agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2016 (2015)

in €	Fixed compensation	Attendance fee	Variable compensation	Total
Norbert Reithofer (Chairman)	210,000	10,000	390,660	610,660
	(134,055)	(8,000)	(223,986)	(366,041)
Manfred Schoch (Deputy Chairman)¹	140,000	10,000	260,440	410,440
	(140,000)	(10,000)	(233,920)	(383,920)
Stefan Quandt (Deputy Chairman)	140,000	10,000	260,440	410,440
	(140,000)	(10,000)	(233,920)	(383,920)
Stefan Schmid (Deputy Chairman)¹	140,000	10,000	260,440	410,440
	(140,000)	(10,000)	(233,920)	(383,920)
Karl-Ludwig Kley (Deputy Chairman)	140,000	8,000	260,440	408,440
	(140,000)	(4,000)	(233,920)	(377,920)
Christiane Benner¹	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Franz Haniel	70,000	8,000	130,220	208,220
	(70,000)	(10,000)	(116,960)	(196,960)
Reinhard Hüttl	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Henning Kagermann	70,000	8,000	130,220	208,220
	(70,000)	(10,000)	(116,960)	(196,960)
Susanne Klatten	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Renate Köcher	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Ulrich Kranz	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Robert W. Lane	70,000	8,000	130,220	208,220
	(70,000)	(10,000)	(116,960)	(196,960)
Horst Lischka¹	70,000	10,000	130,220	210,220
	(70,000)	(8,000)	(116,960)	(194,960)
Willibald Löw¹	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Simone Menne	70,000	10,000	130,220	210,220
	(44,685)	(8,000)	(74,662)	(127,347)
Dominique Mohabeer¹	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Brigitte Rödig¹	70,000	8,000	130,220	208,220
	(70,000)	(10,000)	(116,960)	(196,960)
Jürgen Wechsler¹	70,000	8,000	130,220	208,220
	(70,000)	(8,000)	(116,960)	(194,960)
Werner Zierer¹	70,000	10,000	130,220	210,220
	(70,000)	(10,000)	(116,960)	(196,960)
Total²	1,820,000	188,000	3,385,720	5,393,720
	(1,820,768)	(190,000)	(3,042,241)	(5,053,009)

¹ These employee representatives have – in line with the guidelines of the Deutsche Gewerkschaftsbund – requested that their remuneration be paid into the Hans Böckler Foundation.

² Figures for the previous year include the remuneration of members of the Supervisory Board who left office during the financial year of 2015.

3. Other

Apart from vehicle lease and financing contracts entered into on customary conditions, no advances or loans were granted to members of the Board of

Management and the Supervisory Board of BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

RESPONSIBILITY STATEMENT BY THE COMPANY'S LEGAL REPRESENTATIVES

**Statement pursuant to § 37y No. 1 of the
Securities Trading Act (WpHG) in conjunction
with § 297 (2) sentence 4 and § 315 (1) sentence
6 of the German Commercial Code (HGB)**

"To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 14 February 2017

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree Markus Duesmann

Klaus Fröhlich Dr. Nicolas Peter

Dr. Ian Robertson (HonDSc) Peter Schwarzenbauer

Oliver Zipse

BMW GROUP AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement for group and statement of comprehensive income for group, the balance sheet for group, cash flow statement for group, group statement of changes in equity and the notes to the group financial statements, together with the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated

financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 24 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer
Wirtschaftsprüfer

Feege
Wirtschaftsprüfer