



Harald Krüger
Chairman of the Board of Management

Dear Shareholders,

A new era has begun for your company: in this, the first year of our “Next 100”, we are embarking on a new age of individual mobility. Everything we do is for our customers. For them, we are creating a new kind of premium mobility geared entirely towards their individual needs, and which will continue to thrill and excite them moving ahead.

Our Vision Vehicles fascinate people the world over

2016 was our centenary year. And you could see the reports everywhere: “The BMW Group is not resting on its laurels – it is actively shaping the future.” The response of many people when they saw our BMW, MINI, Rolls-Royce and BMW Motorrad Vision Vehicles for the first time, was unequivocally enthusiastic: “The BMW Group’s Vision Vehicles are unlike anything we’ve seen before.” I experienced this excitement myself in Munich, Beijing and Los Angeles. With our Vision Vehicles, we are providing a glimpse of mobility beyond 2030, when autonomous driving, connectivity, electro-mobility and services will be part of everyday life.

Becoming a tech company for premium mobility and premium services with Strategy NUMBER ONE > NEXT

With its bold, entrepreneurial spirit and ground-breaking innovations, the BMW Group has always shaped individual mobility – constantly evolving in the process. Through Strategy NUMBER ONE, we grew from a manufacturer of premium automobiles to a provider of premium mobility and mobility services. Strategy NUMBER ONE > NEXT maps out the company’s further evolution towards a tech company for premium mobility and premium services. To achieve this, we will continue to expand our mobility services: DriveNow, ReachNow, ParkNow and ChargeNow.

Cooperation for faster technological breakthroughs

Our aspiration to be a technology leader in mobility is firmly anchored in Strategy NUMBER ONE > NEXT. To achieve this, we need to focus even more on a cooperative spirit. In the digital age, new players from the IT world are bringing their business model to the automotive sector – proving once again that individual mobility is an attractive field for future business.

Our acquisition, together with other German manufacturers, of map service HERE was followed by another important strategic decision in 2016: the BMW Group is joining forces with Intel and sensor specialist Mobileye to advance highly-automated and autonomous driving.

Autonomous driving opens up new possibilities for customers

Autonomous driving will be a key technology for the future of mobility, opening up totally new possibilities for our customers. Above all, people will be able to reclaim the time they previously spent behind the wheel concentrating on the traffic. With all our products and services, we offer various forms of mobility that generate individual excitement, creative space, are intuitive to use and, at the same time, fully integrated into our customers’ lives. As the vehicle becomes more familiar with its owner, it offers tailored recommendations to make everyday life easier.

Semi-automated driving with the new BMW 7 Series and BMW 5 Series

The transition to fully-autonomous driving, from around 2030, will see responsibility shift from driver to machine in five stages. We already have around 8.5 million connected vehicles on the road today. Our customers are already benefitting from state-of-the-art driver assistance systems in the BMW 7 Series and the new BMW 5 Series. We are directing all our efforts towards the next technological leap, which will bring highly-automated driving and further future technologies to the road with the iNext in 2021.

Campus for highly-automated and autonomous vehicles

We are developing and testing highly-automated and autonomous vehicles at our new Research and Development Centre for Autonomous Driving near Munich. This was also decided as part of Strategy NUMBER ONE > NEXT.

Later this year, we will begin testing autonomous driving in city centres with a fleet of 40 computer-operated vehicles. Customer safety will naturally be our top priority.

Firmly on course for sustainable mobility

Alongside digitalisation, emission-free mobility is another huge task for our industry. By 2025, we expect around 15 to 25 per cent of BMW Group sales to be electrified vehicles. To achieve this, we continue to expand the share of electrified models across all our brands and series.

Demand will increase with more models and greater range – as shown by the example of our BMW i3 with its new 94-amp-hour battery. We delivered a total of more than 62,000 BMW i vehicles and BMW plug-in hybrids to customers in 2016. The BMW i3 is one of the leading electric vehicles available, while the BMW X5 is the top-selling plug-in hybrid. At our car-sharing service DriveNow, operated with Sixt SE, BMW i3s already make up 20 per cent of the European fleet. We see this as a great opportunity to make people, especially young people, excited about electric driving.

Our goal: to sell 100,000 electrified vehicles in 2017

Between the launch of the BMW i3 in 2013 and 2016, we sold more than 100,000 BMW i models and BMW plug-in hybrid models. In 2017, we intend to go one better: this year alone, we aim to deliver a further 100,000 electrified vehicles. Our customers can choose between seven different models.

The BMW Group is currently the world's most successful premium provider of plug-in hybrid vehicles. In 2017, we will release two more models: the BMW 5 Series iPerformance and the MINI Countryman. These will be followed in 2018 by the BMW i8 Roadster. A year later, we will launch an all-electric MINI and in 2020, an all-electric BMW X3.

We are creating common platforms and architectures for economical industrialisation of combustion engines with Efficient Dynamics technology and electrification across all brands and model series.

BMW Group remains the world's leading premium car company in 2016

In its centenary year 2016, the BMW Group continued its successful business development. For the sixth consecutive year, sales reached a new all-time high. With a solid increase of 5.3 per cent over the previous year, sales climbed to more than 2.3 million vehicles. The BMW Group therefore remains the leading car company in the global premium segment.

New all-time highs for BMW, MINI and BMW Motorrad brands

The BMW brand sold more than two million vehicles for the first time in a single year. Demand for the X models, the BMW 2 Series and the new BMW 7 Series was particularly strong. The MINI brand also achieved record sales of 360,233 vehicles; as did BMW Motorrad, with 145,032 motorcycles and scooters sold.

Rolls-Royce delivered 4,011 vehicles to customers and reported the second-best year in its 113-year history.

The BMW Group continues to benefit from its balanced distribution of sales across the world's three major market regions: Europe, Asia and the Americas. We are making targeted investments in our production network of 31 sites in 14 countries on five continents to enhance performance and flexibility.

The desirability of our brands and products is reflected in rankings and awards. The BMW Group was once again the highest-ranked automobile manufacturer in Fortune Magazine's 2017 "World's Most Admired Companies" and is the only German company in the top 50. With the "World Car Award" and "Best Car" for the BMW 7 Series and "Golden Steering Wheel" for the BMW i3, the BMW Group earned several of the world's top honours in 2016.

Targets met for financial year 2016

We achieved our goals for 2016. We succeeded despite increasing uncertainties in the political and economic environment and strong competition on the global auto markets.

The BMW Group posted record revenues of over 94.1 billion euros in 2016. Profit before tax also reached a new high of more than 9.6 billion euros.

EBT rose slightly – as forecast – by 4.8 per cent year-on-year. Annual net profit increased by 8.0 per cent to more than 6.9 billion euros. The EBIT margin in the Automotive segment stands at 8.9 per cent and therefore remains within our target range.

The company is also one of the leading financial services providers in the automotive sector. Our Financial Services division concluded more than 1.8 million new contracts with retail customers in 2016. For the first time, the segment Financial Services posted pre-tax earnings of more than 2.1 billion euros and therefore once again made a major contribution to the Group result.

Highly motivated associates are the key to our success

The company employed a total of 124,729 people at the end of 2016. This represents a slight year-on-year increase of 2.0 per cent. In addition to specialists in alternative drivetrains and automated driving, we are also recruiting experts for our financial services business and expansion in mobility services. The BMW Group continues to benefit from its status as a highly attractive employer, as shown in numerous rankings amongst engineering, IT and business graduates. This helps us attract the young talent we need to implement digitalisation in all our business segments.

In 2016, we once again invested more than 350 million euros in vocational and professional training for associates. The BMW Group is also training more than 4,600 young people. This reflects the company's sense of responsibility towards future generations.

On behalf of the Board of Management, as well as personally, I would like to thank all our associates worldwide for their dedication during the financial year 2016. I would also like to thank our business partners and suppliers, as well as the entire retail organisation. You all play a direct part in our success!

2017 model offensive

In the 2017 financial year, we will offer customers more than 20 new BMW, MINI and Rolls-Royce models. For BMW, a highlight for the current financial year will be the arrival of the most innovative BMW 5 Series of all time. This status has been confirmed by awards such as "Best Connected Car of the Year". Our 5 Series customers can choose from options ranging from a plug-in hybrid variant to the M Performance model. Our current MINI line-up is young and striking, with five models full of character that appeal to different target groups. The new MINI Countryman is our second spearhead in the fast-growing premium compact segment. Motorcycle fans can also look forward to new models this year with 14 market launches from BMW Motorrad.

Dear Shareholders,

We firmly believe that the diverse challenges of tomorrow's mobility open up new opportunities for further growth and technological progress which we will pursue in the interest of our customers. In doing so, we combine fresh thinking, operational excellence and profitability. For the past seven years, the EBIT margin in the Automotive segment has been within or above our target range of eight to ten per cent.

In early 2017, the rating agency Moody's upgraded our long-term credit rating to A1 – giving the BMW Group the best rating of any European automobile manufacturer and the second-highest worldwide. This financial stability forms the basis for our investments in the future.

It is only right that our shareholders share in our success. In the 101st year of BMW AG, the Board of Management and Supervisory Board will therefore propose to the Annual General Meeting the highest dividend in the history of the company for the financial year 2016, with a total payout of 2.3 billion euros. Associates of BMW AG in Germany will also share in the company's positive performance through our profit-sharing programme.

I would like to thank all of our shareholders and debt investors. You, dear shareholders and investors, accompany us as we embark upon a new age of mobility. With our strategy, we have shown you our roadmap for the future and we are consistently implementing the measures accordingly. Your commitment is a sign of your appreciation and trust. We will do everything in our power to ensure that BMW AG remains an attractive investment and a reliable and future-oriented company that justifies your trust.

Yours
H. 34"

Harald Krüger

Chairman of the Board of Management