
CORPORATE GOVERNANCE

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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, trustful cooperation both of the Board of Management and the Supervisory Board as well as among employees, and compliance with applicable law. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to §§ 289 f, § 315 d 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) within the meaning of 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 powers 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 certain capital measures, and elects the shareholders' representatives to the Supervisory Board. The Board of Management is responsible for managing the Company and is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, for an important reason, revoke an appointment at any time. The Board of Management informs the Supervisory Board and reports to it regularly, promptly and comprehensively, in line with the principles of conscientious and faithful accountability and in accordance with the law and the reporting duties determined by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major business proceedings. 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 Company as described above is also known as a "two-tier board structure".

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

The Board of Management and the 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 the last Declaration was issued in December 2017, BMW AG has complied with all the recommendations published officially in the Federal Gazette on 24 April 2017 (Code version dated 7 February 2017) with the exception – as previously reported – of section 4.2.3 sentence 9 and section 4.2.5 sentences 5 and 6.
2. In future, BMW AG will comply with all the recommendations published officially in the Federal Gazette on 24 April 2017 (Code version dated 7 February 2017), with the exception of section 4.2.5 sentences 5 and 6.
3. It is recommended in section 4.2.3 sentence 9 of the Code that subsequent amendments to performance targets or comparison parameters for variable remuneration components relating to the Board of Management shall be excluded. As previously reported, this recommendation was deviated from on a one-time basis in order to implement the new compensation system with effect from the financial year 2018, rather than with effect from the financial year 2020. Accordingly, it was necessary to cancel the targets previously set for the variable remuneration components for the financial years 2018 and 2019 and replace them for the financial year 2018 onwards with targets based on the new compensation system. The recommendation will, however, be complied with again in the future.

4. 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 a Compensation Report. These recommendations have not been and will not be complied with, due to uncertainties as to whether the additional disclosure of this information and the use of model tables would add to the desired transparency and understandability of the BMW Group’s Compensation Report in accordance with generally applicable financial reporting requirements (see section 4.2.5 sentence 3 of the Code).

Furthermore, in its draft revision of the Code dated 25 October 2018 (published on 6 November 2018), the Government Commission on the German Corporate Governance Code has now proposed to delete the aforementioned recommendation, as the planned amendment to the German Stock Corporation Act to implement the second EU Shareholder Rights Directive contains comprehensive and detailed requirements for compensation reports, thus obviating the need for recommendations in the Code. The corresponding amendments to the Code are due to be made in the course of the financial year 2019. Continuity of reporting is therefore a further argument for not using the model tables as a one-off solution in the BMW Group’s Compensation Report for the financial year 2018 prior to the new statutory reporting requirements coming into force.

Munich, December 2018

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

Mandates

— Deutsche Telekom AG (since 17 May 2018)

Milagros Caiña Carreiro-Andree (*1962)

Human Resources, Industrial Relations Director

Markus Duesmann (*1969)

Purchasing and Supplier Network

(until 24 July 2018)

Klaus Fröhlich (*1960)

Development

Mandates

— E.ON SE (since 9 May 2018)

— HERE International B.V. (until 28 February 2018)

Pieter Nota (*1964)

Sales and Brand BMW, Aftersales BMW Group

Dr. Nicolas Peter (*1962)

Finance

Mandates

— BMW Brilliance Automotive Ltd.

(Deputy Chairman)

Peter Schwarzenbauer (*1959)

MINI, Rolls-Royce, BMW Motorrad,
Customer Engagement and Digital Business
Innovation BMW Group

Mandates

— Scout24 AG

— Rolls-Royce Motor Cars Limited (Chairman)

Dr.-Ing. Andreas Wendt (*1958)

Purchasing and Supplier Network

(since 1 October 2018)

Mandates

— Pöttinger Landtechnik GmbH

(Chairman, until 29 October 2018)

Oliver Zipse (*1964)

Production

Mandates

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

— BMW Motoren GmbH (Chairman)

General Counsel:

Dr. Jürgen Reul

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 Health AG (Chairman)
- DELTON Technology SE
(Chairman, since 19 November 2018)
- 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 E.ON SE
and of the Deutsche Lufthansa Aktiengesellschaft

Mandates

- E.ON SE (Chairman)
- Deutsche Lufthansa Aktiengesellschaft (Chairman)
- Verizon Communications Inc. (until 3 May 2018)

Christiane Benner² (*1968)

Member since 2014

Second Chairman of IG Metall

Mandates

- Continental AG
(Deputy Chairman, since 1 March 2018)

Dr. rer. pol. Kurt Bock (*1958)

Member since 17 May 2018

Former Chairman of the Board of

Management of BASF SE

Mandates

- Fresenius Management SE
- Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft (since 25 April 2018)

Franz Haniel (*1955)

Member since 2004

Entrepreneur

Mandates

- DELTON Health AG
(Deputy Chairman, until 31 December 2018)
- Franz Haniel & Cie. GmbH (Chairman)
- Heraeus Holding GmbH
- TBG AG

Ralf Hattler³ (*1968)

Member since 2017

Head of Purchasing Indirect Goods and Services,
Raw Material, Production Partner

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.

Dr.-Ing. Heinrich Hiesinger (*1960)

Member since 2017

Former Chairman of the Board of Management
of thyssenkrupp AG

Mandates

- thyssenkrupp Elevator AG
(Chairman, until 6 July 2018)
- thyssenkrupp Steel Europe AG
(Chairman, until 6 July 2018)
- thyssenkrupp (China) Ltd.
(Chairman, until 6 July 2018)

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**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

- Infineon Technologies AG
- Nestlé Deutschland AG
- Robert Bosch GmbH

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

Member since 2009 until 17 May 2018

Former Chairman and Chief Executive Officer of
Deere & Company**Horst Lischka**² (*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 supervisory boards

Mandates

- Deutsche Post AG
- Springer Nature AG & Co. KGaA
(since 23 April 2018)
- Johnson Controls International plc
(since 7 March 2018)
- Russell Reynolds Associates Inc.
(since 19 January 2019)

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.

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

Former 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

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.

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

The Board of Management manages the enterprise under its own responsibility, acting in the best 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 also responsible for ensuring that all provisions of law and internal regulations are complied with. Further details on compliance within the BMW Group are available 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 benefit of the enterprise. They may undertake ancillary activities, particularly supervisory board mandates outside the BMW Group, only with the prior approval of the Supervisory Board's Personnel Committee. Individual members of the Board of Management of BMW AG are required to disclose any conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

When a new member is appointed to the Board of Management, the BMW Corporate Governance Officer is required to inform that new member of the framework conditions under which their 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 developing 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 basic policy level relating to the Group's automobile product strategies and product projects, inasmuch as these are relevant for all of the Group's 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 procedure approved by the Board of Management contain a plan for the allocation of divisional responsibilities among the individual Board members. These terms of procedure 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 the required information pertaining to major transactions and developments within their sphere 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 makes its decisions at meetings which are convened, coordinated and headed by the Chairman of the Board of Management. Generally, two to three Board meetings were held per month during the financial year 2018.

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 particular meeting are entitled to vote in writing, by fax or by telephone. Votes cast by telephone 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 based on 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 procedure 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 of 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.

The Operations Committee generally meets every two weeks. At these meetings, decisions are reached concerning automobile product projects, based on the strategic orientation and decision-making framework stipulated at Board of Management meetings. The Operations Committee has three members who are entitled to vote at meetings, namely the Board member for Development (who also chairs the meetings), the Board member for Production and the Board member responsible for Purchasing and the Supplier Network. Up to 28 February 2018, the Board member for Sales and Brand BMW and Aftersales BMW Group as well as the Board member for MINI, Rolls-Royce, BMW Motorrad, Customer Engagement and Digital Business Innovation BMW were also members of the Operations Committee. If the committee chairman is not present or unable to attend, meetings are chaired by the Board member for Production. The Head of Corporate Quality as well as the Head of Maturity Management, Sign Off and Product Validation participate in Operations Committee meetings in an advisory capacity.

The full Board usually convenes up to twice a year in its function as Sustainability Board in order to define strategy and use of resources 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 corporate issues affecting executive managers of the BMW Group, either in their entirety or individually (such as potential candidates for executive management or nominations for senior management positions). This committee has, firstly, an advisory and preparatory role (e.g. in connection with fundamental issues relating to human resources policies, such as compensation systems and planning, personnel development and tools for assessing performance) and secondly the function of a decision-making body (e.g. the appointment of senior executives).

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 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. In addition, further participants can be invited when needed for special topics. 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. Normally, the Committee for Executive Management Matters convenes between five and ten 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 law, the Board of Management submits its reports to the Supervisory Board in writing. To the greatest extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time prior to the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has resolved that its specific approval is required. 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. The Chairman is supported by all members of the Board of Management in the fulfilment of these tasks. The fundamental principle followed when reporting to the Supervisory Board is that the information should be provided regularly, comprehensively and without delay regarding all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual business development and plans and targets, and the relevant reasons.

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 is quorate 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 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 members of the Board of Management 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 if 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 via another Supervisory Board member in written, fax or electronic form. 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 is generally shown 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.

All 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, agreed to a diversity concept and determined a competency profile.

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. 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.

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 are quorate only 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 the 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.

→ see Report of the Supervisory Board for the number of meetings during the year 2018

→ see section "Composition targets for the Supervisory Board"

→ see "Overview of Supervisory Board committees and their composition"

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, in particular 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, as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 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 additional areas 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. Additionally, the Audit Committee deals with the non-financial reporting, prepares the audit of the Supervisory Board and the engagement of an external auditor and issues the audit engagement. Furthermore, the Audit Committee deals with the supervision of the internal audit system and compliance as well as the audit and supervision of any needs for action related to possible violations of duties by members of the Board of Management in preparation of a resolution in the Supervisory Board. 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 procedure | <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 procedure | <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, as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 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 (recommendation) of external auditor and compliance of audit engagement, determination of additional 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 — preparation of the Supervisory Board's audit of the non-financial reporting, preparation of the selection of the auditor for non-financial reporting and engagement of the auditor — supervision of internal audit system and compliance as well as the audit and supervision of any needs for action related to possible violations of duties by members of the Board of Management in preparation of a resolution in the Supervisory Board — 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 procedure | <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 procedure | <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 GC/GC.

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 interests of the Group and after due consideration of all relevant circumstances. The Personnel Committee takes into account the diversity concept described above when selecting candidates, in order to ensure that the Board of Management has a diverse composition. In the Supervisory Board’s opinion, the composition of the Board of Management as at 31 December 2018 is in line with the defined diversity concept. In particular, the Board of Management has one female member and the various work, educational and life experiences of the members of the Board of Management complement each other. For ease of comparison with the diversity concept, the curricula vitae of members of the Board of Management are available on the Internet.

Composition objectives of the Supervisory Board, competency profile, 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 of BMW AG has approved the following objectives for its composition, including a competency profile. 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 persons from the fields of business, science or research who have experience in areas relevant to the BMW Group, for example chemistry, energy supply, information technology, or who have specialist knowledge in fields relevant for the future of the BMW Group, for example 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 benefits 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 12 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 law, members of the Supervisory Board are to take care that no persons will be nominated for election for whom a significant, 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 is generally to 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.

**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

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the period up to 31 December 2019. The nomination committee of the Supervisory Board already takes into account the composition targets in its selection of potential candidates as representatives of the shareholders. This enables diversity in the composition of the Supervisory Board and ensures that the Supervisory Board collectively possesses the knowledge, skills and experience required to properly perform its duties. Proposals for nomination made by the Supervisory Board to 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 of the Annual General Meeting. The Annual General Meeting is not bound by proposed nominations for election. The voting freedom of employees in the 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 voting freedom.

In the Supervisory Board's opinion, its composition as at 31 December 2018 fulfilled the composition objectives detailed above. For ease of comparison with 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 mandates in other statutory supervisory boards and equivalent national or foreign company boards, including the length of periods of service on the Supervisory 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 highly 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 Company 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, neither ownership of a substantial shareholding in the Company, or office as an employee representative, or previous membership of the Board of Management, rules out independence of a Supervisory Board member. 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 applicable 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 the end of the reporting period these are: Dr.-Ing. Norbert Reithofer, Manfred Schoch, Stefan Quandt, Stefan Schmid, Dr. Karl-Ludwig Kley, Christiane Benner, Dr. Kurt Bock, Franz Haniel, Ralf Hattler, Dr.-Ing. Heinrich Hiesinger, Prof. Dr. Reinhard Hüttel, Susanne Klatten, Prof. Dr. Renate Köcher, Horst Lischka, Willibald Löw, Simone Menne, Dr. Dominique Mohabeer, Brigitte Rödig, Jürgen Wechsler and Werner Zierer. At least three members meet the requirements of an independent financial expert. These are Dr. Kurt Bock, Dr. Karl-Ludwig Kley and Simone Menne. 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. At present, no member of the Supervisory Board is older than 70 years.

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

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.

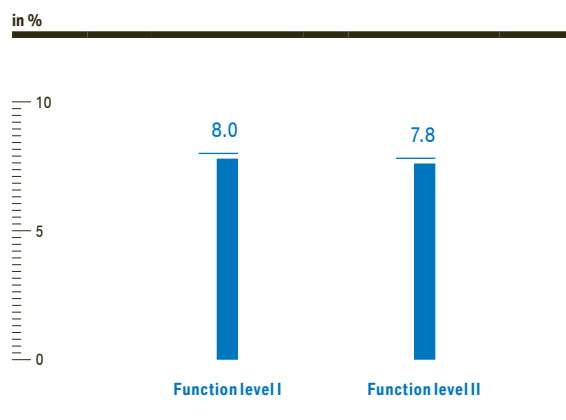
In accordance with this legislation, the Supervisory Board of BMW AG is required to set a target for the proportion of women on its Board of Management and a time frame for meeting this target. Likewise, the Board of Management of BMW AG is required to establish targets for the two executive management levels below the Board of Management. As its target for 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%. At 31 December 2018, the Board of Management had one female member (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 time frame from 1 January 2017 to 31 December 2020, the Board of Management has set a target range of 10.2% to 12.0% for the first level of executive management and 8% to 10% for the second. At 31 December 2018, the proportion of women within the first executive management level stood at 8.0% and at 7.8% within the second.

Management level is defined in terms of functional level and follows a comprehensive job evaluation system based on Mercer.

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

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Diversity contributes to greater competitiveness and innovation at the BMW Group. Working together in mixed, complementary teams raises performance levels and increases customer focus. Promoting an appropriate gender ratio is seen as an essential component of the BMW Group’s diversity concept. Further increasing the proportion of women therefore remains an objective of the Board of Management.

The proportion of women in the workforce as a whole increased again during the financial year under report, as a result 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 and Principles of Action

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 and → www.ohchr.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 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. In 2018 we published the BMW Codex on Human Rights and Working Conditions, which supplements the Declaration on Human Rights and Working Conditions from 2010. The Codex is based on a diligence process, which allows the BMW Group to identify relevant aspects and define measures. It reinforces attention to the consideration of human rights and clarifies how the BMW Group promotes human rights and implements the ILO Core Labour Conventions globally in its business activity.

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. A spot check of supplier facilities is conducted with sustainability audits and assessments. In 2017, the Human Rights Contact Supply Chain was established for reporting of sustainability infringements in the supply chain. 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. The BMW Group also expects its business partners to conduct themselves in the same manner.

In order to protect itself systematically against legal and reputational risks, the Board of Management created a Compliance Committee several years ago, mandated to establish a Compliance Management System throughout the BMW Group.

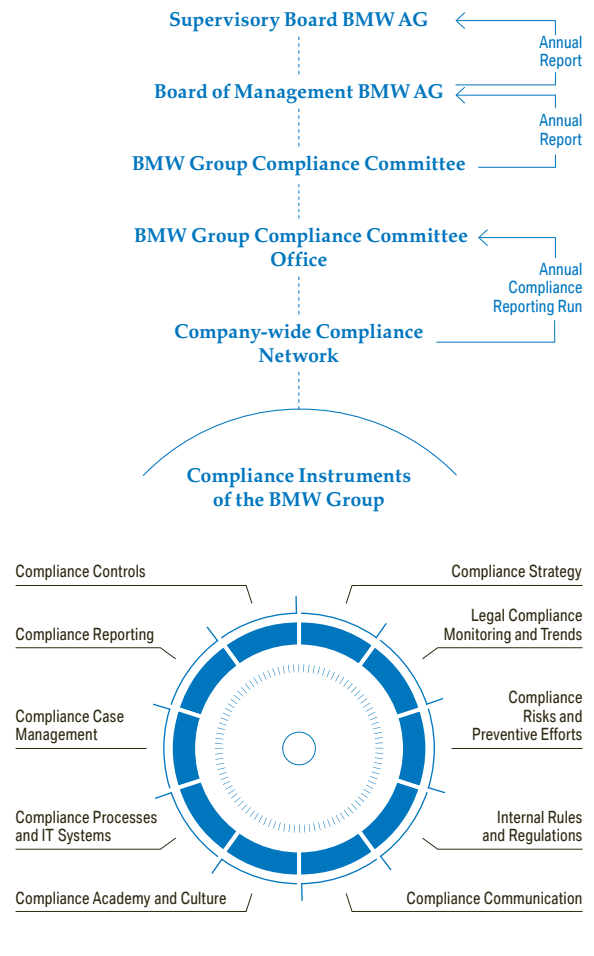
The BMW Group Compliance Management System consists of a coordinated set of instruments and topics designed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on measures to ensure compliance with antitrust legislation and avoid the risk of corruption or money laundering.

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, including, for example, legal monitoring, internal compliance regulations, communications and training activities, complaint and case management, compliance reporting, compliance controls and following through with sanctions in 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 also ensures that the Board of Management is immediately notified of any cases of particular significance.

BMW Group Compliance Management System

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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.

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 as well as relevant proceedings both on a regular and a case-by-case basis as the need arises.

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 19 employees and is allocated in organisational terms to the Chairman of the Board of Management.

The BMW Group Compliance Committee Office is supported by local compliance functions, especially in connection with operational implementation of compliance topics. Installation of 77 local compliance functions was completed in 2018. Their activities follow a standardised management process with clearly defined tasks and responsibilities. The heads of these functions serve as the Compliance Officer for the respective organisational unit.

The various elements of the BMW Group Compliance Management System are shown in the diagram on the previous page and are applicable to all BMW Group organisational units worldwide. The BMW Group Legal Compliance Code forms the core 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"). The Code also explains the significance of legal compliance and provides an overview of the various areas of relevance for the BMW Group. It is available both as a printed brochure in German and English and for download. In addition, translations into 11 other languages are available in the BMW Group intranet.

The BMW Group Legal Compliance Code is 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. The BMW Group Policy "Antitrust Compliance" establishes 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 that is updated annually. In 2018, this was further refined to create a Compliance Risk and Performance Management Concept, which supports the recognition of compliance risks and the identification of appropriate preventative IT measures. Through the function Compliance Coordination in the Financial Services segment the specific Compliance risks of the segment are taken into consideration. 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 around 240 compliance responsables with 77 local compliance functions.

Training plays an important role in reinforcing compliance in the corporate culture. In 2018, training management for online training in Compliance Essentials and Antitrust Compliance, both available in German and English, was switched to a central training platform. These training modules must be repeated by the required target groups every two years and include a final test. Successful completion of the test is confirmed by a certificate.

More than 44,000 managers and staff worldwide have so far received training in the basic principles of compliance and are in possession of a valid training certificate. Successful completion of the training programme 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 and repeat it every two years. In this way, the BMW Group ensures nearly full training coverage for its managers in compliance matters.

Online training in antitrust compliance was restructured in 2018. This training is also mandatory for managers and staff whose functions or assignments expose them to antitrust risks. A total of 22,000 managers and associates worldwide have so far completed antitrust compliance training and currently hold a valid certificate.

Additional classroom training was also offered for key compliance topics. The main emphasis here was on providing training in antitrust law for employees who participate in meetings with competitors or work with suppliers or sales partners.

Additional compliance coaching was also implemented for international sales and financial service companies 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 functions. In 2018, market coaching was conducted in Australia, Austria, Brazil, Canada, China, Denmark, France, Germany, Italy, the Netherlands, New Zealand, Russia, Singapore, Sweden, Switzerland, Thailand and the US.

Any member of staff with questions or concerns relating to compliance is expected to discuss these matters with their managers and with the relevant departments within the BMW Group: in particular with 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. Non-employees may also use this reporting system. This communication may remain anonymous, if preferred.

Employees also have the opportunity to submit information about possible breaches of the law within the Company – anonymously and confidentially – via the BMW Group SpeakUP Line. 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 where BMW Group employees are engaged in activities.

All 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 legal departments or the Works Council may be called upon to assist in the investigation process.

Various internal channels and means of communication, including newsletters, employee newspapers and intranet portals, are used to keep BMW Group employees fully up-to-date with the instruments and measures used by the Compliance Management System. The central communications channel is the compliance website within the BMW Group's intranet, where employees can find compliance-related information and 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 situations. A group-wide communications campaign was implemented in 2018 to boost employee awareness of the importance of creating a culture of transparency and trust.

Managers were the main focus of additional training on the topic of compliance culture, including how to be a good role model, management style and dealing with contradictions and crises.

In addition to these communication measures, appropriate IT systems also support BMW Group employees with the assessment, approval and documentation of compliance-relevant matters.

For example, since 2017, all exchange activities with competitors must be documented and approved in a special compliance IT system. All employees have access to IT tools to help them verify the legal admissibility of and document benefits, especially in connection with corporate hospitality.

The BMW Group also uses an IT-based 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 IT system used to verify customer integrity has been expanded and has so far been introduced in 56 organisational units under enhanced anti-money laundering measures.

Through the group-wide reporting system, compliance responsibilities across all organisational units of the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, also 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 sanctions and corrective/preventative measures implemented.

Compliance with and implementation of the compliance rules and processes 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, a BMW Group Compliance Spot Check, a sample test specifically designed to identify potential corruption risks, was carried out in 2018. Antitrust Compliance Validation was another new measure introduced in 2018 to identify and audit possible antitrust risks at the Company. 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.

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, to convey the values it embodies and make employees aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate with staff on this issue. It is important to signal to employees that they take compliance risks seriously and that relevant information is extremely valuable. In their dealings with staff members, managers remain open to discussion and listen to differing opinions. Any indication of non-compliance with the law must be rigorously investigated.

It is essential for compliance in the BMW Group 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.

The BMW Group is committed to respecting internationally recognised human rights, as set out in the ten principles of the UN Global Compact and the ILO Core Labour Conventions. The Company's due diligence process is geared towards the UN Guiding Principles on Business and Human Rights, focusing on topics and areas of activity where it can leverage its influence as a commercial enterprise.

The BMW Group stated its position clearly back in 2005, with the Joint Declaration on Human Rights and Working Conditions at the BMW Group, which

was updated in 2010. This was followed by systematic introduction and continuous upgrading of measures to protect human rights. These measures, which were already firmly established within the organisation, were integrated into the BMW Group's group-wide Compliance Management System in 2016. A group-wide human rights compliance assessment was conducted in 2017. In the year under review, the BMW Group published its Code on Human Rights and Working Conditions, which clarifies how the Joint Declaration on Human Rights and Working Conditions at the BMW Group from 2010 should be implemented. The Code confirms the BMW Group's commitment to human rights and outlines how the Company promotes human rights and implements the core labour standards of the ILO.

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.

To ensure that the BMW Group complies with regulations relating to insider information, the Board of Management appointed an Ad-hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members determine whether information displays the characteristics of publishable insider information and handle the publication and legal notices required by law. All persons who perform duties on behalf of BMW AG and have access to insider information are included in an insider list and informed of the duties arising from insider rules.

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 41 to the Group Financial Statements).

→ see
note 41

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.

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.

→ see
notes
31 and 41

Under the terms of the Employee Share Programme, in 2017 employees were entitled to acquire packages of 7, 12 or 17 shares of non-voting preferred stock with a discount of €20.00 (2017: €20.00) per share compared to the market price (average closing price in Xetra trading during the period from 5 to 8 November 2018: €66.26). 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 521,524 (2017: 491,114) shares of preferred stock were acquired by employees under the programme in 2018; 521,500 (2017: 491,000) of these shares were drawn from Authorised Capital 2014, the remainder were acquired via the stock exchange or as a result of cancelled employee purchases relating to the previous year. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in → notes 31 and 41 to the Group Financial Statements.

COMPENSATION REPORT (PART OF THE COMBINED MANAGEMENT REPORT)

The following section describes the principles governing the compensation of the Board of Management for financial years from 2018 onwards. A description of the stipulations set out in the statutes relating to the compensation of the Supervisory Board is also provided. In addition to explaining the system of compensation, details of components of compensation are also provided with figures. Furthermore, the compensation of each individual member of the Board of Management and the Supervisory Board for the financial year 2018 is disclosed with 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 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. A further principle of the compensation system at the BMW Group is that of consistency. 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 performs an annual review to ensure that all Board of Management compensation components are appropriate, individually and in total, and do not encourage the Board of Management to take inappropriate risks for the BMW Group. At the same time, the compensation model used for the Board of Management needs to be 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 tasks and exercise of mandate of the member of the Board of Management, the economic situation as well as 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 criteria take account of both positive and negative developments and that the overall incentive is on the long term. As a general rule, targets and comparative parameters may not be changed retrospectively. In connection with the revised compensation system for the Board of Management (see the section Revised Board of Management compensation system for financial years from 2018 onwards), the targets originally set for the variable compensation components for the financial years 2018 and 2019 were revoked exceptionally and replaced by the more ambitious targets stipulated in the new compensation system applicable from 2018 onwards. The Supervisory Board reviews the appropriateness of the compensation system annually. In preparation, the Personnel Committee also consults remuneration studies. In order to check that the compensation system is in line with peers, the Supervisory Board compares compensation paid by other DAX companies. For a vertical view, it compares Board compensation with the salaries of executive managers and with the average salaries of employees of BMW AG based in Germany, also with regard to the development over time. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Revised Board of Management compensation system for financial years from 2018 onwards

In December 2017, the Supervisory Board resolved to revise the compensation system for financial years from 2018 onwards. A focus was to align the remuneration structure even more strongly on sustainable corporate development. The base salary, which had remained at the same level since 1 January 2012, was raised. The bonus was revised, both in terms of its structure and the target setting. Target values for the parameters Group net profit and post-tax return on sales used to determine the earnings-related bonus were adjusted in line with the Group's current business plan and revised. A new multi-year and future-oriented component was introduced in the form of a performance cash plan, in order to further strengthen the long-term orientation of the compensation system. The overall upper limits are unchanged. The changes apply to all members of the Board of Management for financial years with effect from 1 January 2018.

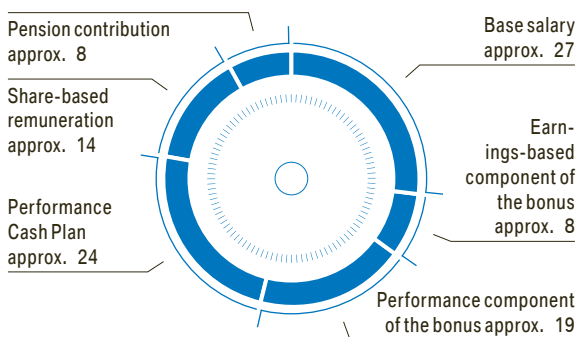
Compensation system, compensation components

Board of Management compensation comprises fixed and variable cash elements as well as a share-based component. The compensation components are described in more detail below. Retirement benefits remained unchanged in the revised compensation system applicable from 1 January 2018.

Overview of compensation system for financial year 2018: simplified depiction of allocation to cash benefits (target compensation) and pension contribution¹

→ 82

in %

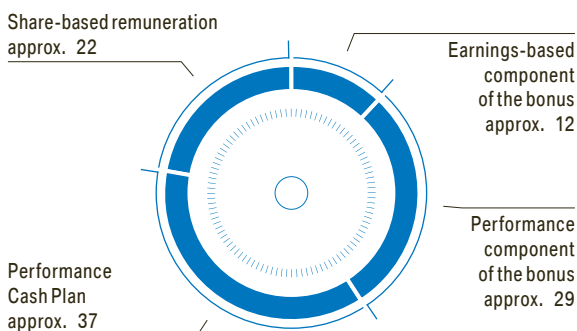


¹ Simplified depiction of target amounts for the variable cash remuneration of the Chairman of the Board of Management. Excludes other remuneration. Based on the assumption that the share price remains unchanged for the calculation of the matching component.

Overview of compensation system: simplified depiction of variable remuneration (target compensation)²

→ 83

in %



² Simplified depiction of target amounts for the variable cash remuneration of the Chairman of the Board of Management. Excludes basic salary, other remuneration and pension contribution. Based on the assumption that the share price remains unchanged for the calculation of the matching component.

Fixed remuneration

Fixed remuneration consists of a base salary, which is paid monthly, and fringe benefits (other remuneration elements such as the use of Company cars, insurance premiums and contributions towards security systems). With effect from the financial year 2018, the base salary is €0.8 million p.a. for a Board member during the first period of office, €0.95 million p.a. for a Board member from the second period of office or the fourth year of mandate and €1.8 million p.a. for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of the Board of Management comprises three components:

- bonus
- Performance Cash Plan and
- share-based remuneration

Payment of a discretionary additional bonus is not foreseen. An upper limit has been set for each component of variable remuneration (see Overview of compensation system and compensation components).

Bonus

In the case of 100% target achievement, the bonus comprises an earnings-related component of 30% and performance-related component of 70%. The target bonus (100%) is €0.85 million p.a. for a Board member during the first period of office, €1.0 million p.a. from the second period of office or the fourth year of mandate and €1.8 million p.a. for the Chairman of the Board of Management. For all Board members, the upper limit of the bonus is set at 180% of the relevant target bonus.

In order to calculate the earnings-related component, an earnings factor is determined on the basis of the target parameters and multiplied by 30% of the target bonus amount. The level of the earnings-related component depends on the degree to which the targets set by the Supervisory Board for Group net profit and post-tax return on sales are achieved. The degree of achievement is expressed in an earnings factor. The underlying measurement values are determined in advance for a period of three financial years and may not be changed retrospectively. The earnings factor is capped at a maximum of 1.8.

An earnings factor of 1.0 would give rise to a earnings-related component of €0.255 million for a Board member in the first period of office, €0.3 million from the second period of office or the fourth year of mandate and €0.54 million for the Chairman of the Board of Management. The earnings factor is 1.0, for instance, in the event of a Group net profit of €5.3 billion and a post-tax return on sales of 5.6%. If the Group net profit ↗

were below €3 billion or the post-tax return on sales below 3%, the earnings factor would be zero. In this case, an earnings-related component would not be paid. The maximum value of the earnings factor is reached in the event of a Group net profit of €11 billion and a post-tax return on sales of 9%. In exceptional circumstances, for instance major acquisitions or disposals, the Supervisory Board may adjust the earnings factor.

The performance-related component is calculated using a performance factor which the Supervisory Board sets for each member of the Board of Management and which is multiplied by 70% of the target bonus amount. The Supervisory Board sets the performance factor on the basis of a detailed evaluation of the contribution made by Board members to sustainable and long-term business development over a period of at least three financial years. The evaluation by the Supervisory Board is based on predefined criteria that take into account the Group's long-term success, the interests of shareholders, the interests of employees and social responsibility.

The criteria include in particular innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility. The individual performance factor lies between zero and a maximum of 1.8.

Bonus overview

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| <u>EARNINGS COMPONENT BONUS</u> | + | <u>PERFORMANCE COMPONENT</u> | = | <u>TOTAL</u> |
|---|---|--|---|--|
| Earnings factor x 0.3 of target amount | | Performance factor x 0.7 of target amount | | — Cash payment — Capped at 180% of target amount |
| Basis for earnings factor: | | Basis for performance factor: | | |
| — Group net profit | | — Contribution to sustainable and long-term business development over a period of at least three financial years | | |
| — Group post-tax return on sales | | — Qualitative, mainly non-financial parameters | | |
| — Value between 0 and 1.8 | | — Value between 0 and 1.8 | | |

Performance Cash Plan

With effect from the financial year 2018, variable cash compensation includes a multi-year and future-oriented Performance Cash Plan (PCP). The PCP is calculated at the end of a three-year evaluation period, by multiplying a predefined target amount by a factor that is based on multi-year target achievement (the PCP factor). PCP entitlements are paid in cash. The PCP target amount (100 %) amounts to €0.85 million p.a. for a Board member in the first period of office, €0.95 million p.a. from the second period of office or the fourth year of mandate and €1.6 million p.a. for the Chairman of the Board of Management. The maximum amount that can be paid to a Board member is capped at 180 % of the PCP target amount p.a.

The PCP evaluation period comprises three years, the grant year and the two subsequent years. The PCP is paid out after the end of the three-year evaluation period.

In order to determine the PCP factor, a multi-year earnings factor is multiplied by a multi-year performance factor. The PCP factor is capped at a maximum of 1.8. ↗

In order to determine the multi-year earnings factor, an earnings factor is calculated for each year of the three-year evaluation period and an average is then calculated for the evaluation period. As for the earnings-related component of the bonus, the earnings factor for each individual year within the evaluation period is determined on the basis of Group net profit and post-tax return on sales for the relevant year. The maximum earnings factor is 1.8. The underlying measurement values are determined in advance for a period of three financial years and may not be changed retrospectively.

In addition to the multi-year earnings factor, the Supervisory Board also determines a multi-year performance factor after the end of the evaluation period. To this end, the Supervisory Board takes account of in particular the business development during the evaluation period, the forecast trend in the business development for subsequent years, the Board member's individual contribution to profitability and the status of compliance within the Board member's area of responsibility. The multi-year performance factor can be between 0.9 and 1.1.

Performance Cash Plan overview

→ 85

| | | | | |
|----------------------|----------|-------------------|----------|--|
| TARGET AMOUNT | X | PCP FACTOR | = | CASH PAYMENT |
| | | | | — Cash payment at end of evaluation period |
| | | | | — Capped at 180 % of target amount |

PCP factor overview

→ 86

| | | | | |
|--|----------|--|----------|-------------------|
| MULTI-YEAR EARNINGS FACTOR | X | MULTI-YEAR PERFORMANCE FACTOR | = | PCP FACTOR |
| — Average earnings factor | | Measurement based on multi-year performance factor: | | |
| — Based on Group net profit and Group post-tax return on sales | | — Trend in business development | | |
| — Value between 0 and 1.8 | | — Status of compliance in each Board member's area of responsibility | | |
| | | — Individual contribution to profitability | | |
| | | — Forecast trend in business development | | |
| | | — Value between 0.9 and 1.1 | | |

Members of the Board of Management receive advance payments out of the Performance Cash Plan 2018 and the Performance Cash Plan 2019 in the years 2019 and 2020. At the end of evaluation period, the advance payment will be set off or refunded, depending on the amount then determined. The advance payment for each year is €0.5 million for a Board member in the first period of office and €0.6 million from the second period of office or the fourth year of mandate. For the Chairman of the Board of Management the amount is €0.9 million p.a.

Share-based remuneration

Members of the Board of Management receive a cash compensation (investment component) for the specific purpose of investment after tax and contributions in BMW AG common stock. For financial years from 2018 onwards, the investment component corresponds to 45% of the gross bonus. Shares of common stock purchased in this way by Board members are required to be held for a period of four years.

At the end of the holding period, Board members receive from the Company, as previously, for every three shares of common stock held, either one additional share of common stock or the cash equivalent, to be decided at the Company's discretion (matching component). Upper limits have been defined for both the investment component and the matching component (see Overview of compensation system and compensation components).

Other

In the event of death or invalidity, special rules apply for early payment of performance cash plans and share-based remuneration components based on the target amounts. Insofar the service contract is prematurely terminated and the Company has an extraordinary right of termination, or if the Board member resigns without the Company's agreement, entitlements to amounts as yet unpaid relating to performance cash plans and share-based remuneration are forfeited.

A one-year post-contractual non-competition clause has been agreed with Board members under specified circumstances. During that one-year period, the former Board member is entitled to receive monthly compensation equivalent to 60% of his or her previous monthly basic remuneration, reduced by any amount of other income exceeding 40% of the basic remuneration. The Company may unilaterally waive the requirement to comply with the post-contractual non-competition clause.

Overview of compensation system and compensation components

| Component | Parameter / measurement base |
|------------------------------|---|
| BASE SALARY P.A. | <p>Member of the Board of Management:</p> <ul style="list-style-type: none"> — €0.80 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) <p>Chairman of the Board of Management:</p> <ul style="list-style-type: none"> — €1.80 million |
| VARIABLE REMUNERATION | <p>Bonus (sum of earnings-related bonus and performance-related bonus)</p> <p>Target amount p.a. (at 100 % target achievement):</p> <ul style="list-style-type: none"> — €0.85 million (1st period of office) — €1.0 million (from 2nd period of office or 4th year of mandate) — €1.8 million (Chairman of the Board of Management) — Capped at 180 % of target amount, see section Remuneration caps <p>a) Earnings-related bonus (at 100 % target achievement corresponds to 30 % of target amount)</p> <ul style="list-style-type: none"> — Formula: 30 % target amount x earnings factor — Base amount p.a. (30 % target amount per bonus): <ul style="list-style-type: none"> — €0.255 million (1st period of office) — €0.30 million (from 2nd period of office or 4th year of mandate) — €0.54 million (Chairman of the Board of Management) — Quantitative criteria fixed in advance for a period of three financial years — Earnings factor is derived from Group net profit and Group post-tax return on sales — The earnings factor is 1.0 in the event of a Group net profit of €5.3 billion and a post-tax return on sales of 5.6 % — Earnings factor may not exceed 1.8 — Maximum amount of earnings-related bonus p.a.: <ul style="list-style-type: none"> — €0.459 million (1st period of office) — €0.54 million (from 2nd period of office or 4th year of mandate) — €0.972 million (Chairman of the Board of Management) <p>b) Performance-related bonus (at 100 % target achievement corresponds to 70 % of target amount)</p> <ul style="list-style-type: none"> — Formula: 70 % target amount x performance factor — Base amount p.a. (70 % target amount per bonus): <ul style="list-style-type: none"> — €0.595 million (1st period of office) — €0.70 million (from 2nd period of office or 4th year of mandate) — €1.26 million (Chairman of the Board of Management) — Primarily qualitative, non-financial criteria, expressed in terms of a performance factor aimed at measuring the Board member's contribution to the sustainable and long-term development and the future viability of the Company over a period of at least three financial years — Criteria for the performance factor include: innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility — Performance factor may not exceed 1.8 — Maximum amount of performance-related bonus p.a.: <ul style="list-style-type: none"> — €1.071 million (1st period of office) — €1.26 million (from 2nd period of office or 4th year of mandate) — €2.268 million (Chairman of the Board of Management) |

| Component | Parameter / measurement base |
|--|--|
| VARIABLE REMUNERATION | |
| Performance Cash Plan | <ul style="list-style-type: none"> Target amount p.a. (at 100 % target achievement): <ul style="list-style-type: none"> — €0.85 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) — €1.6 million (Chairman of the Board of Management) — 3-year evaluation period — Capped at 180 % of target amount, see section Remuneration caps — Formula: PCP factor x target amount — PCP factor: multi-year earnings factor x multi-year performance factor — PCP factor may not exceed 1.8 |
| a) Multi-year earnings factor | <ul style="list-style-type: none"> — Earnings factor for each year of three-year evaluation period derived from Group net profit and Group post-tax return on sale — Earnings factor for each year may not exceed 1.8 — Average for evaluation period calculated |
| b) Multi-year performance factor | <ul style="list-style-type: none"> — Determined by Supervisory Board at end of evaluation period — Criteria include in particular the trend in business development during the evaluation period, the forecast trend in business development, individual contribution to profitability and the status of compliance within the Board member's area of responsibility — Multi-year performance factor can be between 0.9 and 1.1 |
| Share-based remuneration programme | <ul style="list-style-type: none"> — Requirement for Board of Management members to invest an amount of 45 % of the gross bonus after tax and contributions in BMW AG common stock — Requirement for Board of Management members to hold the acquired shares of common stock for four years |
| a) Cash remuneration component (investment component) | <ul style="list-style-type: none"> — Earmarked cash remuneration amounting to 45 % of the gross bonus — Cash remuneration p.a. at 100 % target achievement of the bonus: <ul style="list-style-type: none"> — €0.3825 million (1st period of office) — €0.45 million (from 2nd period of office or 4th year of mandate) — €0.81 million (Chairman of the Board of Management) — Maximum remuneration, see section Remuneration caps |
| 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 — Maximum remuneration, see section Remuneration caps |
| OTHER REMUNERATION | |
| | Contractual agreement, main points: non-cash benefits from use of Company car, insurance premiums, contributions towards security systems |

Overview of compensation system and compensation components onwards

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

| Model | Principal features |
|--|---|
| Defined contribution system with guaranteed minimum rate of return | <p>Pension based on amounts credited to individual savings accounts for contributions paid and interest earned, various forms of disbursement</p> <p>Pension contributions p. a.: Member of the Board of Management: €350,000 Chairman of the Board of Management: €500,000</p> |

REMUNERATION CAPS (MAXIMUM REMUNERATION)

| in € p. a. | Bonus | Performance Cash Plan | Share-based compensation programme | | Total* |
|---|-----------|-----------------------|---|--------------------------------------|-----------|
| | | | Cash compensation for share acquisition | Monetary value of matching component | |
| Member of the Board of Management in the first period of office | 1,530,000 | 1,530,000 | 688,500 | 344,500 | 4,925,000 |
| Member of the Board of Management in the second period of office or from fourth year of mandate | 1,800,000 | 1,710,000 | 810,000 | 405,000 | 5,500,000 |
| Chairman of the Board of Management | 3,240,000 | 2,880,000 | 1,458,000 | 729,000 | 9,850,000 |

* Including base salary, 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.

Retirement benefits

With effect from 1 January 2010, the provision of retirement benefits for members of the Board of Management was changed to a defined contribution system with a guaranteed minimum return. Retirement benefits remain unchanged as part of the new compensation system applicable for financial years from 2018 onwards, as they are appropriate and in line with customary market practice.

If a mandate is terminated, the defined contribution system provides, in the case of death or invalidity, for amounts accumulated on individual pension accounts to be paid out as a one-off amount or in instalments. 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 results 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 registered partner, or otherwise surviving children – in the latter case

depending on their age and education – are entitled to receive benefits as surviving dependants.

In the case of death or invalidity, a minimum benefit is payable based on the number of contributions possible up to the age of 60 (subject to maximum of ten contributions).

The annual contribution paid by the Company is €350,000 for a Board member 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 instalment payments. 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 not provided.

In the event of the death of a member of the Board of Management during the service contract term, the base remuneration for the month of death and a maximum of three further calendar months are paid to entitled surviving dependants.

Board of Management members who retire immediately after their service on the Board are entitled to acquire vehicles and other BMW Group products and services at conditions that also apply to BMW 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

Mr Duesmann left the Board of Management Board at the end of 24 July 2018 and was released from his duties for the remaining term of his service contract (until the end of 30 September 2019), with remuneration continuing to be paid until that date. For the period from 25 July 2018 to 31 December 2018, he received a base remuneration of €0.348 million and other remuneration of €0.015 million. The bonus for this period amounts to €0.324 million, the proportionate cash remuneration component of the share-based remuneration programme (investment component) amounts to €0.146 million. The proportionate share-based remuneration component of the share-based remuneration programme (matching component) has a provisional monetary value of €0.025 million; the provisional number of matching shares is 295 (calculated in each case at the grant date). The final number of matching shares is determined when the requirement to invest in BMW AG common stock has been fulfilled. The Company paid a proportionate pension contribution of €0.152 million. The base remuneration from 1 January 2019 to 30 September 2019 amounts to €0.6 million. The pension contribution for this period amounts to €0.263 million. The expense for these and other entitlements relating to the service

contract for the financial years 2019 and 2020 amounts to €3.0 million.

In accordance with the recommendation of the German Corporate Governance Code, Board of Management service contracts provide for severance pay to be paid to the Board member in the event of premature termination by the Company without important reason, the amount of which is limited to a maximum of two years' compensation (severance payment cap). If the remaining term of the contract is less than two years, the severance payment is reduced proportionately. For these purposes, annual compensation comprises the basic remuneration, the target bonus amount and the target PCP amount for the last full financial year before termination.

No commitments or agreements exist for payment of compensation in the event of early termination of a Board member's mandate due to a change of control or a takeover offer. No members of the Board of Management received any payments or relevant commitment from third parties in 2018 on account of their activities as members of the Board of Management.

Remuneration caps

The Supervisory Board has stipulated upper limits for all variable remuneration components and for the remuneration of Board of Management members in total. The upper limits are shown in the table Overview of compensation system and compensation components. The overall upper limits (caps) have not changed in conjunction with the revised compensation system for financial years from 2018 onwards.

Total compensation of the Board of Management for the financial year 2018 (2017)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2018 amounted to €24.0 million (2017: €40.3 million), of which €8.2 million (2017: €7.7 million) relates to fixed components including other remuneration. Variable components amounted to €15.0 million (2017: €31.7 million) and the share-based remuneration component amounted to €0.8 million (2017: €0.9 million).

| in € million | 2018 | | 2017 | |
|-------------------------------------|-------------|-----------------|-------------|-----------------|
| | Amount | Proportion in % | Amount | Proportion in % |
| Fixed compensation | 8.2 | 34.2 | 7.7 | 19.1 |
| Variable cash compensation | 15.0 | 62.5 | 31.7 | 78.7 |
| Share-based compensation component* | 0.8 | 3.3 | 0.9 | 2.2 |
| Total compensation | 24.0 | 100.0 | 40.3 | 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 2018 (2017)¹

→ Compensation
Report

| in € or number of matching shares | Fixed compensation | | | Variable cash compensation | | | |
|---------------------------------------|--------------------|-----------------------|------------------|----------------------------|--|--|-------------------|
| | Base salary | Other compensation | Total | Bonus | Share-based compensation component (invest- ment component) | Performance Cash Plan 2018–2020 ² | Total |
| Harald Krüger | 1,800,000 | 22,392 | 1,822,392 | 2,332,800 | 1,049,760 | – | 3,382,560 |
| | (1,500,000) | (21,464) | (1,521,464) | (5,566,500) | (1,113,276) | (–) | (6,679,776) |
| Milagros Caiña Carreiro-Andree | 950,000 | 74,964 | 1,024,964 | 1,296,000 | 583,200 | – | 1,879,200 |
| | (900,000) | (75,775) | (975,775) | (3,247,125) | (649,440) | (–) | (3,896,565) |
| Markus Duesmann⁵ | 451,613 | 41,039 | 492,652 | 420,338 | 189,152 | – | 609,490 |
| | (750,000) | (102,468) | (852,468) | (2,783,250) | (556,663) | (–) | (3,339,913) |
| Klaus Fröhlich | 950,000 | 64,033 | 1,014,033 | 1,296,000 | 583,200 | – | 1,879,200 |
| | (750,000) | (65,883) | (815,883) | (2,783,250) | (556,638) | (–) | (3,339,888) |
| Pieter Nota | 800,000 | 90,369 | 890,369 | 1,101,600 | 495,720 | – | 1,597,320 |
| | (–) | (–) | (–) | (–) | (–) | (–) | (–) |
| Nicolas Peter | 800,000 | 38,612 | 838,612 | 1,101,600 | 495,720 | – | 1,597,320 |
| | (750,000) | (92,250) | (842,250) | (2,783,250) | (556,638) | (–) | (3,339,888) |
| Peter Schwarzenbauer | 950,000 | 51,777 | 1,001,777 | 1,296,000 | 583,200 | – | 1,879,200 |
| | (900,000) | (40,954) | (940,954) | (3,247,125) | (649,440) | (–) | (3,896,565) |
| Andreas Wendt⁶ | 200,000 | 13,029 | 213,029 | 275,400 | 123,930 | – | 399,330 |
| | (–) | (–) | (–) | (–) | (–) | (–) | (–) |
| Oliver Zipse | 900,000 | 24,994 | 924,994 | 1,231,200 | 554,040 | – | 1,785,240 |
| | (750,000) | (25,752) | (775,752) | (2,783,250) | (556,638) | (–) | (3,339,888) |
| Total⁷ | 7,801,613 | 421,209 | 8,222,822 | 10,350,938 | 4,657,922 | – | 15,008,860 |
| | (7,200,000) | (441,704) | (7,641,704) | (26,440,875) | (5,288,173) | (–) | (31,729,048) |

¹ Remuneration for the financial year 2017 was paid in accordance with the compensation system applicable for that year, at which stage arrangements for base remuneration, variable remuneration and target amounts were structured differently.

² New variable remuneration components from the financial year 2018. Payment to be made for the first time after the end of the first three-year evaluation period 2018 to 2020.

³ 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 41 to the Group Financial Statements for a description of the accounting treatment of the share-based remuneration component.

⁴ Value of benefits granted for work performed on the Board of Management during the financial year 2018 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.

⁵ Member of the Board of Management until 24 July 2018.

⁶ Member of the Board of Management since 1 October 2018.

⁷ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.

For financial years from 2018 onwards, a new variable compensation component was introduced in the form of the Performance Cash Plan. The PCP is paid out after the end of the relevant three-year evaluation period. In the case of PCP for the financial year 2018, this covers the financial years 2018 to 2020. Due to the fact that the criteria for the evaluation period 2018 to 2020 have not yet been fully met, it is not included in variable compensation for the financial year 2018.

The expense of the PCP for the financial year 2018 recognised in accordance with IAS 19 amounted to €5.3 million.

An expense of €3.4 million (2017: €3.1 million) was recognised in the financial year 2018 for current members of the Board of Management for the period after

the end of their service relationship. This relates to the expense for allocations to pension provisions in accordance with IAS 19.

Total benefits paid to former members of the Board of Management and their surviving dependants for the financial year 2018 amounted to €9.2 million (2017: €6.7 million). This includes the above-mentioned payments to Mr Duesmann.

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €91.0 million (2017: €90.1 million), recognised in accordance with IAS 19.

| Share-based compensation component (matching component) ³ | | Compensation Total | Total value of benefits allocated in financial year ⁴ | |
|--|----------------|-----------------------|--|--------------------------------|
| Number | Monetary value | | | |
| 1,981 | 171,158 | 5,376,110 | 5,293,109 | Harald Krüger |
| (2,017) | (181,490) | (8,382,730) | (8,295,070) | |
| 1,181 | 102,038 | 3,006,202 | 2,985,294 | Milagros Caiña Carreiro-Andree |
| (1,263) | (113,645) | (4,985,985) | (4,915,446) | |
| 383 | 33,091 | 1,135,233 | 1,102,142 | Markus Duesmann ⁵ |
| (1,083) | (97,448) | (4,289,829) | (4,192,381) | |
| 1,100 | 95,040 | 2,988,273 | 2,893,233 | Klaus Fröhlich |
| (1,008) | (90,700) | (4,246,471) | (4,155,771) | |
| 1,004 | 86,746 | 2,574,435 | 2,487,689 | Pieter Nota |
| (-) | (-) | (-) | (-) | |
| 935 | 80,784 | 2,516,716 | 2,435,932 | Nicolas Peter |
| (1,008) | (90,700) | (4,272,838) | (4,182,138) | |
| 1,181 | 102,038 | 2,983,015 | 2,941,756 | Peter Schwarzenbauer |
| (1,263) | (113,645) | (4,951,164) | (4,837,519) | |
| 277 | 21,645 | 634,004 | 612,359 | Andreas Wendt ⁶ |
| (-) | (-) | (-) | (-) | |
| 1,045 | 90,288 | 2,800,522 | 2,710,234 | Oliver Zipse |
| (1,008) | (90,700) | (4,206,340) | (4,115,640) | |
| 9,087 | 782,828 | 24,014,510 | 23,461,748 | Total ⁷ |
| (9,913) | (891,973) | (40,262,725) | (39,608,356) | |

Share-based component of the individual members
of the Board of Management for the
financial year 2018 (2017)¹

| in € | Expense in 2018 in accordance with HGB and IFRS | Provision at 31.12. 2018 in accordance with HGB and IFRS ² |
|--------------------------------|---|--|
| Harald Krüger | 30,821 | 458,341 |
| | (54,038) | (515,677) |
| Milagros Caiña Carreiro-Andree | 46,218 | 268,257 |
| | (63,120) | (303,169) |
| Markus Duesmann ³ | 78,614 | 121,745 |
| | (41,001) | (43,131) |
| Klaus Fröhlich | -19,097 ⁴ | 254,591 |
| | (162,436) | (273,688) |
| Pieter Nota | 23,661 | 23,661 |
| | (-) | (-) |
| Nicolas Peter | 51,812 | 80,987 |
| | (29,175) | (29,175) |
| Peter Schwarzenbauer | 32,264 | 354,125 |
| | (186,278) | (382,640) |
| Andreas Wendt ⁵ | 1,632 | 1,632 |
| | (-) | (-) |
| Oliver Zipse | 29,002 | 222,771 |
| | (122,484) | (193,769) |
| Total⁶ | 274,927 | 1,786,110 |
| | (800,435) | (2,215,688) |

¹ The share-based remuneration component (matching component) for the financial year 2017 was calculated in accordance with the compensation system applicable for that year.

² Provisional number or provisional monetary value calculated on the basis of the closing price of BMW common stock in the Xetra trading system on 28 December 2018 (€70.70) (fair value at reporting date).

³ Member of the Board of Management until 24 July 2018.

⁴ Amount based on the revaluation of share price at balance sheet date.

⁵ Member of the Board of Management since 1 October 2018.

⁶ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.

Pension entitlements

| in € | Service cost in accordance with IFRS for the financial year 2018 ¹ | Service cost in accordance with HGB for the financial year 2018 ¹ | Defined Benefit Obligation IFRS | Defined Benefit Obligation HGB |
|---------------------------------------|--|---|------------------------------------|-----------------------------------|
| Harald Krüger | 504,831 | 509,486 | 5,753,913 | 5,753,776 |
| | (505,281) | (510,702) | (5,558,607) | (5,558,200) |
| Milagros Caiña Carreiro-Andree | 354,224 | 357,468 | 2,561,031 | 2,560,943 |
| | (355,527) | (359,275) | (2,347,166) | (2,346,906) |
| Klaus Fröhlich | 353,119 | 356,382 | 2,660,630 | 2,660,630 |
| | (353,136) | (356,949) | (2,373,842) | (2,373,842) |
| Pieter Nota | 350,000 | 350,000 | 350,276 | 350,041 |
| | (-) | (-) | (-) | (-) |
| Nicolas Peter | 353,119 | 356,382 | 2,004,567 | 2,004,567 |
| | (350,000) | (350,000) | (1,757,459) | (1,757,454) |
| Peter Schwarzenbauer | 353,119 | 356,382 | 2,188,161 | 2,188,159 |
| | (354,117) | (357,918) | (1,893,252) | (1,893,216) |
| Andreas Wendt² | 132,500 | 132,500 | 1,886,766 | 1,886,766 |
| | (-) | (-) | (-) | (-) |
| Oliver Zipse | 353,289 | 356,550 | 2,298,444 | 2,298,405 |
| | (353,536) | (357,339) | (2,071,748) | (2,071,560) |
| Total³ | 2,754,201 | 2,775,150 | 19,703,788 | 19,703,287 |
| | (3,136,302) | (3,059,645) | (21,987,289) | (21,072,823) |
| Markus Duesmann⁴ | 617,548 | 620,741 | 1,521,226 | 1,521,192 |
| | (355,840) | (359,521) | (1,020,053) | (1,018,857) |

¹ 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 performance-based pension obligation).

² Member of the Board of Management since 1 October 2018.

³ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.

⁴ Member of the Board of Management until 24 July 2018.

2. Supervisory Board compensation

Responsibilities, provisions of 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 provisions valid for the financial year under report were resolved by shareholders at the Annual General Meeting on 14 May 2013 and are set out in Article 15 of BMW AG's Articles of Incorporation, which are available at → www.bmwgroup.com within the section "Company" (menu items "Company Portrait" and "Corporate Governance") as well as in "BMW Group Download Centre".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives a fixed compensation component as well as an earnings-related compensation component, which is oriented toward sustainable growth. The earnings-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 earnings-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 the Company's 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 earnings-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 earnings-related compensation. The limit for a member of the Supervisory Board with no additional compensation-relevant function is therefore set at €140,000.

With fixed compensation elements and an earnings-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, in the version dated 7 February 2017.

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 in the 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. 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, provided the relevant committee convened for meetings on at least three days during the financial year. 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 at 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.

In order to perform his duties, the Chairman of the Supervisory Board has the use of an office, with administrative support, as well as access to the BMW car service.

Total compensation of the Supervisory Board for the financial year 2018

In accordance with Article 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2018 totalled €5.6 million (2017: €5.6 million). This includes fixed

compensation of €2.0 million (2017: €2.0 million) and variable compensation of €3.6 million (2017: €3.6 million). The earnings-related compensation for the financial year 2018 was capped at the maximum amount stipulated in the Articles of Incorporation.

| in € million | 2018 | | 2017 | |
|---------------------------|------------|-----------------|------------|-----------------|
| | Amount | Proportion in % | Amount | Proportion in % |
| Fixed compensation | 2.0 | 35.7 | 2.0 | 35.7 |
| Variable compensation | 3.6 | 64.3 | 3.6 | 64.3 |
| Total compensation | 5.6 | 100.0 | 5.6 | 100.0 |

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

Compensation of the individual members of the Supervisory Board for the financial year 2018 (2017)

| in € | Fixed compensation | Attendance fee | Variable compensation | Total |
|---|-----------------------|----------------|----------------------------|------------------|
| Norbert Reithofer (Chairman) | 210,000 | 10,000 | 420,000 | 640,000 |
| | (210,000) | (10,000) | (420,000) | (640,000) |
| Manfred Schoch (Deputy Chairman)¹ | 140,000 | 10,000 | 280,000 | 430,000 |
| | (140,000) | (10,000) | (280,000) | (430,000) |
| Stefan Quandt (Deputy Chairman) | 140,000 | 10,000 | 280,000 | 430,000 |
| | (140,000) | (10,000) | (280,000) | (430,000) |
| Stefan Schmid (Deputy Chairman)¹ | 140,000 | 8,000 | 280,000 | 428,000 |
| | (140,000) | (10,000) | (280,000) | (430,000) |
| Karl-Ludwig Kley (Deputy Chairman) | 140,000 | 10,000 | 280,000 | 430,000 |
| | (140,000) | (10,000) | (280,000) | (430,000) |
| Christiane Benner¹ | 70,000 | 8,000 | 140,000 | 218,000 |
| | (70,000) | (6,000) | (140,000) | (216,000) |
| Kurt Bock² | 43,656 | 8,000 | 87,312 | 138,968 |
| | (-) | (-) | (-) | (-) |
| Franz Haniel | 70,000 | 8,000 | 140,000 | 218,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Ralf Hattler | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Heinrich Hiesinger | 70,000 | 10,000 | 140,000 | 220,000 |
| | (44,785) | (6,000) | (89,570) | (140,355) |
| Reinhard Hüttl | 70,000 | 10,000 | 120,000⁴ | 200,000 |
| | (70,000) | (10,000) | (109,780) | (189,780) |
| Susanne Klatten | 70,000 | 8,000 | 140,000 | 218,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Renate Köcher | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Robert W. Lane³ | 26,532 | 2,000 | 53,065 | 81,597 |
| | (70,000) | (8,000) | (140,000) | (218,000) |
| Horst Lischka¹ | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Willibald Löw¹ | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Simone Menne | 70,000 | 8,000 | 140,000 | 218,000 |
| | (70,000) | (8,000) | (140,000) | (218,000) |
| Dominique Mohabeer¹ | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Brigitte Rödiger¹ | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Jürgen Wechsler¹ | 70,000 | 8,000 | 140,000 | 218,000 |
| | (70,000) | (8,000) | (140,000) | (218,000) |
| Werner Zierer¹ | 70,000 | 10,000 | 140,000 | 220,000 |
| | (70,000) | (10,000) | (140,000) | (220,000) |
| Total⁵ | 1,820,188 | 188,000 | 3,620,377 | 5,628,565 |
| | (1,820,188) | (188,000) | (3,610,156) | (5,618,344) |

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

² Member of the Supervisory Board since 17 May 2018.

³ Member of the Supervisory Board until 17 May 2018.

⁴ Due to the requirements of his employer, Prof. Dr. Hüttl has waived his Supervisory Board compensation until further notice, to the extent that such compensation exceeds the amount of €200,000 (excluding value added tax) p.a.

⁵ Disclosures for the previous year include amounts relating to a member of the Supervisory Board who left office during the financial year 2017.

3. Other

Apart from vehicle lease and financing contracts entered into on customary market conditions, no

advances or loans were granted to members of the Board of Management and the Supervisory Board by 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 § 117 No. 1 of the
Securities Trading Act (WpHG) in conjunction
with § 297 (2) sentence 4 and § 315 (1) sentence
5 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, 19 February 2019

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree Klaus Fröhlich

Pieter Nota

Dr. Nicolas Peter

Peter Schwarzenbauer

Dr.-Ing. Andreas Wendt

Oliver Zipse

INDEPENDENT AUDITOR'S REPORT

To Bayerische Motoren Werke
Aktiengesellschaft, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft, Munich, and its subsidiaries (the Group or BMW Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Bayerische Motoren Werke Aktiengesellschaft (hereinafter referred to as the "group management report") for the financial year from 1 January to 31 December 2018. In accordance with German legal requirements we have not audited the content of the corporate governance statement which is included in the section "Corporate Governance Statement (Section 289 f HGB)" of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of residual values of leased products

Please refer to note 4 “accounting policies as well as assumptions, judgements and estimates” in the notes to the consolidated financial statements, for “Leased products” please refer to note 23.

The financial statement risk

BMW Group leases vehicles to end customers as part of operating leases. As at the reporting date, the value of leased products amounted to EUR 38,572 million.

The key estimated value for the purposes of subsequent measurement is the expected residual value at the end of the lease term.

The estimation of future residual values is subject to judgement and is complex due to the large number of assumptions to be made and the amount of data incorporated in the determination. For the residual value forecasts, BMW Group uses internally available data on historical values, current market data as well as forecasts from external market research institutes.

There is a risk for the financial statements that the residual values expected for the end of the lease terms are not appropriately assessed and the impairment losses or reversal of impairment losses required for the leased products are not recognised in sufficient amounts.

Our audit approach

By means of inquiries, inspecting internal calculation methods and analysing the disposal proceeds of vehicles, among other methods, we obtained an understanding of the development of leased products, the underlying residual value risks and business processes for the identification, management, monitoring and measurement of residual value risks.

We reviewed the appropriateness and effectiveness of the internal control system, particularly in relation to the determination of expected residual values. This included the audit of the compliance of the relevant IT systems as well as the interfaces implemented therein by our IT specialists.

In addition, we evaluated the appropriateness of the forecasting methods, the model assumptions as well as the parameters used for the determination of the residual values based on the validations carried out by BMW Group. For this purpose, we inquired with BMW Group’s experts responsible for the management and monitoring of residual value risks and inspected the internal analysis on residual value developments and residual value forecasts as well as the validation results. Furthermore, we evaluated the processes for processing external forecast values from market

research institutes. We ensured the computational accuracy of the forecast values by verifying key calculation steps.

Our observations

The methods and processes for determining the expected residual values of the leased products underlying the valuation are appropriate. The assumptions and parameters incorporated in the forecast model for the residual value are appropriate as a whole.

Valuation of receivables from sales financing

Please refer to note 4 “accounting policies as well as assumptions, judgements and estimates” in the notes to the consolidated financial statements, for “Receivables from sales financing” please refer to note 25.

The financial statement risk

BMW Group offers end customers, dealerships and importers various financing models for vehicles and other assets. In this regard, current and non-current receivables from sales financing totalling EUR 86,783 million were recognised as at the reporting date. Impairment losses amounting to EUR 1,032 million were recognised on these receivables as at the reporting date.

Impairment losses have been determined on the basis of expected credit losses since financial year 2018. This method takes into account probabilities of default and loss given default, estimates of the amount receivable in the event of default, setting criteria for the transfer between stages for determining a significant change in the default risk of borrowers, assumptions on future cash flows and macroeconomic scenarios, the determination of which is subject to considerable judgement and estimation uncertainties in each case.

There is a risk for the financial statements that the creditworthiness of dealerships, importers and end customers is assessed incorrectly, the risk provisioning parameters are derived incorrectly and an impairment loss required on receivables from sales financing is not recognised or not recognised in a sufficient amount.

Our audit approach

By means of inquiries, inspecting internal calculation methods and analysis, among other methods, we obtained a comprehensive understanding of the development of credit portfolios, the associated counterparty-related risks and the business processes for the identification, management, monitoring and measurement of counterparty credit risks.

We also assessed the methodology for determining the expected loss on a yearly basis or for the remaining term to maturity, default rates and the credit exposure in the event of default and for determining and presenting the 'transfer between stages' of receivables based on significant changes in the credit risk of a borrower.

We also audited the appropriateness and effectiveness of the internal control system in relation to the risk classification procedures as well as the derivation of the significant rise in credit risk from changes in risk classification. In addition, we evaluated the relevant IT systems and internal processes. The audit included a review by our IT specialists of the appropriateness of the systems concerned and associated interfaces to ensure the completeness of data as well as the audit of automated controls for data processing.

A key component of our audit was to assess the appropriateness of the risk classification procedures, transfer between stages and the risk provisioning parameters used, which are derived based on historical default probabilities and loss given default by taking account of the anticipated effects of future trends in relevant macroeconomic criteria. We also analysed the validations of parameters that are regularly conducted. To assess the default risk, we also used purposive sampling of individual cases to verify that the attributes for assignment to the respective risk categories were suitably available and the impairment losses had been calculated using the parameters defined for these risk categories. In addition we assessed loans for correct risk classification based on random samples.

Our observations

The risk provisioning methodology, internal processes and the assumptions and risk parameters used for the determination of receivables from sales financing are suitable for the early identification of credit risks and determining impairment losses in accordance with the applicable financial reporting standards.

Valuation of provisions for statutory and non-statutory warranty obligations and product guarantees

Please refer to note 4 "accounting policies as well as assumptions, judgements and estimates" in the notes to the consolidated financial statements, for "Other provisions" please refer to note 33.

The financial statement risk

Provisions for statutory and non-statutory warranty obligations and product guarantees are included in the consolidated financial statements of BMW Group as a significant component in 'Other provisions'. The provisions for statutory and non-statutory warranty obligations and product guarantees amounted to EUR 5,158 million as at 31 December 2018.

BMW Group is responsible for the legally prescribed product liability and the warranty in the respective sales market. Moreover, additional warranties are granted to differing extents. In order to assess the liabilities arising from warranty, guarantee and goodwill for vehicles sold, information on the type and volume of damages arising and on remedial measures is recorded and evaluated at vehicle model level. The expected amount of obligations arising from warranty claims is extrapolated from costs of the past and provided for. For specific or anticipated individual circumstances, for example recalls, additional provisions are set aside provided they have not already been taken into account. The determination of provisions is associated with unavoidable estimation uncertainties, is complex and is subject to a high degree of risk of change, depending on factors such as detected deficiencies becoming known and claims made by vehicle owners.

There is a risk for the financial statements that the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is not appropriate.

Our audit approach

In order to evaluate the appropriateness of the valuation method used for the determination of the provisions for statutory and non-statutory warranty obligations and product guarantees including the assumptions and parameters, through discussions with the departments responsible, we primarily obtained an understanding of the process for determining the assumptions and parameters. We audited the appropriateness and effectiveness of controls to determine the assumptions and parameters. With the involvement of our IT specialists, we reviewed the IT systems utilised to verify their appropriateness.

We compared the amount of provisions from the prior year with expenses selected according to risk and which actually arose for damage claims, as well as with technical measures, in order to arrive at a conclusion on the forecast accuracy.

Based on a deliberate sample of vehicle models, the computational accuracy of the valuation model used across the Group including a tool for rate-based planning was verified with the support of our actuaries. The measurement parameters included therein, such as cost components, were reconciled with actual costs. We evaluated the assumptions concerning the extent to which the historical values are representative for the expected damage susceptibility, for the expected value of damage per vehicle in terms of material and labour cost and for the anticipated claim.

Our observations

The method for the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is appropriate and has been applied consistently. The measurement parameters and assumptions applied are appropriate as a whole.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor for the financial year from 1 January to 31 December 2018 at the annual general meeting on 17 May 2018. We were engaged by the Audit Committee of the Supervisory Board on 7 June 2018. Taking into account the transitional provisions of Article 41 (2) of the EU Audit Regulation, we have been the group auditor of Bayerische Motoren Werke Aktiengesellschaft for more than 30 consecutive years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Mr Andreas Feege.

Munich, 27 February 2019

KPMG AG

Wirtschaftsprüfungsgesellschaft

Sailer

Wirtschaftsprüfer

[German Public Auditor]

Feege

Wirtschaftsprüfer

[German Public Auditor]