

COMPENSATION REPORT (PART OF THE COMBINED MANAGEMENT REPORT)

The following section describes the principles governing the compensation of the Board of Management for the financial year 2017 and, in its revised form, 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 2017 is disclosed with its component parts.

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 remuneration system at 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 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 and the performance and future prospects of the BMW Group. The Supervisory Board sets ambitious

and relevant parameters as the basis for variable compensation. It also ensures that variable components based on multi-year 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 conjunction 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. 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.

Compensation system, compensation components up to the financial year 2017

The compensation of the Board of Management comprises both fixed and variable elements as well as a share-based component. Provisions are also in place for retirement and surviving dependants' entitlements.

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). Members of the Board of Management are also entitled to purchase vehicles and other products and services of the BMW Group at conditions that also apply for employees.

The base salary of members of the Board of Management remained unchanged in 2017 from the previous year. The base salary is €0.75 million p.a. for a Board member during the first period of office, €0.9 million p.a. for a Board member from the second period of office or the fourth year of mandate and €1.5 million p.a. for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of Board of Management members comprises variable cash remuneration and a share-based remuneration component.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a bonus and a cash component for investment in BMW AG common stock equivalent to 20% of a Board member's total bonus after taxes, which the Board member receives from the Company along with the related taxes and social insurance. Furthermore, up to 31 December 2017, the Supervisory Board could, in justified cases, stipulate the payment of a discretionary additional bonus.

The bonus comprises two components, each equally weighted: an earnings-related bonus and a performance-related bonus. The target bonus (100%) for a Board of Management member in the first period of office is €1.5 million p.a. in total for the two components of variable compensation and €1.75 million p.a. from the second period of office or the fourth year of mandate. For the Chairman of the Board of Management the amount is €3 million p.a. The bonus is capped for all Board of Management members at 200% of the respective target bonus.

The earnings-related bonus is based on Group net profit and post-tax return on sales, which are combined in a single earnings factor, and – up to the financial year 2017 – on the dividend (common stock). The earnings-related bonus is derived from a target amount defined for each member of the Board of Management multiplied by the earnings factor and the dividend factor. In exceptional circumstances, for instance major acquisitions or disposals, the Supervisory Board may adjust the earnings-related bonus.

An earnings factor and dividend factor of 1.0 would give rise to an earnings-related bonus of €0.75 million for a member of the Board of Management in the first period of office, €0.875 million from the second period of office or the fourth year of mandate and €1.5 million for the Chairman of the Board of Management. The earnings factor is 1.0 for example in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6%. The dividend factor is 1.0 when the dividend paid on shares of common stock is between 101 and 110 cents. If the Group net profit were below €2 billion or the post-tax return on sales below 2%, the earnings factor for 2017 would be zero. In this case, no earnings-related bonus would be payable.

The performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of a detailed assessment of the contribution made by members of the Board of Management to sustainable and long-term oriented business development. In setting the factor, consideration is given to performance and decisions over the previous three financial years, as well as strategic decisions affecting the future development of the business, the effectiveness and efficiency of measures taken in response to changing external conditions and other activities aimed at safeguarding the future viability of the business which cannot be directly measured in values. Accordingly, performance factor criteria include innovation (economic and ecological, for example the reduction of carbon dioxide emissions), customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contributions to the Group's attractiveness as an employer, progress in implementing the diversity concept and activities that foster corporate social responsibility. The target bonus and the criteria used to determine the earnings-related bonus are fixed in advance for a period of three financial years. During this time, as a general rule, target bonuses and the key criteria applied may not be amended retrospectively.

Share-based remuneration programme

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

This programme specifies that each member of the Board of Management is required to invest in BMW AG common stock an amount equivalent to 20% of the Board member's total bonus after taxes, which the Board member receives as an additional cash component from the Company with the related taxes and social insurance. As a general rule, the shares must be held for four years. Under a matching plan, at the end of the holding period the Board of Management members receive from the Company, for every three shares of common stock held, either one additional share of common stock or an equivalent cash amount, to be decided at the discretion of the Company (share-based remuneration component/matching component). Special rules apply in the case of death or invalidity of a Board of Management member or premature termination of the contractual relationship before fulfilment of the holding period.

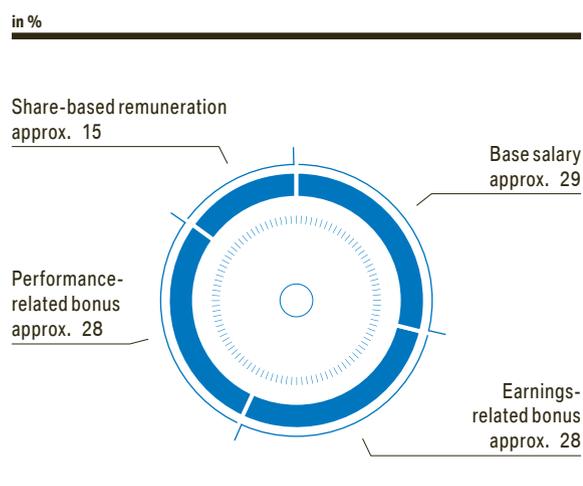
Revised system of Board of Management compensation for financial years from 2018 onwards

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 with sustainable Company 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 target setting. Targets values for the parameters Group net income 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. The dividend is no longer included as a parameter, thus ensuring that the earnings-related bonus is even more closely aligned to business performance. 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 remain unchanged. The appropriateness of the planned levels of compensation was reviewed by an independent external compensation expert. The changes apply to all members of the Board of Management with effect from the financial year 2018. Service contracts of the Board of Management have been modified in agreement with Board members with effect from 1 January 2018.

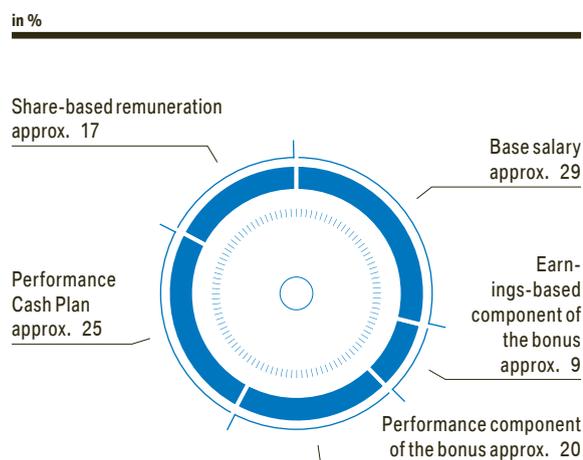
Compensation system, compensation components for financial years from 2018 onwards

As previously, 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 and surviving dependants' benefits remain unchanged in the new compensation system applicable from 1 January 2018.

Overview of compensation system financial year 2017: simplified depiction of split of cash remuneration (target remuneration)*



Overview of compensation system financial year 2018: simplified depiction of split of cash remuneration (target remuneration)*



* Simplified depiction of target amounts for the 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.

Fixed remuneration

Fixed remuneration consists, as before, of a base salary, which is paid monthly, and fringe benefits (other remuneration elements such as the use of company cars, the payment of insurance premiums and contributions towards security systems). From the financial year 2018, the base salary of Board of Management members amounts to €0.8 million p.a. during the first period of office, €0.95 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.

Variable remuneration

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

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

The weighting of individual components included in the target is shown in the overview. The new compensation system does not include the option of paying a discretionary additional bonus. An upper limit has been set for each component of variable remuneration (see “Overview of compensation system and compensation components for financial years from 2018 onwards”).

Bonus

The structure and target amounts of the previous bonus system have been revised and the weighting of the earnings-related and performance-related components included in the target changed. In future, for 100 % target achievement, the bonus will comprise an earnings-related component of 30 % and performance-related component of 70 %. Compared to the bonus payable in the previous compensation system, the target bonus (100 %) for a member of the Board of Management in the first period of office has been reduced for both components of the bonus to a total of €0.85 million p.a. and to a total of €1.0 million p.a. from the second period of office or the fourth year of mandate. In future, the bonus payable to the Chairman of the Board of Management will amount to €1.8 million p.a. The upper limit has been reduced for all Board members to 180 % of the respective 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 value of 1.8.

An earnings factor of 1.0 would give rise to an earnings-related component of €0.255 million for a member of the Board of Management 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 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 %. As before, 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.

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The criteria correspond to the measurement values used previously for the performance bonus and 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 performance factor lies between zero and a maximum of 1.8.

Bonus overview

EARNINGS COMPONENT BONUS	+	PERFORMANCE COMPONENT	=	TOTAL
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 0–1.8		— Value between 0–1.8		

Performance Cash Plan

With effect from the financial year 2018, variable cash compensation will include 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. for a Board member from the second period of office or the fourth year of mandate. The target amount for the Chairman of the Board of Management is €1.6 million p.a. 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 value 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.

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 in particular of the business development during the evaluation period, the forecast trend in the business development, 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

PCP FACTOR	X	TARGET AMOUNT	=	CASH PAYMENT
				<ul style="list-style-type: none"> — Cash payment at end of evaluation period — Capped at 180 % of target amount

PCP factor overview

MULTI-YEAR EARNINGS FACTOR	X	MULTI-YEAR PERFORMANCE FACTOR	=	PCP FACTOR
<ul style="list-style-type: none"> — Average earnings factor — Based on Group net profit and Group post-tax return on sales — Value between 0–1.8 		Measurement based on multi-year performance factor: <ul style="list-style-type: none"> — Trend in business development — Status of compliance in each Board member's area of responsibility — Individual contribution to profitability — Forecast trend in business development — Value between 0.9–1.1 		

In accordance with a mutually agreed modification to their contracts with effect from 1 January 2018, Board members will 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 the evaluation period, the advance payment will be set off or reclaimed, depending on the amount then determined. The advance payment for each year will be €0.5 million for a member of the Board of Management 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 continue to receive a cash compensation (investment component) for the specific purpose of investment after tax and contributions in BMW AG common stock. In future, the investment component will correspond to 45% of the gross bonus. Shares of common stock purchased in this way by members of the Board of Management are to be held, as before, for a period of four years.

As before, at the end of the holding period, Board members receive from the Company, 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 "Compensation system and compensation components for financial years from 2018 onwards").

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 as 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 for specified cases. 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.

Retirement and surviving dependants' benefits

With effect already from 1 January 2010, the provision of retirement and surviving dependants' benefits for Board of Management members was changed to a defined contribution system with a guaranteed minimum return. Commitments previously made are in part subject to legal protection, therefore Board members appointed for the first time prior to 1 January 2010 were given the option to choose between the previous system and the new one. Retirement and surviving dependants' benefits remain unchanged as part of the new compensation system from 1 January 2018 onwards, as they are appropriate and in line with customary market practice.

In the event of termination of mandate, a member of the Board of Management appointed for the first time prior to 1 January 2010 has pension entitlements based on the older (defined benefit) pension plan. The entitlement to receive benefits under the defined benefit plan arises at the earliest on reaching the age of 60 or in the case of invalidity. The amount of the pension comprises a basic monthly amount of €8,000 plus an additional fixed amount. The fixed amount is €400 for each full year of service on the Board up to a maximum of 15 years. Pension payments are adjusted in line with the adjustment of civil servants' pensions following an increase of more than 5% in the pay group B6 (excluding allowances) or in accordance with the Company Pension Act.

Overview of compensation system and compensation components for the financial year 2017

Component	Parameter / measurement base
BASE SALARY P.A.	
	Member of the Board of Management: — €0.75 million (1st period of office) — €0.90 million (from 2nd period of office or 4th year of mandate)
	Chairman of the Board of Management: — €1.50 million
VARIABLE REMUNERATION	
Bonus (sum of earnings-related bonus and performance-related bonus)	Target amount p.a. (at 100 % target achievement): — €1.50 million (1st period of office) — €1.75 million (from 2nd period of office or 4th year of mandate) — €3.00 million (Chairman of the Board of Management) — Capped at 200 % of target amount
a) Earnings-related bonus (at 100 % target achievement corresponds to 50 % of target amount)	— Quantitative criteria, fixed in advance for a period of three financial years — Formula: 50 % target amount x earnings factor x dividend factor (common stock) — Earnings factor is derived from Group net profit and Group post-tax return on sales — The earnings factor is 1.0, for instance in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %
b) Performance-related bonus (at 100 % target achievement corresponds to 50 % of target amount)	— Primarily qualitative, non-financial criteria, expressed in terms of a performance factor aimed at measuring the Board members' contribution to sustainable and long-term business development over a period of at least three financial years — Formula: 50 % target amount x performance factor — 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
Possible special bonus payment	Payment possible in justified cases on basis of appropriateness, contractual basis, no entitlement
Share-based remuneration programme	
a) Cash compensation component	— Requirement for Board of Management members to each invest an amount equivalent to 20 % of their total bonus (after tax) in BMW AG common stock
b) Share-based remuneration component (matching component)	— Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions — Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash
OTHER REMUNERATION	
	Contractual agreement, main points: use of Company cars, insurance premiums, contributions towards security systems

Overview of compensation system and compensation components for the financial year 2018 onwards

Component	Parameter / measurement base
BASE SALARY P.A.	
	Member of the Board of Management: — €0.80 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate)
	Chairman of the Board of Management: — €1.8 million
VARIABLE REMUNERATION	
Bonus (sum of earnings component and performance component)	Target amount p.a. (at 100 % target achievement): — €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
a) Earnings-related bonus (at 100 % target achievement corresponds to 30 % of target amount)	— Quantitative criteria fixed in advance for a period of three financial years — Formula: 30 % target amount x earnings factor — 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
b) Performance component (at 100 % target achievement corresponds to 70 % of target amount)	— 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 — Formula: 70 % target amount x performance factor — Performance factor may not exceed 1.8
Possible special bonus payments	No longer applicable
Performance Cash Plan	
	Target amount p.a. (at 100 % target achievement): — €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
	— 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	— 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	— 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	
a) Cash remuneration component	— 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 — Earmarked cash remuneration amounting to 45 % of the gross bonus
b) Share-based remuneration component (matching component)	— Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash
OTHER REMUNERATION	
	Contractual agreement, main points: use of Company car, insurance premiums, contributions towards security systems

Overview of compensation system and compensation components for the financial year 2017

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

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

REMUNERATION CAPS (MAXIMUM REMUNERATION)

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

*Including 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.

If a mandate is terminated, the new 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. The option to receive payment as a lifelong pension or in a combined form only applies to entitlements arising before 2016. 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 annual contributions possible up to the age of sixty (up to a maximum of ten). Furthermore, in the case of a commitment made before 2016 and election of a lifelong pension, a 60% widow's pension is paid following the death of a retired member of the Management Board. Pensions are increased annually by at least 1%.

Depending on the length of membership in the Board of Management and previous activities, the annual contribution paid by the Company for each member of the Board of Management is between €350,000 and €400,000, 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.

Overview of compensation system and compensation components for the financial year 2018 onwards

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

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

REMUNERATION CAPS (MAXIMUM REMUNERATION)

in € p. a.	Bonus	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.

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

Income earned on an employed or a self-employed basis up to the age of 63 may be offset against pension entitlements. In addition, certain circumstances have been specified, in the event of which the Company no longer has any obligation to pay benefits. Transitional payments are no longer provided.

In the event of the death of a member of the Board of Management during the service contract term, the base salary 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 department. 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 department, and depending on availability and against payment, use BMW chauffeur services.

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

In conjunction with the agreed early termination of Dr Robertson's Board of Management mandate with effect from 31 December 2017, the Company also agreed with Dr Robertson on an amendment to his service contract, which ends on 30 June 2018. For the period from the termination of his Board mandate through to 30 June 2018, he continues to receive fixed compensation totalling €0.45 million. During this time, Dr Robertson is supporting the Company as a BMW Group ambassador in the UK. An amount of €0.875 million, payable in 2018, was agreed to settle all further compensation entitlements for the remainder of the contractual period. The Company will make a final pension contribution of €0.2 million on behalf of Dr Robertson for the financial year 2018.

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 2017 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. These upper limits are shown in the tables Overview of compensation system and compensation components for the financial year 2017 and Overview of compensation system and compensation components for financial years from 2018 onwards. The overall upper limits have not been 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 2017 (2016)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2017 amounted to €40.3 million (2016: €37.6 million), of which €7.7 million (2016: €7.8 million) relates to fixed components including other remuneration. Variable components amounted to €31.7 million (2016: €29.0 million) and the share-based remuneration component amounted to €0.9 million (2016: €0.8 million). As in the previous year, the option of paying a special bonus in 2017 was not exercised.

in € million	2017		2016	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	7.7	19.1	7.8	20.8
Variable cash compensation	31.7	78.7	29.0	77.1
Share-based compensation component*	0.9	2.2	0.8	2.1
Total compensation	40.3	100.0	37.6	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 2017 (2016)

in € or number of matching shares	Fixed compensation			Variable cash compensation	Share-based compensation component (matching component) ¹		Compensation Total	Total value of benefits allocated in financial year ²
	Base salary	Other compensation	Total		Number	Monetary value		
Harald Krüger	1,500,000	21,464	1,521,464	6,679,776	2,017	181,490	8,382,730	8,295,070
	(1,500,000)	(18,719)	(1,518,719)	(5,947,178)	(1,752)	(161,622)	(7,627,519)	(7,545,122)
Milagros Caiña Carreiro-Andree	900,000	75,775	975,775	3,896,565	1,263	113,645	4,985,985	4,915,446
	(900,000)	(74,461)	(974,461)	(3,469,214)	(1,097)	(101,198)	(4,544,873)	(4,443,675)
Markus Duesmann	750,000	102,468	852,468	3,339,913	1,083	97,448	4,289,829	4,192,381
	(187,500)	(13,929)	(201,429)	(743,403)	(288)	(21,629)	(966,461)	(944,832)
Klaus Fröhlich	750,000	65,883	815,883	3,339,888	1,008	90,700	4,246,471	4,155,771
	(750,000)	(57,311)	(807,311)	(2,973,589)	(876)	(80,811)	(3,861,711)	(3,780,900)
Nicolas Peter	750,000	92,250	842,250	3,339,888	1,008	90,700	4,272,838	4,182,138
	–	–	–	–	–	–	–	–
Ian Robertson³	900,000	17,158	917,158	3,896,565	1,263	113,645	4,927,368	4,914,391
	(900,000)	(18,735)	(918,735)	(3,469,214)	(1,097)	(101,198)	(4,489,147)	(4,483,005)
Peter Schwarzenbauer	900,000	40,954	940,954	3,896,565	1,263	113,645	4,951,164	4,837,519
	(862,500)	(32,689)	(895,189)	(3,345,313)	(1,058)	(97,601)	(4,338,103)	(4,240,502)
Oliver Zipse	750,000	25,752	775,752	3,339,888	1,008	90,700	4,206,340	4,115,640
	(750,000)	(114,694)	(864,694)	(2,973,589)	(876)	(80,811)	(3,919,094)	(3,838,283)
Total⁴	7,200,000	441,704	7,641,704	31,729,048	9,913	891,973	40,262,725	39,608,356
	(7,425,000)	(385,391)	(7,810,391)	(28,992,624)	(8,964)	(821,990)	(37,625,005)	(37,172,944)

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

² Value of benefits granted for work performed on the Board of Management during the financial year 2017 plus the amount falling due for payment in conjunction with a share-based remuneration component granted in a previous year and for which the holding period requirements were met.

³ Member of the Board of Management until 31 December 2017.

⁴ Disclosures for the previous year include amounts relating to members of the Board of Management who left office during the financial year 2016.

An expense of €3.1 million (2016: €2.8 million) was recognised in the financial year 2017 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.

Total benefits paid to former members of the Board of Management and their surviving dependants for the financial year 2017 amounted to €6.7 million (2016: €6.5 million).

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €90.1 million (2016: €86.4 million), recognised in accordance with IAS 19.

Share-based component of the individual members
of the Board of Management for the
financial year 2017 (2016)

in €	Expense in 2017 in accordance with HGB and IFRS	Provision at 31.12. 2017 in accordance with HGB and IFRS ¹
Harald Krüger	54,038	515,677
	(279,932)	(557,844)
Milagros Caiña Carreiro-Andree	63,120	303,169
	(15,276)	(284,247)
Markus Duesmann	41,001	43,131
	(2,130)	(2,130)
Klaus Fröhlich	162,436	273,688
	(76,878)	(111,253)
Nicolas Peter	29,175	29,175
	–	–
Ian Robertson²	141,903	474,439
	(68,865)	(435,753)
Peter Schwarzenbauer	186,278	382,640
	(95,615)	(196,362)
Oliver Zipse	122,484	193,769
	(61,370)	(71,285)
Total³	800,435	2,215,688
	(829,579)	(2,614,266)

¹ Provisional number or provisional monetary value calculated on the basis of the closing price of BMW common stock in the Xetra trading system on 29 December 2017 (€86.83) (fair value at reporting date)

² Member of the Board of Management until 31 December 2017.

³ Disclosures for the previous year include amounts relating to members of the Board of Management who left office during the financial year 2016.

Pension entitlements

in €	Service cost in accordance with IFRS for the financial year 2017 ¹	Service cost in accordance with HGB for the financial year 2017 ¹	Present value of pension obligations (defined benefit plans), in accordance with IFRS ²	Present value of pension obligations (defined benefit plans), in accordance with HGB ²
Harald Krüger	505,281	510,702	5,558,607	5,558,200
	(507,444)	(510,811)	(4,764,941)	(4,763,838)
Milagros Caiña Carreiro-Andree	355,527	359,275	2,347,166	2,346,906
	(358,490)	(360,785)	(1,879,851)	(1,879,263)
Markus Duesmann	355,840	359,521	1,020,053	1,018,857
	(87,500)	(87,500)	(622,236)	(620,307)
Klaus Fröhlich	353,136	356,949	2,373,842	2,373,842
	(354,365)	(356,743)	(1,935,142)	(1,935,142)
Nicolas Peter	350,000	350,000	1,757,459	1,757,454
	(-)	(-)	(-)	(-)
Ian Robertson³	508,865	407,941	4,965,162	4,052,788
	(424,411)	(408,564)	(4,469,741)	(3,502,860)
Peter Schwarzenbauer	354,117	357,918	1,893,252	1,893,216
	(357,203)	(359,548)	(1,481,134)	(1,480,940)
Oliver Zipse	353,536	357,339	2,071,748	2,071,560
	(355,045)	(357,410)	(1,621,507)	(1,620,978)
Total⁴	3,136,302	3,059,645	21,987,289	21,072,823
	(2,634,212)	(2,849,067)	(23,630,940)	(21,425,612)

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 defined benefit obligation).

² Based on a legal right to receive the benefits already promised to them, one member of the Board of Management appointed for the first time prior to 1 January 2010 was given the option of choosing between the previous defined benefit model and the new defined contribution model.

³ Member of the Board of Management until 31 December 2017.

⁴ Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2016.