

Compensation Report

The BMW Group supports the endeavours of the German Corporate Governance Code (GCGC) to increase transparency in the disclosure of the components of compensation. The following section therefore describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. As well as discussing the structure of remuneration, the components of compensation are also disclosed in absolute figures. In accordance with the recommendations of the GCGC, the compensation of each member of the Board of Management and the Supervisory Board is disclosed by name and analysed into components.

1. Compensation of the Board of Management Responsibilities

Following the coming into force of the German Act on the Appropriateness of Management Board Remuneration (VorstAG) on 5 August 2009, supervisory boards became responsible in Germany for determining and regularly examining the compensation of management boards. Previously, these tasks had been carried out within the BMW Group by the Supervisory Board's Personnel Committee, which reported on its work at regular intervals and in detail to the Supervisory Board. The Personnel Committee now plays a preparatory role in the process of determining and examining the remuneration of the Board of Management. The Supervisory Board's terms of reference have been amended accordingly to take account of the change in allocation of duties between the Personnel Committee and the full Supervisory Board.

Principles of compensation

The Supervisory Board familiarised itself with the details of the new act (VorstAG) in 2009 and fully supports the objective set out therein to bring about compensation structures that promote sustainable and long-term oriented business performance. The compensation model used for the management boards should be attractive in the context of the competitive environment for highly qualified executives. All compensation components should be appropriate, both individually and in total, and should not encourage an enterprise to take inappropriate risks.

The compensation of members of BMW AG's 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 Supervisory Board sets demanding and relevant targets as the basis for variable compensation. The principal

criteria for determining the appropriateness of compensation are the nature of the tasks allocated to each member of the Board of Management, an assessment of the performance of those tasks and of the economic situation and future prospects of the BMW Group, comparable levels of compensation in the relevant sector and the compensation structure in place elsewhere within the organisation.

Upper limits for compensation apply for all Board of Management members. The Supervisory Board reviews the compensation system at regular intervals, with regard to both the structure and amount of the compensation. In doing so, it takes note of compensation studies conducted by external experts and considers – as it always has done in the past – the compensation structures and the levels of compensation of staff and managers within the BMW Group.

The Personnel Committee and the Supervisory Board engaged external experts to test the compatibility of the compensation system for the Board of Management with the latest legal requirements. This review reached the conclusion that the system in place at that stage was already compatible with the changed requirements brought about by the new VorstAG rules. This was most evident in the fact that variable compensation was already based on a period stretching over several years, during which both positive and negative developments were taken into account. The Supervisory Board passed a resolution in 2009 setting out new bases of measurement for variable compensation components during the period 2010–2012. These bases of measurement will not be changed during the period stated.

Compensation system, compensation components

The compensation of the Board of Management comprises fixed and variable remuneration. Board of Management members are also entitled to receive retirement benefits. Under certain circumstances, the members of the Board of Management are entitled to receive so-called “transitional payments” until their retirement. In terms of the overall compensation of current members of the Board of Management, the Supervisory Board sets a compensation target and a compensation framework with a high variable proportion, taking into account the overall situation and forecasts of the BMW Group.

Fixed remuneration comprises a base salary (paid monthly) and other remuneration elements. Other remuneration elements comprise mainly the use of company cars as well

as the payment of insurance premiums, contributions towards security systems and an annual medical check-up.

The salaries of members of the Board of Management were raised with effect from 1 January 2009 after regular monitoring showed that they no longer fell within the target corridor for comparable sector and DAX 30 companies (2008 basis) considered appropriate by the Supervisory Board. The salary of each member of the Board of Management is euro 420,000 p. a. during the first term of appointment and euro 480,000 p. a. from the beginning of the second term. The salary of the Chairman of the Board of Management is euro 840,000 p. a.

The variable compensation of the Board of Management is made up of two components, each equally weighted, namely a corporate earnings-related bonus and a personal performance-related bonus. The Supervisory Board may also, in justified cases, decide to pay an additional special bonus on a voluntary basis. The target bonus (100 %) for a Board of Management member (i. e. covering both components of variable compensation) totals euro 1.5 million p. a. for the first term of appointment and euro 1.75 million p. a. with effect from the second. The equivalent figure for the Chairman of the Board of Management is euro 3 million p. a. Upper limits are in place for all Board of Management members (150 % of the relevant target bonus). The total target compensation for a Board of Management member (i. e. salary and target bonus) is therefore euro 1.92 million p. a. for the first term of appointment and euro 2.23 million p. a. with effect from the second. The equivalent figure for the Chairman of the Board of Management is euro 3.84 million p. a.

If the target bonus is fully achieved, the ratio of salary and variable compensation is then approximately 20 %:80 %.

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

An earnings and dividend factor of 1.00 gives rise to a corporate earnings-related bonus of euro 0.75 million for

a member of the Board of Management during the first period of appointment and one of euro 0.875 million with effect from the second. The equivalent bonus for the Chairman of the Board of Management is euro 1.5 million. The earnings factor is 1.00 in the event of a Group net profit of euro 3.1 billion and a post-tax return on sales of 5.6 %. The dividend factor is 1.00 in the event that the dividend paid on the shares of common stock is between 100 and 110 euro cents.

If the Group net profit is below euro 1 billion or if the post-tax return on sales is less than 2 %, the earnings factor will be zero. In these cases, no corporate earnings-related bonus will be paid. Based on the principle of consistency, this rule is also applicable in determining the corporate earnings-related variable compensation components of all managers and staff of BMW AG (see also page 29 et seq.).

The personal performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of its assessment of the contribution of the relevant Board of Management member to sustainable and long-term oriented business development. In setting the factor, consideration is given equally to personal performance and decisions taken in previous forecasting periods, key decisions affecting the future development of the business, the effectiveness of measures taken in response to changing external conditions as well as other activities aimed at safeguarding the future viability of the business to the extent not included directly in the basis of measurement.

The methodology for determining variable compensation of the Board of Management, including target bonuses and the key figures used to determine the corporate earnings-related bonus, has been fixed for the three financial years during the period from 1 January 2010 to 31 December 2012. Targets and other parameters may not be changed retrospectively during this period.

All current members of the Board of Management have agreed to the corresponding changes in their contracts with effect from 1 January 2010.

The compensation system does not include any stock options, value appreciation rights, and other share-based components incorporating other long-term incentives.

The Supervisory Board carries out an annual review of the appropriateness of the total compensation of the Board of Management; in horizontal terms, this is done by comparing compensation paid by DAX 30 companies and, in vertical terms, by comparing board compensation with the salaries of senior management (below board level) and with average salaries of employees.

In the event of the termination of mandate, current members of the Board of Management are entitled to receive certain defined benefits. Pensions are paid to former members of the Board of Management who have either reached the age of 65, or, if their mandate was terminated earlier and not extended, to members who have either reached the age of 60 or who are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. The amount of the pension comprises, unchanged from the previous year, a basic monthly amount of euro 10,000 or euro 15,000 (Chairman of the Board of Management) plus a fixed amount. The fixed amount is made up of approximately euro 75 for each year of service in the company before becoming a member of the Board of Management plus between euro 400 and euro 600 for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted by analogy to the rules applicable for the adjustment of civil servants' pensions: the pensions of members of the Board of Management are adjusted accordingly when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5 % or increased in accordance with the Company Pension Act.

If a mandate is ended early before the member of the Board of Management reaches the age of 60, a transitional payment amounting to two-thirds of the pension theoretically earned up to the date when a full pension can be drawn, may become payable if, after a minimum of three years of service as a member of the Board of Management, this is considered appropriate on the basis of an objective evaluation of all circumstances. Arrangements are in place concerning the offsetting of other income against pensions and transitional payments.

With effect from financial years beginning on or after 1 January 2010, the provision of retirement and surviving dependants' benefits for existing and future members of the Board of Management has been changed to a defined contribution system with a guaranteed minimum return (similar to the switch to a defined contribution system for middle and senior management in 2009 – see page 29

et seq.). Given the fact that board members already have a legal right to receive the benefits already promised to them, they have been given the option to choose between the previous system and the new one. All current members of the Board of Management have agreed to the corresponding changes in their contracts with effect from 1 January 2010.

If a mandate is terminated after 1 January 2010, the new system provides entitlements which can be paid either (a) in the case of death or invalidity as a one-off amount or over a maximum of ten years or (b) on retirement – depending on the wish of the ex-board member concerned – in the form of a life-long monthly pension, as a one-off amount, over a maximum of ten years, or in a combined form (e.g. a combination of a one-off payment and a proportionately reduced life-long monthly pension). Pensions are paid to former members of the Board of Management who have either reached the statutory retirement age for the state pension scheme in Germany, or if their mandate had terminated earlier and had not been extended, to members who have either reached the age of 60 or are permanently unable to work, or who have entered into early retirement in accordance with a special arrangement. In addition, following the death of a retired board member who has elected to receive a life-long pension, 60% of that amount is paid as a life-long widow's pension.

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

The annual contribution to be paid for each member of the Board of Management amounts to euro 240,000 for 2010, euro 270,000 for 2011 and euro 300,000 from 2012 onwards. The equivalent figures for the Chairman of the Board of Management are euro 425,000, euro 475,000 and euro 525,000. The contributions are credited, along with interest earned, to the personal savings accounts of board members on a monthly basis. 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) which currently stands at 2.25 %.

In the case of invalidity or death, a minimum of 60 % of the potential annual contributions will be paid until the person

concerned would have reached the age of 60. At the changeover to the new system, current members of the Board of Management will be credited with a starting balance of equivalent value to entitlements already vested.

The starting balance and all contributions subsequently credited to board members under the new scheme are externally financed in conjunction with a trust model that is also used to fund pension obligations to employees.

Pensions are increased annually by at least 1%.

Income earned on an employed or a self-employed basis up to the age of 63 is offset against the pension entitlement. In addition, certain circumstances have been specified in the event of which the Company no longer has any obligation to pay benefits. In such cases, no transitional payments are made either.

In the case of a board member's mandate being terminated early without important reason, there are no contractual commitments to pay compensation. Similarly, there are no commitments to pay compensation for early termination in the event of a change of control or a takeover offer. No members of the Board of Management received any payments or benefits from third parties in 2009 on account of their activities as the members of the Board of Management of BMW AG.

Compensation of the Board of Management for the financial year 2009 (total)

The total remuneration of the current members of the Board of Management of BMW AG for the financial year 2009, subject to approval by the Supervisory Board, amounted to euro 10.7 million (2008: euro 10.9 million). This comprises fixed components (including other remuneration) of euro 3.7 million (2008: euro 3.1 million) and variable components of euro 7.0 million (2008: euro 7.8 million).

in euro million	2009		2008	
	Amount	Proportion in %	Amount	Proportion in %
Fixed remuneration	3.7	34.6	3.1	28.4
Variable remuneration	7.0	65.4	7.8	71.6
Total remuneration	10.7	100.0	10.9	100.0

In addition, an expense of euro 0.7 million (2008: euro 0.8 million) was recognised 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 (service cost).

The amount paid to former members of the Board of Management and their surviving dependants was euro 3.8 million (2008: euro 3.1 million). Pension obligations to former members of the Board of Management and their

Compensation of the individual members of the Board of Management for the financial year 2009 (2008)

in euro	Fixed compensation			Variable compensation	Compensation Total	Allocation for year to pension provision ¹
	Salary	Other compensation	Total			
Norbert Reithofer	840,000 (600,000)	16,215 (16,271)	856,215 (616,271)	1,725,000 (1,650,000)	2,581,215 (2,266,271)	131,815 (124,912)
Frank-Peter Arndt	440,000 (300,000)	23,591 (19,708)	463,591 (319,708)	910,417 (825,000)	1,374,007 (1,144,708)	73,233 (69,327)
Herbert Diess	420,000 (300,000)	13,773 (29,762)	433,773 (329,762)	862,500 (825,000)	1,296,273 (1,154,762)	93,685 (89,930)
Klaus Draeger	430,000 (300,000)	74,237 (26,276)	504,237 (326,276)	886,458 (825,000)	1,390,696 (1,151,276)	74,495 (70,871)
Friedrich Eichiner	420,000 (300,000)	93,785 (23,516)	513,785 (323,516)	862,500 (825,000)	1,376,285 (1,148,516)	86,612 (81,547)
Harald Krüger	420,000 (25,000)	78,028 (2,777)	498,028 (27,777)	862,500 (68,750)	1,360,528 (96,527)	51,300 (4,616)
Ian Robertson	420,000 (240,323)	54,993 (102,938)	474,993 (343,261)	862,500 (660,887)	1,337,493 (1,004,148)	189,682 (133,533)
Total²	3,390,000 (2,801,775)	354,622 (304,134)	3,744,622 (3,105,909)	6,971,875 (7,814,570)	10,716,497 (10,920,479)	700,822 (819,331)

¹ includes service cost

² Figures for the previous year include the remuneration of members of the Board of Management who left office during the financial year 2008.

surviving dependants are fully covered by pension provisions amounting to euro 46.7 million (2008: euro 44.3 million), computed in accordance with IAS 19.

2. Compensation of the Supervisory Board Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. The compensation regulation valid for the financial year 2009 is the result of the shareholders' resolutions taken at the Annual General Meeting on 8 May 2008 and § 15 of the Articles of Incorporation of BMW AG. The Articles of Incorporation of BMW AG can be viewed/downloaded at www.bmwgroup.com/ir under the menu item "Corporate Facts" and "Corporate Governance".

Compensation principles, compensation components

In line with the recommendations of the German Corporate Governance Code, the members of the Supervisory Board receive fixed as well as performance-related compensation.

Each member of the Supervisory Board receives, in addition to the reimbursement of expenses, a fixed amount of euro 55,000 (payable at the end of the year) as well as a corporate earnings related compensation of euro 220 for each full euro 0.01 by which the earnings per share (EPS) of common stock reported in the Group Financial Statements for the relevant financial year (remuneration year) exceeds a minimum amount of euro 2.30 (payable after the Annual General Meeting held in the following year).

An upper limit of euro 110,000 is in place for the corporate earnings related compensation. Since the minimum EPS was not achieved in 2009, no corporate earnings related compensation is payable for the financial year 2009.

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

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board receives three times the amount and each Deputy Chairman receives twice the amount of the remuneration of a Supervisory Board member. Provided the relevant committee convened for meetings on at least three days during the financial year, each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one and a half times the amount of the remuneration of a Supervisory Board

member. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function which is remunerated with the highest amount, thus avoiding amounts accumulating when more than one function is exercised.

In addition, each member of the Supervisory Board receives an attendance fee of euro 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 any value added tax arising on their remuneration. The amounts disclosed below are net amounts.

Compensation of the Supervisory Board for the financial year 2009 (total)

In accordance with § 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2009 amounted to euro 1.6 million (2008: euro 1.6 million). This comprises fixed compensation of euro 1.6 million (2008: euro 1.6 million). No variable compensation is payable for the financial year 2009 (2008: –) since the conditions stipulated in the Articles of Incorporation (minimum EPS of euro 2.30) were not met.

in euro million		2009		2008	
		Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	1.6	100.0		1.6	100.0
Variable compensation	-	-		-	-
Total compensation	1.6	100.0		1.6	100.0

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for services performed by them, in particular advisory and agency services. During the financial year 2009 BMW AG concluded a contract with the market research organisation – Institut für Demoskopie Allensbach, Gesellschaft zum Studium der öffentlichen Meinung mit beschränkter Haftung, Allensbach – pertaining to the performance of a market research study into the German premium segment for cars in return for a total fee of euro 79,600. Since Prof. Dr. Renate Köcher is a member of BMW AG's Supervisory Board and a Director of the Allensbach Institute, the Board of Management obtained approval for the contract from the Supervisory Board's Personnel Committee before signing the contract.

Compensation of the individual members of the Supervisory Board for the financial year 2009 (2008)

in euro	Fixed compensation	Attendance fee	Variable compensation	Total ⁵
Joachim Milberg (Chairman)	165,000 (165,000)	10,000 (10,000)	- (-)	175,000 (175,000)
Manfred Schoch (Deputy Chairman)	110,000 (110,000)	10,000 (10,000)	- (-)	120,000 (120,000)
Stefan Quandt (Deputy Chairman)	110,000 (110,000)	10,000 (10,000)	- (-)	120,000 (120,000)
Stefan Schmid (Deputy Chairman)	110,000 (99,180)	10,000 (10,000)	- (-)	120,000 (109,180)
Jürgen Strube (Deputy Chairman)	110,000 (90,765)	10,000 (10,000)	- (-)	120,000 (100,765)
Ulrich Eckelmann ¹	20,192 (55,000)	2,000 (10,000)	- (-)	22,192 (65,000)
Bertin Eichler	55,000 (55,000)	10,000 (8,000)	- (-)	65,000 (63,000)
Franz Haniel	55,000 (55,000)	8,000 (8,000)	- (-)	63,000 (63,000)
Reinhard Hüttl	55,000 (35,765)	10,000 (8,000)	- (-)	65,000 (43,765)
Susanne Klatten	55,000 (55,000)	10,000 (8,000)	- (-)	65,000 (63,000)
Karl-Ludwig Kley	55,000 (35,765)	8,000 (4,000)	- (-)	63,000 (39,765)
Renate Köcher	55,000 (35,765)	10,000 (8,000)	- (-)	65,000 (43,765)
Robert W. Lane ²	34,959 (-)	6,000 (-)	- (-)	40,959 (-)
Horst Lischka ³	34,959 (-)	8,000 (-)	- (-)	42,959 (-)
Willibald Löw	55,000 (55,000)	10,000 (10,000)	- (-)	65,000 (65,000)
Hubert Markl ⁴	20,192 (55,000)	2,000 (8,000)	- (-)	22,192 (63,000)
Wolfgang Mayrhofer	55,000 (55,000)	8,000 (10,000)	- (-)	63,000 (65,000)
Werner Neugebauer	55,000 (55,000)	8,000 (8,000)	- (-)	63,000 (63,000)
Franz Oberländer	55,000 (55,000)	4,000 (10,000)	- (-)	59,000 (65,000)
Anton Ruf	55,000 (55,000)	10,000 (10,000)	- (-)	65,000 (65,000)
Maria Schmidt	55,000 (42,377)	10,000 (8,000)	- (-)	65,000 (50,377)
Werner Zierer	55,000 (55,000)	10,000 (10,000)	- (-)	65,000 (65,000)
Total	1,430,302 (1,420,982)	184,000 (184,000)	- (-)	1,614,302 (1,604,982)

¹ Member of the Supervisory Board until 14 May 2009.

² Member of the Supervisory Board from 14 May 2009.

³ Member of the Supervisory Board until 14 May 2009.

⁴ Member of the Supervisory Board from 14 May 2009.

⁵ Figures for the previous year include the remuneration of members of the Supervisory Board who left office during the financial year 2008.

3. Other

No loans or advances were granted by the BMW Group on favourable conditions to members of the Board of Management or the Supervisory Board.