

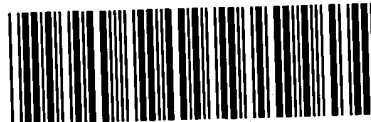
BMW (UK) Holdings Limited

Annual report and financial statements

Registered number 1213133

31 December 2016

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Strategic report

Principal activities

The main activities of the company involve the holding of investments in other BMW UK companies, acting as the principal employer of a number of UK defined benefit pension schemes and providing centralised support functions for other BMW UK companies. As such, the results of the company are dependent on the results of the pension fund (see Note 14, Pensions) and the administration activities arising out of the management of the company's investments. The main sources of income for the company are derived from its subsidiaries and participating employers in the UK pension schemes.

Business review

As the Company has a defined benefit pension scheme and has a significant pension liability on the balance sheet, the Company is exposed to risk of uncertainty of the estimation of their assumptions, specifically the discount rate and mortality rates. The company mitigates this risk by using actuaries to estimate the assumptions used for the calculations.

By order of the board



N C Wharton
Director

Summit ONE, Summit Avenue
Farnborough
Hampshire
GU14 0FB
England

12th May 2017

Directors' report

The directors present their report and financial statements for the year ended 31 December 2016.

Directors and directors' interests

The directors who held office during the year were as follows:

Mr N C Wharton
Dr A Liepe
Mrs K R Delvai
Mr M Dennett

Financial

The profit for the year is shown in the Profit and Loss account on page 6.

Proposed dividends

During the year, no dividends were paid to the immediate parent company BMW Holding BV (2015: £1,400,000,000) and none are proposed (2015: £nil). A reconciliation of the movements in shareholders' funds is given in the Statement of changes in equity.

Employees

The company is an equal opportunities employer and is opposed to any form of discrimination being practised against employees or applicants for employment. Applications for employment from disabled people are studied with care, and every effort is made to find them appropriate work with training where it is required. Employees who become disabled during their working life will be retrained in employment wherever possible and will be given the required assistance.

Political and charitable contributions

The company made no political or charitable contributions during the year (2015: £nil).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, in so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board



N C Wharton
Director

Summit ONE, Summit Avenue
Farnborough
Hampshire
GU14 0FB
England

12th May 2017

Statement of the directors' responsibilities in respect of the strategic report, directors' report and the financial statements

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting-Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of BMW (UK) Holdings Limited

We have audited the financial statements of BMW (UK) Holdings Limited for the year ended 31 December 2016 set out on pages 6 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of BMW (UK) Holdings Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.



Matthew Buckingham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

12th May 2017

Profit and Loss Account and Other Comprehensive Income
for year ended 31 December 2016

	Note	2016 £000	2015 £000
Administrative expenses	2	(110,660)	(134,341)
Other Income	3	79,444	84,898
Operating loss		(31,216)	(49,443)
Income from shares in group undertakings		409,981	1,590,846
Other interest receivable and similar income	4	1,974	2,167
Interest payable and similar expenses	5	(7)	-
Profit/(loss) before taxation		380,732	1,543,570
Tax on profit/(loss)	7	12,405	15,925
Profit/(loss) for the financial year		393,137	1,559,495
Other comprehensive expense			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit liability		(607,927)	413,599
Income tax on remeasurement of defined benefit liability		92,837	(112,388)
Other comprehensive income/(expense) for the year, net of income tax		(515,090)	301,211
Total comprehensive income for the year		(121,953)	1,860,706

The above results relate to continuing operations.

Balance Sheet
at 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Fixed Assets			
Intangible assets	9	834	834
Investments	8	780,593	780,593
		<u>781,427</u>	<u>781,427</u>
Current assets			
Debtors (including £220,098,000) (2015: £150,092,000) due after more than one year)	10,11	317,450	241,159
Cash at bank and in hand		851,872	589,344
		<u>1,169,322</u>	<u>830,503</u>
Creditors: amounts falling due within one year	12	<u>(21,157)</u>	<u>(21,235)</u>
Net current assets		<u>1,148,165</u>	<u>809,268</u>
Total assets less current liabilities		<u>1,929,592</u>	<u>1,590,695</u>
Pension Liability	14	<u>(1,290,366)</u>	<u>(829,516)</u>
Net assets		<u>639,226</u>	<u>761,179</u>
Capital and Reserves			
Share capital	13	1,000	1,000
Profit and loss account		638,226	760,179
Shareholders' Funds		<u>639,226</u>	<u>761,179</u>

These financial statements were approved by the board of directors on 12th May 2017 and were signed on its behalf by:



N C Wharton
Director

Registered company number 01213133

Statement of changes in equity
for year ended 31 December 2016

	Share capital £000	Share Premium £000	Retained earnings £000	Capital contribution £000	Total £000
Balance at 1 January 2015	1,630,982	2,721,217	(4,231,726)	180,000	300,473
Total comprehensive income for the year					
Profit for the year	-	-	1,559,495	-	1,559,495
Other comprehensive expense	-	-	301,211	-	301,211
Total comprehensive income for the year	-	-	1,860,706	-	1,860,706
Transactions with owners recorded directly in equity					
Reduction of Share Premium and Capital Contribution	2,901,217	(2,721,217)	-	(180,000)	=
Reduction of Share Capital	(4,531,199)	-	4,531,199	-	-
Dividends	-	-	(1,400,000)	-	(1,400,000)
Total contributions by and distribution to owners	(1,629,982)	(2,721,217)	3,131,199	(180,000)	(1,400,000)
Balance at 31 December 2015	1,000	-	760,179	-	761,179
Balance at 1 January 2016	1,000	-	760,179	-	761,179
Total comprehensive income for the year					
Profit for the year	-	-	393,137	-	393,137
Other comprehensive income	-	-	(515,090)	-	(515,090)
Total comprehensive income for the year	-	-	(121,953)	-	(121,953)
Transactions with owners recorded directly in equity					
Dividends	-	-	-	-	-
Total distribution to owners	-	-	-	-	-
Balance at 31 December 2016	1,000	-	638,226	-	639,226

Notes

(forming part of the financial statements)

1 Accounting policies

BMW (UK) Holdings Limited (the “Company”) is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Bayerische Motoren Werke Aktiengesellschaft (BMW AG) includes the Company in its consolidated financial statements. The consolidated financial statements of BMW AG are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Petuelring 130, D-80788 Munich, Germany.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW AG) include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 31 December 2016 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 16.

Notes (continued)

1 Accounting policies (continued)

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, pension scheme assets and financial instruments. The financial statements are presented in pounds sterling.

Going concern

The directors have a reasonable expectation that the company has adequate resources and significant net assets to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements

Interest receivable and Interest payable

Interest payable and similar charges include interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested. Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

Investments

Investments are held at cost net of impairment provisions.

Impairment

The carrying amounts of the Company's assets other than, stocks and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Company's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes (continued)

1 Accounting policies (continued)

Calculation of recoverable amount (continued)

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Intangible assets

Intangible assets acquired by the company are stated at cost less accumulated amortisation and impairment losses.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Employee benefits

Defined benefit plans

The company is the sponsoring company for certain UK pension schemes operated by the BMW group. These schemes are held in separately administered plans, the assets of which are held in separate trustee administered funds.

The Company's net obligation in respect of defined benefit pension is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Employee benefits (continued)

Where the calculation results in a benefit to the Company, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The Company is the sponsoring employer of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is the Company. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined on a pro-rata basis. Special contributions payable by the Company are recognised in the profit and loss account when the payments are made.

2 Administrative expenses

Includes the following items:

	2016 £000	2015 £000
Audit remuneration		
Audit services in connection with the audit of this company	68	68
	<hr/>	<hr/>
Employee benefits expense (related to the defined benefit pensions scheme)		
	2016 £000	2015 £000
Current service cost	61,423	71,678
Past service cost	132	434
Scheme administration expenses	5,810	5,521
Net interest cost	22,673	40,439
	<hr/>	<hr/>

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, BMW AG.

3 Other income

	2016 £000	2015 £000
Pension contributions from related parties	79,444	84,898
	<hr/>	<hr/>

4 Other interest receivable

	2016 £000	2015 £000
Interest receivable from related parties	1,974	2,167
	<hr/>	<hr/>

Notes (continued)

5 Interest payable to related parties

	2016 £000	2015 £000
Interest payable to related parties	7	-

6 Staff numbers and costs

The average number of persons employed by the company during the year was as follows:

	Number of employees	
	2016	2015
Administration	6	6

The aggregate payroll costs for four of the six employees during the year was as follows (the payroll costs of two of the employees are borne by another group undertaking):

	2016 £000	2015 £000
Wages and salaries	430	402
Social security costs	47	39
Contribution to defined benefit plans	127	131
	604	572

7 Taxation

Recognised in the profit and loss account

	2016 £000	2015 £000
<i>UK corporation tax</i>		
Current tax credit on profit for the year	35,236	28,338
Total current tax	35,236	28,338
<i>Deferred tax (see note 10)</i>		
Reversal of timing differences	(22,831)	(12,413)
Total deferred tax	(22,831)	(12,413)
Total tax credit on profit/(loss)	12,405	15,925

Notes (continued)

7 Taxation (continued)

Reconciliation of tax credit to standard rate of corporation tax in the UK

	2016 £000	2015 £000
Profit on ordinary activities before taxation	380,732	1,543,570
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	76,146	312,573
Effects of:		
Non taxable income	(81,996)	(322,146)
Reduction in tax rate on deferred tax balances	(6,584)	(4,554)
Adjustment in respect of prior years	29	(1,798)
Total tax credit in the profit and loss account	(12,405)	(15,925)

Factors that may affect future current and total tax charges

A reduction in the rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions in the corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly.

The current tax credit has been calculated at the rate of tax applicable during the year ended 31 December 2016 of 20%. The deferred tax asset has been measured based on the rate substantively enacted at the balance sheet date i.e. 17%.

8 Investments in subsidiaries

The Company has investments in the following subsidiaries, and the ordinary share capital of each company is wholly owned. All the companies are incorporated in England and Wales, with the exception of Alphabet (GB) Ltd which is incorporated in Scotland.

Investment held in:	Address:	Company No.	Class of shares	% Shareholding
Alphabet (GB) Limited	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03282075	Ordinary	100
BMW (UK) Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01378137	Ordinary	100
BMW Financial Services (GB) Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01288537	Ordinary	100
APD Industries plc	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03532544	Ordinary	100
BMW (UK) Investments Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01663911	Ordinary	100
BLMC Limited	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	00927060	Ordinary	100
BMW (UK) Pensions Services Ltd	BMW Plant Hams Hall Canton Lane, Hams Hall, Coleshill, North Warwickshire, B46 1GB	01652339	Ordinary	100
Swindon Pressings Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03950873	Ordinary	100
BMW Services Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03950870	Ordinary	100

BMW (UK) Manufacturing Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03950868	Ordinary	100
Alphabet (UK) Ltd (Formerly Alphabet (UK) Fleet Management Limited)	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	SC084727	Ordinary	100
BMW (UK) Capital plc	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03114356	Ordinary	100
John Cooper Garages Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	00841609	Ordinary	100
BMW Group Benefit Trust Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01754328	Ordinary	100
BMW Motorsport Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	03114332	Ordinary	100
Riley Motors Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01596706	Ordinary	100
Triumph Motor Company Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	00439079	Ordinary	100
BMW Central Pension Trustees Ltd	Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB	01623440	Ordinary	100

Notes (continued)

8 Investments in subsidiaries (continued)

	Equity investments £'000
Cost	
At beginning of year	900,087
Disposals	-
	<hr/>
At end of year	900,087
	<hr/>
Provisions	
At beginning of year	119,494
Disposals	-
	<hr/>
At end of year	119,494
	<hr/>
Net book value	
At 31 December 2016	780,593
	<hr/>
At 31 December 2015	780,593
	<hr/>

The directors have performed an impairment review of the carrying values of the investments held. Each subsidiary has been classified as a cash generating unit and future cash flows have been discounted. Impairment losses are recognised in administrative expenses.

9 Intangible assets

	Trademarks £000
Cost	
At beginning and end of year (no amortisation)	834
	<hr/>
Net book value	
At 31 December 2016	834
	<hr/>
At 31 December 2015	834
	<hr/>

Notes (continued)

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Employee benefits	220,098	150,092	-	-	220,098	150,092

Movement in temporary differences during the current and prior year

	Pensions £000
Balance at 1 January 2015	266,406
Recognised in income	(12,413)
Recognised in equity	(103,901)
Balance at 31 December 2015	150,092
Balance at 1 January 2016	150,092
Recognised in income	(22,831)
Recognised in equity	92,837
Balance at 31 December 2016	220,098

Unrecognised tax losses (gross)

	2016 £000	2015 £000
Balance at 1 January and 31 December	4,436	4,436

A deferred tax asset has not been recognised in respect of the closing balance because it is not probable that the company will generate appropriate taxable profits in the future against which to utilise the benefits from the losses.

Notes *(continued)*

11 Trade and other receivables

	2016 £000	2015 £000
Interest receivable from related party	2	5
VAT Recoverable	13,170	13,076
Amounts owed, by related parties	339	1,280
Deferred tax assets (see note 10)	220,098	150,092
Amounts owed by related parties (group taxation relief)	83,841	76,706
	<u>317,450</u>	<u>241,159</u>
Due within one year	97,352	91,067
Due after more than one year	220,098	150,092
	<u>314,159</u>	<u>241,159</u>

Debtors include deferred tax assets of £220,098,000 (2015: £150,092,000) due after more than one year. The amounts owed by related parties are repayable on demand.

12 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade payables to related parties	858	810
Other trade payables	20,299	20,425
	<u>21,157</u>	<u>21,235</u>

Of the £20,299,000 (2015: £20,425,000) provided for other trade payables, £20,241,882 (2015: £20,193,583) relates to monies received from HMRC in respect of various claims which may be subject to clawback by HMRC.

The amounts included in trade payables related parties are repayable on demand

Notes *(continued)*

13 Share capital

In thousands of shares	“A” redeemable ordinary shares of £1		“B” redeemable ordinary shares of £1		Ordinary shares of £1	
	2016	2015	2016	2015	2016	2015
On issue at 31 December	-	-	-	-	1,000	1,000
					2016	2015
					£'000	£'000
<i>Allotted, called up and fully paid up</i>						
Ordinary shares of £1 each					1,000	1,000
“A” redeemable ordinary shares of £1 each					-	-
“B” redeemable ordinary shares of £1 each					-	-
					1,000	1,000
Shares classified in shareholders’ funds					1,000	1,000

Notes (continued)

14 Pensions

BMW (UK) Holdings Limited is the principal employer for various United Kingdom pension arrangements for past and present employees of certain present and former subsidiaries. These are defined benefit schemes, the assets of which are held in legally separate trust funds administered by the respective Trustees. The major pension arrangements are the BMW (UK) Operations Pension Scheme (the "Main Scheme") and the BMW (UK) Operations Supplementary Pension Scheme (the "Supplementary Scheme") for which the latest actuarial valuations were carried out by independent, qualified actuaries using the projected unit method as at **31 December 2014**.

Both Schemes are final salary pension plans which provide benefits to members primarily in the form of a guaranteed level of pension payable for life. Surviving dependants' pensions and certain death benefits are also provided. The level of benefits earned is determined by reference to a member's length of service and their salary in the final years leading up to retirement. Once in payment, pensions are generally updated in line with the Retail Prices Index.

The BMW (UK) Operations Pension Scheme is funded by contributions received from BMW (UK) Holdings Limited, its subsidiaries and those of their employees who are members of the Scheme. Contributions are determined by a separate actuarial valuation based on the funding policies detailed in the Scheme documents.

The Scheme was closed to new entrants with effect from 1 January 2014.

The BMW (UK) Operations Supplementary Pension Scheme is wholly funded by BMW (UK) Holdings Limited. Contributions are determined by a separate actuarial valuation based on the funding policies detailed in the Scheme documents. There are no employee contributions.

BMW (UK) Trustees Limited acted as Trustee of the BMW (UK) Operations Pension Scheme for the year ended **31 December 2016**. The full Board of the Trustee Company is made up of a **maximum of 12 Directors** nominated in equal numbers by the Principal Employer and the membership.

BMW (UK) Supplementary Trustees Limited acted as Trustee of the BMW (UK) Operations Supplementary Pension Scheme throughout the year ended **31 December 2016**. The Board of the Trustee Company is made up of three Directors, two of whom are nominated by the Principal Employer and one nominated by the membership.

The Trustee companies are legally independent companies which are not part of the BMW Group.

The principal functions of the Trustees are:

- to administer the Scheme in accordance with the Trust Deed and Rules, and
- to invest the Scheme's assets with an appropriate degree of security to provide income and capital appreciation such that the Scheme is able to meet pension and other benefit liabilities, both now and in the future.

Both Schemes expose the Company to a number of actuarial risks, including:

Investment risk: the risk of the actual return from assets differing to that assumed for actuarial and funding purposes.

Interest rate & inflation risk: decreases/increases in the financial assumptions used will increase/decrease the defined benefit obligation. Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities although, in most cases, there are caps in place on the level of inflationary increases to protect the Schemes against extreme inflation.

Longevity risk: the majority of the scheme obligations are to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the scheme liabilities.

Salary risk: increases in future salaries increase the gross defined benefit obligation.

The Trustees reduce exposure to these risks by careful structuring of their funding and investment management arrangements including asset liability matching and through their contracts with the Schemes' investment managers. The Trustees also closely monitor these risks and receive formal quarterly reports on funding, risk, investment managers (including performance) and diversification.

The Company together with the other participating BMW companies expects to contribute approximately **£254.4m** in contributions to its defined benefit schemes in **2017**.

Notes (continued)

14 Pensions (continued)

Employees not participating in a defined benefit scheme are eligible to join a group personal pension plan (defined contribution scheme) offered by BMW in the UK.

The following information is presented for the Schemes as a whole and has been updated to **31 December 2016** in accordance with IAS 19R.

Recognised liability for defined benefit obligations

	2016 £000	2015 £000
Defined benefit obligation	(8,408,063)	(6,580,481)
Fair Value of plan assets	7,117,698	5,750,965
Total employee benefits	(1,290,365)	(829,516)

Reconciliation of defined benefit obligation and fair value of scheme assets

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Balance at 1 January	6,580,481	7,107,030	(5,750,965)	(5,780,130)	829,516	1,326,900
Current service cost	61,423	71,678	-	-	61,423	71,678
Past service cost	132	434	-	-	132	434
Interest cost/(income)	231,290	237,638	(208,617)	(197,199)	22,673	40,439
Administrative expenses	-	-	5,810	5,521	5,810	5,521
Included in profit or loss	292,845	309,750	(202,807)	(191,678)	90,038	118,072
Remeasurements loss/(gain):						
Actuarial loss (gain) arising from:						
Changes in demographic assumptions	-	(153,569)	-	-	-	(153,569)
Changes in financial assumptions	1,826,974	(208,978)	-	-	1,826,974	(208,978)
Experience adjustment	(70,360)	(258,490)	-	-	(70,360)	(258,490)
Return on plan assets (excluding interest income)	-	-	(1,148,687)	207,438	(1,148,687)	(207,438)
Included in other comprehensive income	1,756,614	(621,037)	(1,148,687)	207,438	607,927	(413,599)

Notes *(continued)*

14 Pensions *(continued)*

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Employer contributions	-	-	(237,116)	(201,857)	(237,116)	(201,857)
Employees contributions	18,791	15,655	(18,791)	(15,655)	-	-
Benefits paid	(240,668)	(230,917)	240,668	230,917	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other movements	(221,877)	(215,262)	(15,239)	13,405	(237,116)	(201,857)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December	8,408,063	6,580,481	(7,117,698)	(5,750,965)	1,290,365	829,516
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Represented by:					2016	2015
					£'000	£'000
BMW (UK) Operations Pension Scheme					1,283,535	819,284
BMW (UK) Operations Supplementary Pension Scheme					6,830	10,232
					<u> </u>	<u> </u>
					1,290,365	829,516
					<u> </u>	<u> </u>

Notes (continued)

14 Pensions (continued)

Plan assets

	2016 £'000	2015 £'000
Equity instruments		
- quoted	490,167	966,289
- unquoted	-	-
	<hr/>	<hr/>
	490,167	966,289
Debt instruments		
- quoted	4,960,979	3,242,082
- unquoted	349,388	153,362
	<hr/>	<hr/>
	5,310,367	3,395,444
Property (unquoted)	595,311	579,770
Cash and cash equivalents		
- quoted	11,729	157,190
- unquoted	7,108	17,531
	<hr/>	<hr/>
	18,837	174,721
Absolute return funds		
- quoted	10,739	-
- unquoted	636,501	519,151
	<hr/>	<hr/>
	647,240	519,151
Other investment funds		
- quoted	-	-
- unquoted	55,776	115,590
	<hr/>	<hr/>
	55,776	115,590
	<hr/>	<hr/>
	7,117,698	5,750,965
	<hr/>	<hr/>

Asset liability matching studies are routinely undertaken on a triennial basis by both the aforementioned Schemes in order to support analysis of the risks and returns from plan assets against strategic investment objectives.

Key aspects of the BMW (UK) Operations Pension Scheme's current investment strategy include:

- strategic asset mix benchmark consisting of **77%** of risk reducing assets (government and high quality corporate bonds) and **23%** of risk reducing assets (mainly invested in equities, property and alternative assets (predominantly hedge funds, infrastructure and venture capital)). The allocation to risk reducing assets will be increased as the Scheme's funding level increases in line with an agreed de-risking strategy.
- management of interest rate risk and inflation risk through the use of government and high quality bonds and derivatives (interest rate and inflation swaps).
- management of currency risk through the use of forward foreign currency contracts

These policies are consistent with those in the prior year.

Notes (continued)

14 Pensions (continued)

Principal actuarial assumptions (expressed as weighted averages):

The principal actuarial assumptions used in determining the present value of the defined benefit obligation of the BMW (UK) Operations Pension Scheme and the Supplementary Scheme (weighted average) include:

	2016 %	2015 %
Discount rate	2.51	3.58
Future salary increases	3.90	3.71
Retail price inflation	3.40	3.21
Rate of pension increases	2.58	2.45
Interest rate for calculating interest income on plan assets	3.58	3.40

The mortality assumptions, based on actuarial advice in accordance with published statistics and the recent actual mortality experience of the members within the Scheme, allow for future mortality improvements. The assumptions are that:

- An active member currently aged 45 retiring at age 65 will live on average for a further **26.1 years** after retirement if they are male and for a further **28.5 years** after retirement if they are female.
- A current pensioner aged 70 will live on average for a further **18.6 years** if male and **20 years** if female.
- The weighted average duration of the defined benefit obligation at the end of the reporting period is **20.8 years** (2015: 18.5 years).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

	Change	Defined benefit obligation Increase £'000	Decrease £'000
Discount rate	(+ / - 0.75%)	(1,217,388)	1,549,098
Future salary increases	(+ / - 0.25%)	50,013	(48,243)
Retail price inflation	(+ / - 0.75%)	794,495	(745,162)
Rate of pension increases	(+ / - 0.25%)	360,663	(346,408)

As permitted in IAS19.173(b), disclosures for the comparative period are not provided.

In valuing the liabilities of the pension fund at 31 December 2016, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2016 would have increased by **£401,371,000** before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at **31 December 2014** and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Notes *(continued)*

15 Ultimate parent company and parent company of larger group

The immediate parent company is BMW Holding BV, which is incorporated in The Netherlands. The address of BMW Holding BV is Laan van Vredenoord 5, 2289 DA Rijswijk ZH, The Netherlands.

The ultimate parent company and controlling party is Bayerische Motoren Werke Aktiengesellschaft, which is incorporated in Germany

The address where Bayerische Motoren Werke Aktiengesellschaft's accounts, which include the results of the company, can be obtained is Petuelring 130, D-80788 Munich, Germany. No other group accounts include the results of the company.

16 Accounting estimates and judgements

The directors consider the following accounting estimates and judgements to be critical to the financial statements.

Deferred tax

The recognition of the deferred tax asset is based upon the directors' current estimation of future taxable profits within the Company and the underlying subsidiaries which participate in the defined benefit pension scheme, against which the tax asset can be offset. In forming this opinion the directors have considered the current profitability and future trading agreements. The directors consider that the future taxable profits within the Company and its subsidiaries will be sufficient to offset the asset recognised.

Pension liability

The assumptions used in the calculations of the pension liability are set out in note 14.

Impairment of investment carrying value

The carrying value of equity investments relies on the accuracy of forecasted profitability of subsidiary undertakings and the discount rate used. Management consider that a 10% discount rate is appropriate. A 1% difference in the discount rate would not have a material impact on the carrying value of investments.