

**BMW (UK) Limited**  
**Strategic report, Directors' report and financial statements**  
**Registered number 1378137**  
**Year ended 31 December 2017**

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## Strategic report

The directors present their strategic report, directors' report and financial statements for the year ended 31 December 2017.

### Principal activities

The principal activity of BMW (UK) Limited (the "company") is the importation, storage, distribution, repair and maintenance of BMW Group products in the United Kingdom.

### Business review

#### *Strategy*

The company's strategy is the sustainable and active management of vehicles and aftersales business through its retailer network and the automotive market. This was of particular importance in 2017 with the UK economic conditions continuing to improve, despite ongoing uncertainty over the future outlook and the overall car market declining by 5.7% year on year, with the premium segment expanding by 1.2%.

#### *Risks and Uncertainties*

The result of the EU referendum ('Brexit') has created uncertainty for the automotive sector in general and for overseas investors in particular. Uncertainty is not helpful when it comes to making long-term business decisions. However, until it becomes clear what the result of the Brexit negotiations between the UK and the EU will be, the company continues, for the moment, to operate "business as usual".

The directors worked closely with the management team to anticipate risks from a range of factors to be able to react and plan accordingly. In the course of its business activities, the company is exposed to various types of risk.

The used car market and the exposure to residual value risk was continuously analysed together with BMW Financial Services (GB) Limited. The overall risk position was measured by comparing forecast market values and contractual values by model and market. The risks were identified by a common strategy of actively managing the supply of current models and optimising the resale processes.

Inventory levels and inventory aging are actively managed to prevent over-aged inventory.

Specific industry risks such as the increasingly stringent requirements to reduce fuel consumption as well as emissions, all continued to place high demands on the BMW Group's engine and product development. Through its Number One NEXT strategy, the BMW Group is continually striving for fuel consumption reductions with the aim of offering the most efficient vehicle in each relevant premium segment, whilst meeting all emission requirements.

Delivery delays, cancellations, strikes or poor quality can lead to production stoppages and thus have a negative impact on profitability. The BMW Group mitigated these risks by employing extensive procedures for selecting, monitoring and handling suppliers.

#### *Performance*

New models and products played a significant part in the success of the company in 2017. BMW's performance was influenced by the new 5 Series Saloon, 5 Series Touring and 6 Series Gran Turismo models. These alongside the new X3 and several new Plug in Hybrid Electric Vehicles (PHEV) contributed to the growth during the year. MINI benefited from sales of the new Countryman which includes a plug-in hybrid model.

The total number of BMW registrations decreased by 4.1% to 175,101 units in 2017 (2016: 182,593). In an overall car market that declined by 5.7%, BMW market share increased to 6.9% (2016: 6.8%). MINI saw a decrease in registrations of 1.2% to 68,166 units (2016: 68,984) with a market share of 2.7% (2016: 2.6%). Within the premium segment, BMW market share decreased to 24.2% (2016: 25.6%). The Motorcycle division had another strong year in 2017, with 9,287 registrations, an increase of 10.2% from 8,425 in 2016.

## Strategic report (continued)

The fall in registration levels is reflected in the company's revenue for the year of £5,659,035,000, a decrease of 2.8% compared to £5,822,266,000 in 2016. Lower administrative expenses resulted in operating profit of £71,009,000, up by 5.3% from the prior year (2016: £67,416,000). Dividend income in the year amounted to £8,693,000 (2016: £nil). This is reflected in the profit before income tax and preference share dividends of £80,868,000 compared to £69,655,000 in 2016.

Total assets increased by 7.5% to £2,145,182,000 (2016: £1,995,958,000), driven by the increase in cash and cash equivalents from £1,218,980,000 in 2016 to £1,295,203,000 in 2017. To meet demand, inventories increased from £568,346,000 in 2016 to £670,118,000 in 2017. Proactive inventory management continued throughout 2017 to not only meet the demand, but also to maintain working capital discipline. Details of the financial results are set out in the Income Statement on page 9.

The directors believe that the company is well placed to continue its strategy. The launch of new products during the year, with further products due for release in 2018, will build upon the success of the existing model range.

BMW's continued focus on fuel efficiency and emission reductions within the overall fleet, all support the company's strategy of sustainable and active management of its product portfolio. The BMW i and iPerformance sub brands help to cement BMW's aim of being the leading premium manufacturer for sustainable personal mobility. The BMW iPerformance technology is now available for the BMW 2 Series, BMW 3 Series, BMW 5 Series, BMW 7 Series and BMW X5, as well as the BMW i models. BMW iPerformance and electrified models will continue to increase in 2018. MINI also plans to increase its electrified portfolio.

The company is the principal employer for the BMW (GB) Limited Employee Benefits Plan (the "Plan"). The Plan is a defined benefit pension scheme and its assets are held within a legally separate trust fund administered by a Trustee. The Plan was closed to future accrual of benefits with effect from 1 October 2017 and all active members were transferred to deferred status.

### Controls and Systems

The company has adopted the BMW Group Internal Control Systems ("ICS") methodology to ensure that it has appropriate and effective internal controls integrated and applied in its processes, so as to maintain correct and reliable financial and accounting records and to comply with legal requirements. The CFO is responsible for ensuring the operation of the ICS including, but not limited to, ICS training, control measures, key control indicators, management reporting and roles and authorisation concepts.

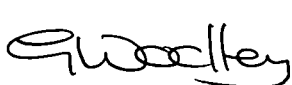
Risks are monitored and managed at an operational level through the Risk and Compliance Committee ("R&CC"). Risks are identified by managers throughout the business who report to their relevant Committee member. There are Committee members who represent the different business functions. The Committee member raises risk issues at the R&CC, which determines and records the actions to take.

### Key performance indicators

The key performance indicators for the year are as follows:

| Key performance indicator                          | 2017    | 2016    | Measure definition  |
|--|---------|---------|---|
| Registrations – BMW                                | 175,101 | 182,593 | Number of BMW cars registered in the UK.                                  |
| Registrations – MINI                               | 68,166  | 68,984  | Number of MINI cars registered in the UK.                                 |
| Share of UK car market (BMW and MINI combined) (%) | 9.6     | 9.3     | Number of cars registered in the UK as a percentage of the UK car market. |
| Registrations – Motorcycles                        | 9,287   | 8,425   | Number of motorcycles registered in the UK.                               |

By order of the board



**G Woolley**  
Company Secretary

18/7/18

Registered Office:  
Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB

## **Directors' report**

### **Dividends**

Total dividends of £5,200,000 were paid during the year (2016: £89,000,000), relating to both the ordinary and preference shares, to BMW (UK) Holdings Limited. The split of the dividends between ordinary and preference shares is shown in note 17. The directors recommend a final total dividend for 2017 of £98,800,000 to be paid during 2018. These financial statements do not reflect this dividend payable.

### **Market value of land and buildings**

In the opinion of the directors, the market value of the land and buildings of the company exceeded the net book values of these assets at 31 December 2017.

### **Policy and practice on payment of creditors**

The company does not follow any publicised code or standard on payment practice. Instead it is the company's policy to agree the terms of payment with its suppliers as and when a trading relationship is established. The company ensured that the terms of payment were clear and its policy is to abide by the agreed terms adhered to, provided the supplier met its obligations.

At 31 December 2017 the company had an average of 78 days (2016: 73 days) purchases outstanding in trade payables.

### **Directors and directors' interests**

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

G Grieve

M Kreeft

J-P Parain (appointed 1 January 2017)

None of the directors who held office at the end of the financial year had any interest in the shares of the company (2016: nil).

According to the register of directors' interests, no rights to subscribe for shares in the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

### **Employees**

The directors regularly attended meetings with the employees and reviewed continually the way in which information was provided to them. Where reasonable and practical within existing legislation, all persons, including disabled persons, were treated in the same way regarding employment, training, career development and promotion.

The company actively shares information about its current and forecast performance through quarterly staff briefings. This gives all employees of the company the opportunity not only to learn about the recent developments of the company but also gives the employees a platform to raise questions and put suggestions to the senior management team. Active participation in the performance of the company is encouraged and a proportion of remuneration is linked to the performance of the company as a whole.

## **Directors' report (continued)**

### **Recruitment**

The company strives to ensure that our work environment is fulfilling and enhancing and aim to remain the most preferred employer in the automotive industry.

This is achieved by committing to the following:

- Sourcing of a talented and committed workforce.
- Continuing to become a performance driven organisation.
- Commit to offer better growth and developmental opportunities.
- Excel in offering meaningful and challenging employment to all associates.
- Demonstrate respectful and competent leadership within all situations.

The company is committed to recruiting and selecting candidates in a fair, honest and transparent way ensuring compliance with relevant legislations governing recruitment. In 2017 the company had 87 vacancies. 66 vacancies were filled internally and 14 were filled externally.

### **Corporate Social Responsibility**

Corporate Social Responsibility is an area that BMW Group in the UK takes very seriously. Since 2001 BMW Group has established a significant presence in the UK employing around 8,000 full time associates in its seven business locations around the UK. Engaging with the communities in which it operates has been fundamental to BMW, and it has successfully made a contribution to society over and above an economic one.

In 2017 the company was involved in the following:

BMW (UK) Limited has continued to work closely with the Society of Motor Manufacturers and Traders (SMMT). The company currently chairs the Public Affairs Committee, the Environmental Policy Committee, the Car Section Working Group on Connected and Autonomous Vehicles and is a member of the coordination committee for the Connected and Autonomous Vehicles Forum. Graeme Grieve was appointed as a Director of the SMMT effective from January 2015.

The company is also represented across a broad range of SMMT Committees and Working Groups, some of which are listed below:

- Political Coordination Committee
- Environmental Policy Committee (chair)
- Public Affairs Committee
- Connected and Autonomous Vehicles Forum (coordination committee)
- Car Section Working Group on Connected and Autonomous Vehicles (chair)
- Electric Vehicle Working Group
- Sustainability Working Group

The company has a contract with Autogreen who provide End of Life Vehicle recycling services for owners of old BMW and MINI vehicles. During 2017, the company has submitted data to the Department for Business, Innovation and Skills (BIS) in accordance with their obligations under the End of Life Vehicles Directive confirming that all recycling and recovery obligations for vehicles returned through the Autogreen recycling network have been met.

The company also has contracts with Ecosurety for the reporting of packaging and electronic equipment sales data and Biffa Transform for batteries sales data. The company funds these contracted compliance schemes to submit data and fulfil its legal obligations under producer responsibility legislation relating to Packaging Waste, Electrical and Electronic Equipment and Batteries.

Following the relocation of the head office to Farnborough in 2014, the company complies with the BREEAM 'Very Good' rating for sustainability, and the distribution warehouse has achieved ISO14001 accreditation.

## **Directors' report** (continued)

### **Political and charitable contributions**

During the year the company made charitable contributions of £215,000 (2016: £199,000). No political donations were made in the year (2016: £nil).

Donations over £2,000 made in the year are disclosed as below:

|  |          |
|--|----------|
| BEN – Motor and Allied Trades Benevolent Fund registered charity number 297877 | £207,000 |
|--|----------|

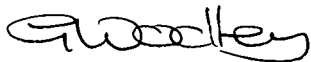
### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the 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 auditor is 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



**G Woolley**  
Company Secretary



Registered Office:  
Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB

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

The directors are responsible for preparing the Strategic Report, 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.



## **Independent Auditor's Report to the members of BMW (UK) Limited**

### **Opinion**

We have audited the financial statements of BMW (UK) Limited ("the company") for the year ended 31 December 2017 which comprise the statement of financial position as at 31 December 2017, the related statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## **Independent Auditor's Report to the members of BMW (UK) Limited (continued)**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as

they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

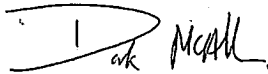
### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Derek McAllan (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

23 July 2018

## Income Statement

For the year ended 31 December 2017

|  | Note(s) | 2017<br>£'000      | 2016<br>£'000      |
|--|---------|--------------------|--------------------|
| <b>Revenue</b>   | 2       | <b>5,659,035</b>   | <b>5,822,266</b>   |
| Cost of sales  |         | <u>(5,408,134)</u> | <u>(5,568,877)</u> |
| <b>Gross profit</b>  |         | <b>250,901</b>     | <b>253,389</b>     |
| Administrative expenses  | 3 - 5   | <b>(179,892)</b>   | <b>(185,973)</b>   |
| <b>Results from operating activities</b>                           |         | <b>71,009</b>      | <b>67,416</b>      |
| Finance income   | 6       | <b>13,052</b>      | <b>20,525</b>      |
| Finance expense  | 6       | <b>(11,886)</b>    | <b>(18,286)</b>    |
| Preference share dividends   | 6, 17   | <b>(4,561)</b>     | <b>(78,066)</b>    |
| Dividend income  | 9       | <b>8,693</b>       | <b>-</b>           |
| <b>Net finance income / (expense)</b>                              |         | <b>5,298</b>       | <b>(75,827)</b>    |
| <b>Profit / (Loss) before income tax</b>                           |         | <b>76,307</b>      | <b>(8,411)</b>     |
| Income tax charge  | 7       | <b>(12,608)</b>    | <b>(13,885)</b>    |
| <b>Profit / (Loss) for the year attributable to equity holders</b> |         | <b>63,699</b>      | <b>(22,296)</b>    |

There were no acquisitions or discontinued activities in either year.

The notes on pages 14 to 42 form part of these financial statements.

## Statement of Other Comprehensive Income

For the year ended 31 December 2017

|  | Note | 2017<br>£'000  | 2016<br>£'000   |
|--|------|----------------|-----------------|
| Actuarial gains / (losses) on defined benefit pension plans<br>(net of deferred tax) |      | 47,815         | (36,047)        |
| <b>Net (expense)/income recognised directly in equity</b>                            |      | <u>47,815</u>  | <u>(36,047)</u> |
| <b>Profit / (Loss) for the year</b>  |      | <u>63,699</u>  | <u>(22,296)</u> |
| <b>Total recognised income / (expense)</b>   |      | <u>111,514</u> | <u>(58,343)</u> |

The notes on pages 14 to 42 form part of these financial statements.

**Registered number: 1378137**

**Statement of Financial Position**

As at 31 December 2017

|   | <b>Note</b> | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
|---|-------------|-----------------------|-----------------------|
| <b>Non-current assets</b>                       |             |                       |                       |
| Property, plant and equipment                   | 8           | <b>38,304</b>         | 38,792                |
| Investments in subsidiaries                     | 9           | <b>13,010</b>         | 13,010                |
| Employee benefits                               | 15          | <b>14,234</b>         | -                     |
| Deferred tax asset                              | 10          | <b>-</b>              | 12,085                |
|   |             | <b>65,548</b>         | 63,887                |
| <b>Current assets</b>                           |             |                       |                       |
| Inventories                                     | 11          | <b>670,118</b>        | 568,346               |
| Trade and other receivables                     | 12          | <b>90,570</b>         | 121,218               |
| Tax receivable                                  |             | <b>23,743</b>         | 23,527                |
| Cash and cash equivalents                       | 13          | <b>1,295,203</b>      | 1,218,980             |
|   |             | <b>2,079,634</b>      | 1,932,071             |
| <b>Total assets</b>                             |             | <b>2,145,182</b>      | 1,995,958             |
| <b>Equity</b>                                   |             |                       |                       |
| Share capital                                   | 17          | <b>5,000</b>          | 5,000                 |
| Share premium                                   | 17          | <b>7,000</b>          | 7,000                 |
| Retained earnings                               | 17          | <b>245,790</b>        | 134,915               |
| <b>Total equity</b>                             |             | <b>257,790</b>        | 146,915               |
| <b>Non-current liabilities</b>                  |             |                       |                       |
| Trade and other payables                        | 14          | <b>6,144</b>          | 13,809                |
| Provisions                                      | 16          | <b>75,915</b>         | 81,442                |
| Employee benefits                               | 15          | <b>-</b>              | 72,620                |
| Deferred tax liability                          | 10          | <b>2,055</b>          | -                     |
|   |             | <b>84,114</b>         | 167,871               |
| <b>Current liabilities</b>                      |             |                       |                       |
| Trade and other payables                        | 14          | <b>1,657,621</b>      | 1,539,411             |
| Other financial liabilities – Preference shares | 17          | <b>35,000</b>         | 35,000                |
| Provisions                                      | 16          | <b>110,657</b>        | 106,761               |
|   |             | <b>1,803,278</b>      | 1,681,172             |
| <b>Total liabilities</b>                        |             | <b>1,887,392</b>      | 1,849,043             |
| <b>Total equity and liabilities</b>             |             | <b>2,145,182</b>      | 1,995,958             |

The notes on pages 14 to 42 form part of these financial statements.

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

  
**G Grieve**  
Director

18 July 2018

## Statement of Changes in Equity

For the year ended 31 December 2017

|                                   | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|-----------------------------------|---------------------------|---------------------------|-------------------------------|--------------------------|
| Equity at 1 January 2016          | 5,000                     | 7,000                     | 204,192                       | 216,192                  |
| Total recognised expense          | -                         | -                         | (58,343)                      | (58,343)                 |
| Ordinary share dividends paid     | -                         | -                         | (10,934)                      | (10,934)                 |
| Equity at 31 December 2016        | <u>5,000</u>              | <u>7,000</u>              | <u>134,915</u>                | <u>146,915</u>           |
| Equity at 1 January 2017          | <b>5,000</b>              | <b>7,000</b>              | <b>134,915</b>                | <b>146,915</b>           |
| Total recognised income           | -                         | -                         | <b>111,514</b>                | <b>111,514</b>           |
| Ordinary share dividends paid     | -                         | -                         | <b>(639)</b>                  | <b>(639)</b>             |
| <b>Equity at 31 December 2017</b> | <u><b>5,000</b></u>       | <u><b>7,000</b></u>       | <u><b>245,790</b></u>         | <u><b>257,790</b></u>    |

Equity is solely attributable to equity holders of the parent.

The notes on pages 14 to 42 form part of these financial statements.

## Statement of Cash Flows

For the year ended 31 December 2017

|  | Note  | 2017<br>£'000    | 2016<br>£'000 |
|--|-------|------------------|---------------|
| <b>Cash flows from operating activities</b>                              |       |                  |               |
| Profit / (Loss) for the year   |       | 63,699           | (22,296)      |
| Adjustments for:   |       |                  |               |
| Finance income   | 6     | (13,052)         | (20,525)      |
| Finance expense  | 6     | 11,886           | 18,286        |
| Dividend income  | 9     | (8,693)          | -             |
| Preference share dividends paid  | 6, 17 | 4,561            | 78,066        |
| Depreciation   | 8     | 3,495            | 3,010         |
| Income tax charge  | 7     | 12,608           | 13,885        |
| Loss/(profit) on sale of property, plant and equipment                   |       | (172)            | 9             |
| <b>Operating profit before changes in working capital and provisions</b> |       | <b>74,332</b>    | 70,435        |
| Decrease in trade and other receivables                                  |       | 40,442           | 8,041         |
| Increase in inventories  | 11    | (101,772)        | (49,378)      |
| Increase in trade and other payables                                     |       | 110,545          | 118,617       |
| Decrease in provisions and employee benefits                             |       | (40,670)         | (8,596)       |
| <b>Cash generated from operating activities</b>                          |       | <b>82,877</b>    | 139,119       |
| Tax refunded/(paid)  |       | (8,479)          | 78,571        |
| <b>Net cash from operating activities</b>                                |       | <b>74,398</b>    | 217,690       |
| <b>Cash flows from investing activities</b>                              |       |                  |               |
| Investment in subsidiaries   | 9     | -                | (13,000)      |
| Proceeds from sale of property, plant and equipment                      | 8     | 176              | -             |
| Acquisition of property, plant and equipment                             | 8     | (3,010)          | (3,733)       |
| Interest received  | 6     | 13,052           | 20,525        |
| Dividend income received   | 6     | 8,693            | -             |
| <b>Net cash from investing activities</b>                                |       | <b>18,911</b>    | 3,792         |
| <b>Cash flows from financing activities</b>                              |       |                  |               |
| Interest paid  | 6     | (11,886)         | (18,286)      |
| Ordinary share dividends paid  | 17    | (639)            | (10,934)      |
| Preference share dividends paid  | 6, 17 | (4,561)          | (78,066)      |
| <b>Net cash from financing activities</b>                                |       | <b>(17,086)</b>  | (107,286)     |
| Net increase in cash and cash equivalents                                |       | 76,223           | 114,196       |
| Cash and cash equivalents at 1 January                                   | 13    | 1,218,980        | 1,104,784     |
| <b>Cash and cash equivalents at 31 December</b>                          | 13    | <b>1,295,203</b> | 1,218,980     |

The notes on pages 14 to 42 form part of these financial statements.

## **Notes to the financial statements**

### **1 Accounting policies**

#### **Reporting entity**

BMW (UK) Limited is a company limited by shares, domiciled and incorporated in the United Kingdom.

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.

#### **Basis of preparation and statement of compliance**

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The financial statements were approved by the Board of Directors on 18 July 2018.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### **Basis of measurement**

The financial statements of the company have been prepared on the historical cost basis except that certain financial assets and liabilities are stated at their fair value. The methods used to measure fair values are further discussed in note 18.

#### **Going concern**

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 1 to 2. The financial position of the company, and its cash flows, are presented in the primary statements on pages 9 to 13. In addition, note 18 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The company has considerable financial resources together with an established distribution network, global marketing strategies, and group based supply chain across different geographic areas. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

#### **Functional and presentation currency**

These financial statements are presented in pound sterling, which is the company's functional currency. All financial information presented has been rounded to the nearest thousand.

#### **Use of estimations and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimations. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.



## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have a significant effect on the amount recognised in the financial statements are in relation to the valuation of inventories; warranty provision; and the defined benefit pension plan.

The valuations of the inventories are reviewed on a constant basis by comparing the current carrying value of inventories to the expected selling prices of the inventories. The total amount of provisions created in respect of these costs is disclosed in note 11.

The expected costs of fulfilling warranty obligations are reviewed on a constant basis by the company. This is performed by using historic data to forecast the expected liability over the future warranty period. The total amount of provisions created in respect of these costs is disclosed in note 16.

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty and are disclosed in note 15.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods.

### Standards adopted during the year

In these financial statements no Adopted IFRSs which have been effective for the first time have had a material effect on the financial statements.

#### *Adopted IFRSs endorsed and not yet applied*

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements in the period of initial application.

#### **IFRS 9 – Financial Instruments**

The Company is required to adopt IFRS 9 Financial Instruments from 1 January 2018. The company has assessed the impact that the initial application of IFRS 9 will have on its financial statements. The impact of the adoption of this standard on the company's equity as at 1 January 2018 is a credit of £455,000, net of deferred tax.

#### **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018), which replaces all existing revenue guidance including IAS 18 Revenue, is based on a five-step model, which sets out the rules for revenue from contracts with customers. Revenues are required to be recognised either over time or at a specific point in time. A major difference to the previous Standard is the increased scope of discretion for estimates and the introduction of thresholds, thus influencing the amount and timing of revenue recognition.

The company has assessed the impact that the initial application of IFRS 15 will have on its financial statements. The impact of the adoption of this standard on the company's equity as at 1 January 2018 is a credit of £2,753,000, net of deferred tax.

In accordance with IFRS 15, costs relating to sales promotion measures, such as sales support or residual value subsidies are to be treated as variable components of consideration and will therefore in future be recognised as Revenue deductions. A part of these costs have been reported to date within Cost of Sales. The change in presentation in the Income Statement will result in an equal decrease in both Revenue and Cost of Sales. For 2017, the amount subject to changed accounting presentation would have been £166,211,000.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **IFRS 16 – Leases**

IFRS 16 Leases (effective date 1 January 2019), replaces existing leases guidance, including *IAS 17 Leases*, *IFRIC 4 Determining whether an Arrangement contains a Lease*, *SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The company has not early adopted this standard.

IFRS 16 introduces a single, on-Statement of Financial Position lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – ie. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The impact on the financial statements is not expected to be material.

#### **Foreign currency**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are retranslated to the functional currency using the rate of exchange ruling at that date. Non-monetary assets and liabilities that are measured at historic cost in a foreign currency are translated using the exchange rate at the date of the transaction. Gains or losses on translation are included in the Income Statement.

#### **Financial instruments**

##### **Classification of financial instruments issued by the company**

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a. they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- b. where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the Income Statement.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Non-derivative financial instruments

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Included within trade receivables due from group undertakings are cash deposits held with BMW International Investment B.V. with maturity of greater than three months.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Cash deposits are held with BMW International Investment B.V. where maturity is less than three months. Under IAS 7 these are classified as cash equivalents as they are held for the purpose of meeting short-term cash commitments rather than for investment purposes. The deposits held with BMW International Investment B.V. are interest bearing and are subject to an insignificant risk of change in value.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment.

##### *Provisions*

A provision is recognised in the Statement of Financial Position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as below.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. It is calculated at the following rates:

|                                     |                      |
|-------------------------------------|----------------------|
| Short leasehold buildings           | over period of lease |
| Freehold buildings                  | over 20 to 40 years  |
| Plant, machinery and motor vehicles | over 3 to 10 years   |

### Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

### Inventories

Inventories are stated at the lower of cost and net realisable value. For non-vehicle items cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### Impairment

The carrying amounts of the company's assets other than inventories and deferred tax assets are reviewed at each Statement of Financial Position 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 the Income Statement.

#### *Calculation of recoverable amount*

The recoverable amount of the company's assets is the greater of their net selling price 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.

#### *Reversals of impairment*

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

### Employee benefits

The company operates two pension schemes providing benefits based on final pensionable pay. The first of these is the BMW (GB) Limited Employee Benefits Plan which is accounted for fully on the Statement of Financial Position of BMW (UK) Limited. The assets of the scheme are held separately from those of the company. The expected cost of pensions in respect of the company's defined benefit pension scheme is charged to the Income Statement so as to spread the cost of pensions over the service lives of the employees in the scheme. The second of these (BMW (UK) Operations Scheme) is accounted for fully in the accounts of BMW (UK) Holdings Limited with BMW (UK) Limited accounting for contributions to this scheme only.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### *BMW (GB) Limited Employee Benefits Plan*

The BMW (GB) Limited Scheme is a multi-employer defined benefit plan accounted for solely within the BMW (UK) Limited financial statements including the proportion applicable to BMW Financial Services (GB) Limited, Rolls-Royce Motor Cars Limited, Alphabet (GB) Limited and Park Lane Limited. The proportions applicable to each are not split out.

The company's net defined benefit asset in respect of defined benefit pension plans is calculated 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 Statement of Financial Position 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. Under the rules of the defined benefit scheme, the company has an unconditional right to a refund of any surplus, and therefore, a net defined benefit asset may be recognised.

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 Income Statement 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 Income Statement.

Under IAS 19, actuarial gains and losses arising in conjunction with defined benefit pension obligations are permitted to be recognised directly in equity. The deferred tax arising on these actuarial gains and losses has also been taken directly through equity.

The Plan was closed to future accrual of benefits with effect from 1 October 2017 and all active members were transferred to deferred status. No regular employer and employee contributions are due after September 2017. Employees not participating in the defined benefit scheme are eligible to join a group personal pension plan (defined contribution scheme) offered by the BMW Group in the UK.

#### *BMW (UK) Operations Pension Scheme*

BMW (UK) Holdings Limited is the holding company of this company and other companies which participate in the schemes. BMW (UK) Holdings Limited is also the Principal Employer under the rules of the schemes. The pension costs arising from the schemes are accounted for in accordance with IAS 19 (Revised) in the accounts of the holding company, with BMW (UK) Limited accounting for contributions to this scheme only.

The BMW (UK) Operations Pension Scheme was closed to future accrual of benefits with effect from 1 October 2017 and all active members were transferred to deferred status. No regular employer and employee contributions are due after September 2017.

#### *Short term employee benefits*

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash-bonus plans if the company has a legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be reliably estimated.

### Revenue

Revenues from cost recharges for making goods or services available which generated a significant margin (>5%), is recorded as revenue.

Cost recharges with no service performance character (transitory items) and which do not generate a significant margin (<5%) and cost allocations within the company have been offset against the related costs in administrative expenses.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Revenue represents sales to outside customers at invoiced amounts less value added tax.

#### Expenses

##### *Operating lease payments and receipts*

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Income from operating leases is recognised on a straight line basis over the period of the lease.

##### *Finance income and expenses*

Net financing income and expenses comprise interest payable, finance subsidies, interest cost on the unwinding of provision discounts, finance charges on finance leases, interest receivable on funds invested, dividend income and fair value of financial instrument gains and losses that are recognised in the Income Statement.

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

#### Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position 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 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 Statement of Financial Position 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 asset can be utilised.

## Notes to the financial statements (continued)

### 2 Revenue

Revenue represents the value of vehicles (including options) and parts, sold excluding VAT. The major categories of revenue are analysed below:

|                         | 2017<br>£'000    | 2016<br>£'000    |
|-------------------------|------------------|------------------|
| Vehicle and motorcycles | 5,328,222        | 5,524,598        |
| Parts                   | 330,813          | 297,668          |
|                         | <u>5,659,035</u> | <u>5,822,266</u> |

### 3 Expenses and Auditor's remuneration

Charged against the profit for the year are the following:

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Increase / (decrease) in warranty provisions (note 16) | (5,585)       | 9,432         |
| Depreciation (note 8)                                  | <u>3,495</u>  | <u>3,010</u>  |

Auditor's remuneration:

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Audit of these financial statements                                   | 108           | 111           |
| Amounts receivable by the auditor and their associates in respect of: |               |               |
| - Other services  | <u>23</u>     | <u>61</u>     |

### 4 Staff numbers and costs

The average number of employees, including directors, during the year was 407 (2016: 410). All were employed for the wholesale of vehicles and parts.

The aggregate payroll costs of these persons were as follows:

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Wages and salaries   | 28,767        | 26,348        |
| Social security costs  | 4,346         | 2,738         |
| Company contributions to BMW (GB) Limited Employee Benefits Plan (note 15) | 5,862         | 5,869         |
| Other pension costs  | <u>1,253</u>  | <u>491</u>    |
|  | <u>40,228</u> | <u>35,446</u> |

## Notes to the financial statements (continued)

### 5 Directors' emoluments

|   | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| Directors' emoluments                                 | <b>872</b>   | 793          |
| Company contributions to pension schemes              | <b>48</b>    | 72           |
|   | <b>920</b>   | 865          |
|   | <b>2017</b>  | <b>2016</b>  |
|   | <b>£'000</b> | <b>£'000</b> |
| The aggregate emoluments of the highest paid Director | <b>580</b>   | 437          |

There were no (2016: one) directors in the company's defined benefit pension scheme during the year.

The highest paid director was a member of the company's defined contribution pension scheme during the year (2016: defined contribution scheme).

### 6 Finance income and expense

|  | <b>2017</b>     | <b>2016</b>  |
|--|-----------------|--------------|
|  | <b>£'000</b>    | <b>£'000</b> |
| Interest income from cash deposits                 | <b>2,055</b>    | 9,396        |
| Interest income from defined benefit pension funds | <b>8,232</b>    | 9,284        |
| Fair value of financial instruments                | -               | 1,845        |
| Warranty provision interest income                 | <b>2,765</b>    | -            |
| Finance income                                     | <b>13,052</b>   | 20,525       |
| Pension fund interest expense                      | <b>(9,471)</b>  | (10,294)     |
| Finance subsidies                                  | <b>(2,384)</b>  | (2,858)      |
| Warranty provision interest expense                | -               | (2,951)      |
| Fair value of financial instruments                | -               | (1,845)      |
| Interest expense                                   | <b>(31)</b>     | (338)        |
| Finance expense                                    | <b>(11,886)</b> | (18,286)     |
| Preference share dividends paid (note 17)          | <b>(4,561)</b>  | (78,066)     |
| Dividend income                                    | <b>8,693</b>    | -            |
|  | <b>4,132</b>    | (78,066)     |
| Net finance income / (expense)                     | <b>5,298</b>    | (75,827)     |



## Notes to the financial statements (continued)

### 7 Taxation

#### Recognised in the Income Statement

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Current tax charge:                               |               |               |
| Current year                                      | 8,249         | 15,666        |
| Adjustments for prior years                       | 13            | (2,476)       |
|   | <u>8,262</u>  | <u>13,190</u> |
| Deferred tax charge:                              |               |               |
| Origination and reversal of temporary differences | 4,353         | 995           |
| Reduction in realisable tax rate                  | (7)           | (398)         |
| Adjustment for prior years                        | -             | 98            |
|   | <u>4,346</u>  | <u>695</u>    |
| Total tax in the Income Statement                 | <u>12,608</u> | <u>13,885</u> |

#### Reconciliation to the effective tax rate

|   | 2017<br>£'000 | 2016<br>£'000  |
|---|---------------|----------------|
| Profit/ (Loss) before tax                                   | <u>76,307</u> | <u>(8,411)</u> |
| Tax using the UK corporation tax rate of 19.25% (2016: 20%) | 14,689        | (1,682)        |
| Tax free income   | (2,071)       | -              |
| Non-deductible expenses                                     | -             | 16,063         |
| Tax benefit relating to other periods                       | -             | (2,476)        |
| Tax expense relating to other periods                       | 13            | -              |
| Difference between expected rate and applicable tax rate    | (464)         | (176)          |
| Previously unrecognised temporary differences               | (7)           | (300)          |
| Tax losses purchased from group companies                   | 448           | 2,456          |
| <b>Total tax in the Income Statement</b>                    | <u>12,608</u> | <u>13,885</u>  |

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

The effect of this change is that profits arising in 2017 are taxable at a rate of 19.25% (2016: 20%). The deferred tax asset as at 31 December 2017 has been calculated based on the rate of 17% substantively enacted at the Statement of Financial Position date.

## Notes to the financial statements (continued)

### 8 Property, plant and equipment

|                                    | Short<br>leasehold<br>land and<br>buildings<br>£'000 | Freehold<br>land and<br>buildings<br>£'000 | Plant,<br>machinery<br>and motor<br>vehicles<br>£'000 | Assets<br>under<br>construction<br>£'000 | Total<br>£'000 |
|------------------------------------|--|--|---|--|----------------|
| <b>Cost</b>                        |  |  |   |  |                |
| Balance at 1 January 2016          | 778  | 38,910                                     | 23,032  | 4,108                                    | 66,828         |
| Additions                          | 3  | 141  | 1,994   | 1,595                                    | 3,733          |
| Transfers                          | -  | 1,868                                      | 810   | (2,678)                                  | -              |
| Disposals                          | -  | -  | (210)   | -  | (210)          |
| Balance at 31 December 2016        | 781  | 40,919                                     | 25,626  | 3,025                                    | 70,351         |
| Balance at 1 January 2017          | 781  | 40,919                                     | 25,626  | 3,025                                    | 70,351         |
| Additions                          | -  | 101  | 1,983   | 779                                      | 2,863          |
| Transfers from subsidiaries*       | -  | -  | 800   | -  | 800            |
| Transfers                          | (3)  | 60   | 3,398   | (3,455)                                  | -              |
| Disposals                          | (778)  | (4)  | (4,622)   | -  | (5,404)        |
| <b>Balance at 31 December 2017</b> | <b>-</b>   | <b>41,076</b>                              | <b>27,185</b>   | <b>349</b>                               | <b>68,610</b>  |
| <b>Depreciation</b>                |  |  |   |  |                |
| Balance at 1 January 2016          | 776  | 13,810                                     | 14,164  | -  | 28,750         |
| Depreciation charge for the year   | 2  | 932  | 2,076   | -  | 3,010          |
| Disposals                          | -  | -  | (201)   | -  | (201)          |
| Balance at 31 December 2016        | 778  | 14,742                                     | 16,039  | -  | 31,559         |
| Balance at 1 January 2017          | 778  | 14,742                                     | 16,039  | -  | 31,559         |
| Transfers from subsidiaries*       | -  | -  | 652   | -  | 652            |
| Depreciation charge for the year   | -  | 981  | 2,514   | -  | 3,495          |
| Disposals                          | (778)  | (4)  | (4,618)   | -  | (5,400)        |
| <b>Balance at 31 December 2017</b> | <b>-</b>   | <b>15,719</b>                              | <b>14,587</b>   | <b>-</b>                                 | <b>30,306</b>  |
| <b>Net book value</b>              |  |  |   |  |                |
| <b>Balance at 31 December 2017</b> | <b>-</b>   | <b>25,357</b>                              | <b>12,598</b>   | <b>349</b>                               | <b>38,304</b>  |
| Balance at 31 December 2016        | 3  | 26,177                                     | 9,587   | 3,025                                    | 38,792         |

\*Transfers from BMW (P&A) Limited. Refer to note 9.

## Notes to the financial statements (continued)

### 9 Investments in subsidiaries

**Shares in Group  
undertakings  
£'000**

Cost and net book value at 1 January 2017 and 31 December 2017 13,010

The directors believe that the carrying value of the investments in subsidiaries are supported by their underlying net assets.

The company has the following investments in subsidiaries:

| <b>Name of subsidiary</b> | <b>Description of shares held</b> | <b>Country of incorporation</b> | <b>Proportion of nominal value of issued shares held (%)</b> |
|---------------------------|-----------------------------------|---------------------------------|--|
| Park Lane Limited         | Ordinary £1 shares                | United Kingdom                  | 100  |
| BMW Drivers Club Limited  | Ordinary £1 shares                | United Kingdom                  | 100  |
| BMW Car Club Limited      | Ordinary £1 shares                | United Kingdom                  | 100  |
| BMW (GB) Limited          | Ordinary £1 shares                | United Kingdom                  | 100  |

The registered office address for these subsidiaries is Summit One, Summit Avenue, Farnborough, Hampshire, GU14 0FB.

BMW (P&A) Limited, registered in England and Wales, was voluntarily struck off in March 2018. BMW (P&A) Limited ceased trading on 31 December 2016 and the final dividend of £8,693,000 was paid to the company in April 2017. Property, Plant and Equipment with a Net Book Value of £147,000 were purchased by the company on 1 January 2017 at par.

Park Lane Limited, registered in England and Wales, is involved in motor vehicle retailing.

BMW Drivers Club Limited, BMW Car Club Limited and BMW (GB) Limited, registered in England and Wales, were dormant (within the meaning of Section 1169(2) of the Companies Act 2006) throughout the financial year ending as at the date of this Statement of Financial Position.

## Notes to the financial statements (continued)

### 10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

|                               | <b>Assets</b> |               | <b>Liabilities</b> |              | <b>Net</b>     |               |
|-------------------------------|---------------|---------------|--------------------|--------------|----------------|---------------|
|                               | <b>2017</b>   | <b>2016</b>   | <b>2017</b>        | <b>2016</b>  | <b>2017</b>    | <b>2016</b>   |
|                               | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>       | <b>£'000</b> | <b>£'000</b>   | <b>£'000</b>  |
| Property, plant and equipment | -             | -             | (316)              | (260)        | (316)          | (260)         |
| Employee benefits             | -             | 12,345        | (1,739)            | -            | (1,739)        | 12,345        |
|                               | <u>-</u>      | <u>12,345</u> | <u>(2,055)</u>     | <u>(260)</u> | <u>(2,055)</u> | <u>12,085</u> |

Movement in deferred tax during the year:

|                               | <b>1 January 2017</b> | <b>Recognised in income</b> | <b>Recognised in equity</b> | <b>31 December 2017</b> |
|-------------------------------|-----------------------|-----------------------------|-----------------------------|-------------------------|
|                               | <b>£'000</b>          | <b>£'000</b>                | <b>£'000</b>                | <b>£'000</b>            |
| Property, plant and equipment | (260)                 | (56)                        | -                           | (316)                   |
| Employee benefits             | 12,345                | (4,290)                     | (9,794)                     | (1,739)                 |
|                               | <u>12,085</u>         | <u>(4,346)</u>              | <u>(9,794)</u>              | <u>(2,055)</u>          |

Movement in deferred tax during the prior year:

|                               | <b>1 January 2016</b> | <b>Recognised in income</b> | <b>Recognised in equity</b> | <b>31 December 2016</b> |
|-------------------------------|-----------------------|-----------------------------|-----------------------------|-------------------------|
|                               | <b>£'000</b>          | <b>£'000</b>                | <b>£'000</b>                | <b>£'000</b>            |
| Property, plant and equipment | 34                    | (294)                       | -                           | (260)                   |
| Employee benefits             | 6,263                 | (401)                       | 6,483                       | 12,345                  |
|                               | <u>6,297</u>          | <u>(695)</u>                | <u>6,483</u>                | <u>12,085</u>           |

### 11 Inventories

|                | <b>2017</b>    | <b>2016</b>    |
|----------------|----------------|----------------|
|                | <b>£'000</b>   | <b>£'000</b>   |
| Motor vehicles | 632,283        | 535,975        |
| Parts          | 37,835         | 32,371         |
|                | <u>670,118</u> | <u>568,346</u> |

An obsolescence provision of £48,868,000 has been provided as at 31 December 2017 (2016: £35,065,000).

The replacement cost of inventories as at 31 December 2017 would be £718,986,000 (2016: £603,410,000).

The value of inventory recognised as an expense in the Income Statement in the year was £5,049,689,000 (2016: £5,322,645,000). The value of inventory written off in the Income Statement during the year was £298,000 (2016: £473,000).

## Notes to the financial statements (continued)

### 12 Trade and other receivables

|   | 2017<br>£'000 | 2016<br>£'000  |
|---|---------------|----------------|
| <b>Financial instrument trade and other receivables</b>     |               |                |
| Trade receivables due from group undertakings               | 10,123        | 69,580         |
| Trade receivables   | <u>77,410</u> | <u>49,324</u>  |
|   | <b>87,533</b> | <b>118,904</b> |
| <b>Non financial instrument trade and other receivables</b> |               |                |
| Prepayments   | <u>3,037</u>  | <u>2,314</u>   |
|   | <b>90,570</b> | <b>121,218</b> |

### 13 Cash and cash equivalents

|                           | 2017<br>£'000    | 2016<br>£'000    |
|---------------------------|------------------|------------------|
| Cash and cash equivalents | <u>1,295,203</u> | <u>1,218,980</u> |

Included above are the deposits held with BMW International Investment B.V. (2016: BMW International Investment B.V.) of £1,042,000,000 (2016: £1,210,000,000). In accordance with IFRS 7 these are recognised as cash equivalents as they are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The deposits held with BMW International Investment B.V. and BMW AG (2016: BMW International Investment B.V.) are interest bearing and subject to an insignificant risk of change in value.

### 14 Trade and other payables

Current:

|  | 2017<br>£'000    | 2016<br>£'000    |
|--|------------------|------------------|
| <b>Financial instrument trade and other payables</b>     |                  |                  |
| Trade payables due to group undertakings                 | 988,851          | 985,789          |
| Consignment payables                                     | 347,711          | 298,215          |
| Other trade payables                                     | <u>162,589</u>   | <u>124,164</u>   |
|  | <b>1,499,151</b> | <b>1,408,168</b> |
| <b>Non-financial instrument trade and other payables</b> |                  |                  |
| Non-trade payables and accrued expenses                  | <u>158,470</u>   | <u>131,243</u>   |
|  | <b>1,657,621</b> | <b>1,539,411</b> |

Non-current:

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| <b>Non-financial instrument trade and other payables</b> |               |               |
| Non-trade payables and accrued expenses                  | <u>6,144</u>  | <u>13,809</u> |
|  | <b>6,144</b>  | <b>13,809</b> |

## Notes to the financial statements (continued)

### 15 Employee benefits

#### Pension plans

The information disclosed below is in respect of the whole of the plans for which the company is the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

##### *BMW (GB) Limited Employee Benefits Plan*

BMW (UK) Limited is the principal employer for the BMW (GB) Limited Employee Benefits Plan (the "Plan"). The Plan is a defined benefit pension scheme and its assets are held within a legally separate trust fund administered by a Trustee. The last signed actuarial valuation was carried out by independent qualified actuaries using the projected unit method as at 31 December 2016.

The Plan is a final salary arrangement which provides benefits to members in the UK primarily in the form of a guaranteed level of pension payable for life. Surviving dependents' 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 Price Index.

The Plan has been funded by contributions received from BMW (UK) Limited and other BMW participating employers. Contributions have also been received from employees who are members of the Plan. Contributions are determined by a separate actuarial valuation based on the funding policies detailed in the Plan documents.

The Plan was closed to future accrual of benefits with effect from 1 October 2017 and all active members were transferred to deferred status. No regular employer and employee contributions are due after September 2017. Employees not participating in the defined benefit scheme are eligible to join a group personal pension plan (defined contribution scheme) offered by the BMW Group in the UK.

BMW Pension Trustees Limited acted as Trustee of the BMW (GB) Limited Employee Benefits Plan throughout the year ended 31 December 2017. The Board of the Trustee Company is made up of five Directors, three of whom are nominated by the Principal Employer and two nominated by the active and pensioner membership.

The Trustee Company is a legally independent company which is not part of the BMW Group.

The principal functions of the Trustee are:

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

The Trustee has established a Business Plan setting out its objectives and targets. The Plan is formally reviewed annually and progress is monitored at each Board meeting.

The Trustee also has an integrated risk management process to assess risk and implement risk management strategies. This has involved identifying the type of risks the Plan faces, prioritising them in terms of potential impact and likelihood of occurrence and identifying means of mitigating the risks.

## Notes to the financial statements (continued)

### 15 Employee benefits (continued)

The Plan exposes the company to a number of risks, including:

- *Investment risk*: the risk of the actual return from assets differing to that assumed for actuarial and funding purposes.
- *Interest rate and 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 Trustee reduces exposure to these risks by careful structuring of funding and investment management arrangements including asset liability matching and through contracts with the Plan's investment managers. The Trustee also closely monitors these risks and receives 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 £470,000 in contributions to the Plan in 2018.

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

BMW (UK) Limited pension costs for the defined contribution scheme in 2017 were £1,253,000 (2016: £491,000).

The following information is presented for the BMW (GB) Limited Employee Benefits Plan and has been updated to 31 December 2017 in accordance with IAS 19R.

*Recognised (asset)/liability for defined benefit obligations*

|                            | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|----------------------------|-----------------------------|-----------------------------|
| Defined benefit obligation | <b>329,359</b>              | 396,741                     |
| Fair value of plan assets  | <b>(343,593)</b>            | (324,121)                   |
| Total employee benefits    | <b><u>(14,234)</u></b>      | <u>72,620</u>               |

## Notes to the financial statements (continued)

### 15 Employee benefits (continued)

#### *Reconciliation of defined benefit obligation and fair value of scheme assets*

|   | <b>Defined benefit obligation</b> |                       | <b>Fair value of plan assets</b> |                       | <b>Net defined benefit (asset)/liability</b> |                       |
|---|-----------------------------------|-----------------------|----------------------------------|-----------------------|--|-----------------------|
|   | <b>2017<br/>£'000</b>             | <b>2016<br/>£'000</b> | <b>2017<br/>£'000</b>            | <b>2016<br/>£'000</b> | <b>2017<br/>£'000</b>                        | <b>2016<br/>£'000</b> |
| <b>Balance at 1 January</b>                                       | 396,741                           | 287,601               | (324,121)                        | (252,805)             | 72,620                                       | 34,796                |
| Current service cost  | 5,862                             | 5,869                 | -                                | -                     | 5,862  | 5,869                 |
| Past service cost   | -                                 | 438                   | -                                | -                     | -  | 438                   |
| Interest cost/(income)  | 9,471                             | 10,294                | (8,232)                          | (9,284)               | 1,239  | 1,010                 |
| Settlement gain   | (27,930)                          | -                     | -                                | -                     | (27,930)                                     | -                     |
| Administrative expenses   | -                                 | -                     | 546                              | 437                   | 546  | 437                   |
| <b>Included in profit or loss</b>                                 | (12,597)                          | 16,601                | (7,686)                          | (8,847)               | (20,283)                                     | 7,754                 |
| Re-measurement loss/(gain):<br>Actuarial loss/(gain) arising from |                                   |                       |                                  |                       |  |                       |
| - Changes in demographic assumptions                              | (22,623)                          | -                     | -                                | -                     | (22,623)                                     | -                     |
| - Changes in financial assumptions                                | 212                               | 98,445                | -                                | -                     | 212  | 98,445                |
| - Experience adjustment   | (23,492)                          | -                     | -                                | -                     | (23,492)                                     | -                     |
| Return on plan assets (excluding interest income)                 | -                                 | -                     | (11,705)                         | (55,915)              | (11,705)                                     | (55,915)              |
| <b>Included in other comprehensive income</b>                     | (45,903)                          | 98,445                | (11,705)                         | (55,915)              | (57,608)                                     | 42,530                |
| Employer contributions  | -                                 | -                     | (8,963)                          | (12,460)              | (8,963)                                      | (12,460)              |
| Employees contributions   | 843                               | 1,184                 | (843)                            | (1,184)               | -  | -                     |
| Benefits paid   | (9,752)                           | (6,929)               | 9,752                            | 6,929                 | -  | -                     |
| Insurance premiums for risk benefits                              | 27                                | (161)                 | (27)                             | 161                   | -  | -                     |
| <b>Other movements</b>  | (8,882)                           | (5,906)               | (81)                             | (6,554)               | (8,963)                                      | (12,460)              |
| <b>Balance at 31 December</b>                                     | <u>329,359</u>                    | <u>396,741</u>        | <u>(343,593)</u>                 | <u>(324,121)</u>      | <u>(14,234)</u>                              | <u>72,620</u>         |



## Notes to the financial statements (continued)

### 15 Employee benefits (continued)

| <i>Plan assets</i>             | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
|--------------------------------|-----------------------|-----------------------|
| Equity instruments             |                       |                       |
| - quoted                       | <b>17,319</b>         | 31,195                |
| - unquoted                     | <b>-</b>              | -                     |
|                                | <b>17,319</b>         | 31,195                |
| Debt instruments - quoted      | <b>243,371</b>        | 223,288               |
| Cash and cash equivalents      |                       |                       |
| - quoted                       | <b>48,286</b>         | 10,477                |
| - unquoted                     | <b>214</b>            | 196                   |
|                                | <b>48,500</b>         | 10,673                |
| Absolute return funds - quoted | <b>34,403</b>         | 58,965                |
|                                | <b>343,593</b>        | 324,121               |

As a key aspect of investment strategy, the BMW (GB) Limited Employee Benefits Plan aims to invest approximately 26.2% of its funds in 'return seeking assets'. In order to limit risk and volatility, the balance of the funds (73.8%) are invested in assets which are designed to match the interest rate and inflation sensitivities of the Plan's liabilities.

These policies are consistent with those in the prior year.

#### *Principal actuarial assumptions (expressed as weighted averages)*

The principal actuarial assumptions used in determining the present value of the defined benefit obligation include:

|  | <b>2017<br/>%</b> | <b>2016<br/>%</b> |
|--|-------------------|-------------------|
| Discount rate  | <b>2.35</b>       | 2.54              |
| Future salary increases                                      | <b>N/A</b>        | 3.91              |
| Retail price inflation                                       | <b>3.27</b>       | 3.41              |
| Rate of pension increases                                    | <b>1.86</b>       | 2.00              |
| Interest rate for calculating interest income on plan assets | <b>2.54</b>       | 3.61              |

## Notes to the financial statements (continued)

### 15 Employee benefits (continued)

The mortality assumptions are based on the recent actual mortality experience of the members within the Plan and the assumptions also allow for future mortality improvements.

The assumptions are that:

- An active member currently aged 45 retiring at age 60 will live on average for a further 29.8 years after retirement if they are male and for a further 32 years after retirement if they are female.
- A current pensioner aged 60 will live on average for a further 28.3 years if male and 30.3 years if female.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20.7 years (2016: 22.7 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<br>£'000          | Decrease<br>£'000 |
| Discount rate             | + / - 0.75% | (49,650)                   | 62,249            |
| Retail price inflation    | + / - 0.75% | 36,416                     | (36,456)          |
| Rate of pension increases | + / - 0.25% | 15,016                     | (13,684)          |

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 2017, 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 2017 would have increased by £10,888,000 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 2016 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.

#### *BMW (UK) Operations Pension Scheme*

The company participates in pension schemes operated by BMW Group. These are defined benefit schemes, the assets of which are held in separate trustee administered funds. The major pension scheme is the BMW (UK) Operations Pension Scheme, for which the latest actuarial valuations were carried out by independent, qualified actuaries using the projected unit method as at 31 December 2014.

BMW (UK) Holdings Limited is the holding company of BMW (UK) Limited and the other companies which participate in the schemes. BMW (UK) Holdings Limited is also the Principal Employer under the rules of the schemes, and the pension costs arising from the schemes are accounted for in accordance with IAS 19R in the financial statements of the BMW (UK) Holdings Limited. Therefore, the defined benefit obligation of these pension schemes do not appear in the Statement of Financial Position of BMW (UK) Limited.

## Notes to the financial statements (continued)

### 15 Employee benefits (continued)

The BMW (UK) Operations Pension Scheme was closed to future accrual of benefits with effect from 1 October 2017 and all active members were transferred to deferred status. No regular employer and employee contributions are due after September 2017.

BMW (UK) Limited has accounted for the schemes on the basis of contributions payable in the year. The monthly contributions payable due to the schemes were £247,000 (2016: £212,000) and there were no contributions outstanding at the year end. The company expects to contribute £nil to the schemes in 2018.

The 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 dependents' 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.

BMW (UK) Trustees Limited acted as Trustee of the BMW (UK) Operations Pension Scheme for the year ended 31 December 2017. 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.

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

### 16 Provisions

#### Warranty provisions

The provision is estimated based on the historical average warranty expenditure per vehicle per day. It is expected that most of the above provision will be incurred as expenditure in the next three financial years, and all will be incurred within four years of the Statement of Financial Position date.

|                                    | £'000                 |
|------------------------------------|-----------------------|
| Balance at 1 January 2016          | 123,353               |
| Provisions made during the year    | 48,800                |
| Utilised during the year           | (39,368)              |
| Balance at 31 December 2016        | <u>132,785</u>        |
| Balance at 1 January 2017          | <b>132,785</b>        |
| Provisions made during the year    | <b>52,145</b>         |
| Utilised during the year           | <b>(57,730)</b>       |
| <b>Balance at 31 December 2017</b> | <b><u>127,200</u></b> |

#### Other provisions

There are other provisions totalling £59,372,000 (2016: £55,418,000) relating to bonuses and sale incentives, where there is uncertainty around the timing or amount of the payments as at 31 December 2017.

The warranty and other provisions are shown on the face of the Statement of Financial Position as follows:

|                              | Current               |                | Non-current          |               | Total                 |                |
|------------------------------|-----------------------|----------------|----------------------|---------------|-----------------------|----------------|
|                              | 2017                  | 2016           | 2017                 | 2016          | 2017                  | 2016           |
|                              | £'000                 | £'000          | £'000                | £'000         | £'000                 | £'000          |
| Warranty provisions          | <b>51,285</b>         | 51,343         | <b>75,915</b>        | 81,442        | <b>127,200</b>        | 132,785        |
| Bonuses and sales incentives | <b>59,372</b>         | 55,418         | -                    | -             | <b>59,372</b>         | 55,418         |
|                              | <b><u>110,657</u></b> | <u>106,761</u> | <b><u>75,915</u></b> | <u>81,442</u> | <b><u>186,572</u></b> | <u>188,203</u> |

## Notes to the financial statements (continued)

### 16 Provisions (continued)

#### *Inventory provisions*

An obsolescence provision of £48,868,000 has been provided as at 31 December 2017 (2016: £35,065,000). The obsolescence provision is in place to cover the risk that due to obsolescence or movement in market value of vehicles, some inventories may be sold at less than their cost values. This is based on historical data which identifies which inventory items have sold for less than their carrying value.

|                                     | £'000                |
|-------------------------------------|----------------------|
| Balance at 1 January 2016           | 31,687               |
| Provisions made during the year     | 598,751              |
| Provisions released during the year | (591,995)            |
| Utilised during the year            | (3,378)              |
| Balance at 31 December 2016         | <u>35,065</u>        |
| Balance at 1 January 2017           | <b>35,065</b>        |
| Provisions made during the year     | <b>693,231</b>       |
| Provisions released during the year | <b>(665,452)</b>     |
| Utilised during the year            | <b>(13,976)</b>      |
| <b>Balance at 31 December 2017</b>  | <b><u>48,868</u></b> |

#### *Trade receivables provisions*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

|                               | 2017<br>£'000       | 2016<br>£'000 |
|-------------------------------|---------------------|---------------|
| Balance at 1 January          | <b>2,026</b>        | 1,773         |
| Utilised during the year      | <b>274</b>          | 253           |
| <b>Balance at 31 December</b> | <b><u>2,300</u></b> | <u>2,026</u>  |

Note that both the inventory provision and trade receivable provision are booked against the gross balance of inventories and trade receivables.

### 17 Capital and reserves

|                                     | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|-------------------------------------|---------------------------|---------------------------|-------------------------------|--------------------------|
| Equity at 1 January 2016            | 5,000                     | 7,000                     | 204,192                       | 216,192                  |
| Total recognised income / (expense) | -                         | -                         | (58,343)                      | (58,343)                 |
| Ordinary share dividends paid       | -                         | -                         | (10,934)                      | (10,934)                 |
| Equity at 31 December 2016          | <u>5,000</u>              | <u>7,000</u>              | <u>134,915</u>                | <u>146,915</u>           |
| Equity at 1 January 2017            | <b>5,000</b>              | <b>7,000</b>              | <b>134,915</b>                | <b>146,915</b>           |
| Total recognised income / (expense) | -                         | -                         | <b>111,514</b>                | <b>111,514</b>           |
| Ordinary share dividends paid       | -                         | -                         | <b>(639)</b>                  | <b>(639)</b>             |
| <b>Equity at 31 December 2017</b>   | <b><u>5,000</u></b>       | <b><u>7,000</u></b>       | <b><u>245,790</u></b>         | <b><u>257,790</u></b>    |

The aggregate current and deferred tax relating to items that are credited to equity is £10,145,000 (2016: credit to equity £19,939,000).

## Notes to the financial statements (continued)

### 17 Capital and reserves (continued)

#### Share capital

|   | Redeemable preference shares of £1 each |                | Ordinary shares       |                       |
|---|---|----------------|-----------------------|-----------------------|
|   | 2017<br>Number                          | 2016<br>Number | 2017<br>Number        | 2016<br>Number        |
| On issue at 1 January and at 31 December                                  | <b>35,000,000</b>                       | 35,000,000     | <b>5,000,000</b>      | 5,000,000             |
|   |   |                | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
| Authorised, allotted, called up and fully paid Ordinary shares of £1 each |   |                | <b>5,000</b>          | 5,000                 |
|   |   |                | <b>5,000</b>          | <b>5,000</b>          |
| Shares classified as liabilities  |   |                | <b>35,000</b>         | 35,000                |
| Shares classified as equity   |   |                | <b>5,000</b>          | 5,000                 |
|   |   |                | <b>40,000</b>         | <b>40,000</b>         |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Preference shares classified as liabilities are redeemable, at par, at the option of the holder having given the company minimum notice of 24 hours in writing. Preference share dividends are calculated on the ordinary share dividend plus 2%. If no ordinary dividend is declared, no preference share dividend is due.

#### Dividends

Dividends were paid during the year as follows:

| <b>2017</b>                  | <b>Number of shares</b> | <b>Dividend per share £ (4 d.p.)</b> | <b>Total dividend £'000</b> |
|------------------------------|-------------------------|--------------------------------------|-----------------------------|
| Ordinary shares of £1 each   | 5,000,000               | 0.1278                               | 639                         |
| Preference shares of £1 each | 35,000,000              | 0.1303                               | 4,561                       |
|                              |                         |                                      | <b>5,200</b>                |
| <b>2016</b>                  | <b>Number of shares</b> | <b>Dividend per share £ (4 d.p.)</b> | <b>Total dividend £'000</b> |
| Ordinary shares of £1 each   | 5,000,000               | 2.1867                               | 10,934                      |
| Preference shares of £1 each | 35,000,000              | 2.2305                               | 78,066                      |
|                              |                         |                                      | <b>89,000</b>               |

There were no dividends declared in the year which were not paid as at 31 December 2017 (2016: £nil).

## Notes to the financial statements (continued)

### 18 Financial instruments

#### Fair values

The fair values together with the carrying amounts shown in the Statement of Financial Position are as follows:

|                                | <b>Note</b> | <b>Carrying<br/>amount<br/>2017<br/>£'000</b> | <b>Fair value<br/>2017<br/>£'000</b> | <b>Carrying<br/>amount<br/>2016<br/>£'000</b> | <b>Fair value<br/>2016<br/>£'000</b> |
|--------------------------------|-------------|---|--------------------------------------|---|--------------------------------------|
| Cash and cash equivalents      | 13          | <b>1,295,203</b>                              | <b>1,295,203</b>                     | 1,218,980                                     | 1,218,980                            |
| Trade and other<br>receivables | 12          | <b>87,533</b>                                 | <b>87,533</b>                        | 118,904                                       | 118,904                              |
| Trade and other payables       | 14          | <b>(1,499,151)</b>                            | <b>(1,499,151)</b>                   | (1,408,168)                                   | (1,408,168)                          |
| Provisions                     | 16          | <b>(127,200)</b>                              | <b>(127,200)</b>                     | (132,785)                                     | (132,785)                            |
| Preference shares              | 17          | <b>(35,000)</b>                               | <b>(35,000)</b>                      | (35,000)                                      | (35,000)                             |
|                                |             | <b><u>(278,615)</u></b>                       | <b><u>(278,615)</u></b>              | <b><u>(238,069)</u></b>                       | <b><u>(238,069)</u></b>              |

#### Estimation of fair values

The fair values of all of the company's financial instruments above are considered level 2 (2016: level 2 for all financial instruments) fair value measurements based on the following hierarchy which categorises measurements based on the nature of inputs in determining the fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### Trade and other receivables/payables

Receivables and payables are recognised at amortised cost.

#### Provisions

As described in note 1, provisions are determined by discounting the expected future cash flows at a current market rate. The carrying amount is deemed to reflect the fair value.

#### Redeemable preference shares

As described in note 17, preference shares are redeemable upon demand. The carrying amount is deemed to reflect the fair value.

## Notes to the financial statements (continued)

### 18 Financial instruments (continued)

#### Financial risk management

##### Overview

The company has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

#### Exposure to credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

Financial instruments that may subject the company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The company continually monitors its position with, and the credit quality of, the financial institutions, which are counterparties to its financial instruments, and does not anticipate non-performance.

It is the company's policy to monitor accounts receivable balances and chase late payments. The company regularly reviews the credit-worthiness of its customers in order to minimise credit risk.

During the year the company has impaired its receivables based on a credit risk rating, which is determined between BMW Financial Services (GB) Limited and BMW (UK) Limited. Credit ratings are reviewed regularly and are based on the financial standing and performance of the company's major customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk, being the total of the carrying amount of financial assets excluding equity investments, at the reporting date was:

|                             | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|-----------------------------|-----------------------------|-----------------------------|
| Trade and other receivables | <b>87,533</b>               | 118,904                     |
| Cash and cash equivalents   | <b><u>1,295,203</u></b>     | <u>1,218,980</u>            |
|                             | <b><u>1,382,736</u></b>     | <u>1,337,884</u>            |

As described in note 13, cash and cash equivalents include deposits held with BMW International Investment B.V. (2016: BMW International Investment B.V.) of £1,042,000,000 (2016: £1,210,000,000). All deposits mature within 3 months of the Statement of Financial Position date.

There is not considered to be any credit risk in relation to cash and cash equivalents.

## Notes to the financial statements (continued)

### 18 Financial instruments (continued)

The maximum exposure to credit risk for trade and other receivables at the reporting date by customer was:

|   | <b>2017</b>          | <b>2016</b>    |
|---|----------------------|----------------|
|   | <b>£'000</b>         | <b>£'000</b>   |
| Vehicle                                       | <b>76,995</b>        | 49,111         |
| Non vehicle                                   | <b>415</b>           | 213            |
| Trade receivables due from group undertakings | <b>10,123</b>        | 69,580         |
|   | <b><u>87,533</u></b> | <u>118,904</u> |

All trade and other receivables due from third parties are due from UK companies.

Trade receivables due from group undertakings are mainly owed by the company's ultimate parent company, that has sufficient funds to meet the debt, and management consider the credit risk to be minimal.

The company's most significant single external customer, a non-retailer, accounts for £7,509,000 of the carrying amount of trade and other receivables at 31 December 2017 (2016: £5,376,000).

The aging of trade receivables at the reporting date was:

|                        | <b>Gross</b>         | <b>Impairment</b>     | <b>Gross</b>   | <b>Impairment</b> |
|------------------------|----------------------|-----------------------|----------------|-------------------|
|                        | <b>2017</b>          | <b>2017</b>           | <b>2016</b>    | <b>2016</b>       |
|                        | <b>£'000</b>         | <b>£'000</b>          | <b>£'000</b>   | <b>£'000</b>      |
| Not past due           | <b>73,194</b>        | <b>(594)</b>          | 108,576        | (1,257)           |
| Past due 0 – 30 days   | <b>9,657</b>         | -                     | 7,552          | -                 |
| Past due 31 – 120 days | <b>5,326</b>         | <b>(64)</b>           | 1,477          | (160)             |
| More than 120 days     | <b>1,656</b>         | <b>(1,642)</b>        | 3,325          | (609)             |
|                        | <b><u>89,833</u></b> | <b><u>(2,300)</u></b> | <u>120,930</u> | <u>(2,026)</u>    |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

|  | <b>2017</b>         | <b>2016</b>  |
|--|---------------------|--------------|
|  | <b>£'000</b>        | <b>£'000</b> |
| Balance at 1 January                               | <b>2,026</b>        | 1,773        |
| Increase in trade receivables impairment allowance | <b>274</b>          | 253          |
| Balance at 31 December                             | <b><u>2,300</u></b> | <u>2,026</u> |

### Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company uses forecasting and budgeting procedures to carefully monitor cash flow requirements and maximise return on investments. The company has a large cash balance at year end totalling £1,295,203,000 (2016: £1,218,980,000) and as such liquidity is not currently seen as a significant risk for the business.



## Notes to the financial statements (continued)

### 18 Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

| <b>2017</b>                                 | <b>Carrying<br/>amount<br/>£'000</b> | <b>Contractual<br/>cash flows<br/>£'000</b> | <b>Less than 1<br/>year<br/>£'000</b> | <b>2 – 5<br/>years<br/>£'000</b> |
|---|--------------------------------------|---|---------------------------------------|----------------------------------|
| <b>Non-derivative financial liabilities</b> |                                      |   |                                       |                                  |
| Redeemable preference shares                | (35,000)                             | (35,000)                                    | (35,000)                              | -                                |
| Trade and other payables                    | (1,499,151)                          | (1,499,151)                                 | (1,499,151)                           | -                                |
| Provisions                                  | (127,200)                            | (127,200)                                   | (51,285)                              | (75,915)                         |
|   | <u><b>(1,661,351)</b></u>            | <u><b>(1,661,351)</b></u>                   | <u><b>(1,585,436)</b></u>             | <u><b>(75,915)</b></u>           |
| <b>2016</b>                                 | <b>Carrying<br/>amount<br/>£'000</b> | <b>Contractual<br/>cash flows<br/>£'000</b> | <b>Less than 1<br/>year<br/>£'000</b> | <b>2 – 5<br/>years<br/>£'000</b> |
| <b>Non-derivative financial liabilities</b> |                                      |   |                                       |                                  |
| Redeemable preference shares                | (35,000)                             | (35,000)                                    | (35,000)                              | -                                |
| Trade and other payables                    | (1,408,168)                          | (1,408,168)                                 | (1,408,168)                           | -                                |
| Provisions                                  | (132,785)                            | (132,785)                                   | (51,343)                              | (81,442)                         |
|   | <u><b>(1,575,953)</b></u>            | <u><b>(1,575,953)</b></u>                   | <u><b>(1,494,511)</b></u>             | <u><b>(81,442)</b></u>           |

### Financial risk management

#### Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### Market prices

Currency risk was managed at a strategic and operational level. In the United Kingdom the BMW Group endeavoured to manage foreign exchange risks by "natural hedging", in other words by increasing the volume of purchases denominated in local currency or increasing the volume of local production. Currency risks, which were not covered by the natural hedge, were hedged in the short and medium term on the financial markets.

#### Interest rate risk

At the reporting date the interest rate profile of the company's interest-bearing financial instruments was:

|                                  | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
|----------------------------------|-----------------------|-----------------------|
| <b>Variable rate instruments</b> |                       |                       |
| Financial assets                 | <b>1,266,295</b>      | 1,210,000             |
| Financial liabilities            | <b>(347,712)</b>      | (298,215)             |
| Balance at 31 December           | <u><b>918,583</b></u> | <u>911,785</u>        |

## Notes to the financial statements (continued)

### 18 Financial instruments (continued)

#### *Cash flow sensitivity analysis for variable rate instruments*

A change of 25 basis points in interest rates at the reporting date would have increased the profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. Interest chargeable on the financial liabilities although is subject to a variable rate is capped at a minimum rate, for the purpose of this analysis that cap has been ignored. The analysis is performed on the same basis for 2016.

|                           | <b>Profit or (loss)</b> |                       | <b>Profit or (loss)</b> |                       |
|---------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|                           | <b>2017</b>             | <b>2017</b>           | <b>2016</b>             | <b>2016</b>           |
|                           | <b>£'000</b>            | <b>£'000</b>          | <b>£'000</b>            | <b>£'000</b>          |
|                           | <b>25 bp</b>            | <b>25 bp</b>          | <b>25 bp</b>            | <b>25 bp</b>          |
|                           | <b>increase</b>         | <b>decrease</b>       | <b>increase</b>         | <b>decrease</b>       |
| Variable rate instruments | <u><b>2,851</b></u>     | <u><b>(2,851)</b></u> | <u><b>2,451</b></u>     | <u><b>(2,451)</b></u> |

### Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the company's approach to capital management during the year.

### 19 Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

|                            | <b>2017</b>          | <b>2016</b>          |
|----------------------------|----------------------|----------------------|
|                            | <b>£'000</b>         | <b>£'000</b>         |
| Less than one year         | <b>12,009</b>        | 10,752               |
| Between one and five years | <b>42,923</b>        | 43,873               |
| More than five years       | <b>16,302</b>        | 4,064                |
|                            | <u><b>71,234</b></u> | <u><b>58,689</b></u> |

The company leases a number of office, training and showroom facilities under operating leases. Land and buildings have been considered separately for lease classification. None of the leases include contingent rentals.

A number of the leased properties are sublet by BMW (UK) Limited to subsidiary companies. The shortest lease and sublease arrangements expire after 6 months, and the longest after 9 years and 0 months. During the year ended 31 December 2017 the total charge to the profit and loss was £10,752,000 (2016: £10,556,000), of this £4,002,000 was recognised as an expense in the Income Statement in respect of operating sublease arrangements (2016: £4,043,000) and £4,002,000 was recognised as income in respect of sublease agreements (2016: £4,043,000). The total of future minimum sublease payments expected under non-cancellable subleases at the Statement of Financial Position date is £19,830,000 (2016: £23,664,000).

### 20 Capital commitments

There were no capital commitments for the year ended 31 December 2017 (2016: £377,000).

## Notes to the financial statements (continued)

### 21 Related parties

#### *Identity of related parties*

| <b>2017</b>         | <b>Purchases<br/>of goods<br/>£'000</b> | <b>Sales of<br/>goods<br/>£'000</b> | <b>Receiving<br/>of services<br/>£'000</b> | <b>Rendering<br/>of services<br/>£'000</b> | <b>Outstanding<br/>balances owed<br/>(to)/from<br/>£'000</b> |
|---------------------|---|-------------------------------------|--|--|--|
| The ultimate parent | <b>5,042,397</b>                        | <b>52</b>                           | <b>10,952</b>                              | <b>-</b>                                   | <b>(66,313)</b>  |
| Subsidiaries        | <b>-</b>                                | <b>273,988</b>                      | <b>1</b>                                   | <b>4,928</b>                               | <b>1,582</b>   |
| Fellow subsidiaries | <b>166,341</b>                          | <b>52,554</b>                       | <b>71,430</b>                              | <b>19,593</b>                              | <b>(913,997)</b>   |
| <b>2016</b>         | <b>Purchases<br/>of goods<br/>£'000</b> | <b>Sales of<br/>goods<br/>£'000</b> | <b>Receiving<br/>of services<br/>£'000</b> | <b>Rendering<br/>of services<br/>£'000</b> | <b>Outstanding<br/>balances owed<br/>(to)/from<br/>£'000</b> |
| The ultimate parent | 5,296,668                               | 24                                  | 10,602                                     | 7,396                                      | (61,278)   |
| Subsidiaries        | -                                       | 235,285                             | 25,858                                     | 6,678                                      | (5,319)  |
| Fellow subsidiaries | 163,927                                 | 91,353                              | 34,404                                     | 14,500                                     | (849,612)  |

No guarantees were given or received on any of the transactions above. Transactions with the parent company, subsidiaries and fellow subsidiaries are priced on an arm's length basis and are unsecured.

As described in note 9, £8,693,000 was received in dividends from subsidiaries in 2017 (2016: £nil).

#### *Transactions with key management personnel*

Directors of the company and their immediate relatives do not control any of the voting shares of the company.

#### *Directors' transactions*

Directors' emoluments are set out in Note 5 and there are no other director transactions during the period. There were no (2016: one) directors in the company's defined benefit pension scheme during the year.

#### *Transactions with fellow subsidiaries*

Deposits are held with BMW International Investment B.V. (2016: BMW International Investment B.V.) of £1,042,000,000 (2016: £1,210,000,000). In accordance with IFRS 7 these are recognised as cash equivalents as they are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The deposits held with BMW International Investment B.V. and BMW AG (2016: BMW International Investment B.V.) are interest bearing and subject to an insignificant risk of change in value.

All transfer pricing between BMW (UK) Limited and other group companies occurs on an arm's length basis.

## **Notes to the financial statements (continued)**

### **22 Ultimate parent company and parent company of larger group**

At 31 December 2017 the company's ultimate parent company in which the results of the company are consolidated was Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") incorporated in Germany. BMW AG is the parent of both the smallest and largest groups of which the company is a member.

Copies of the consolidated financial statements of BMW AG are available from BMW AG, Petuelring 130, 80788 Munich, Germany.

The company's immediate parent company is BMW (UK) Holdings Limited, a company incorporated in the United Kingdom, which does not produce consolidated accounts.

### **23 Events after the reporting period**

There have been no events since the year end that would have a significant impact on the company or its financial result for the year ended 31 December 2017.