

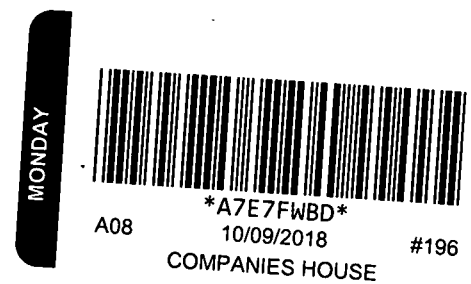


## Alphabet (GB) Limited

Annual report and financial statements

Registered number 03282075

Year ended 31 December 2017



## Contents

|   |    |
|---|----|
| Strategic Report  | 3  |
| Directors' Report   | 7  |
| Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements | 9  |
| Independent Auditor's Report to the members of Alphabet (GB) Limited                                  | 10 |
| Income statement  | 12 |
| Balance sheet   | 13 |
| Statement of changes in equity  | 14 |
| Statement of cash flows   | 14 |
| Notes   | 15 |

## Strategic Report

### Principal activity

Alphabet (GB) Limited (the “Company”) provides a wide range of mobility solutions to customers through several distribution channels in the United Kingdom (“UK”). Its mobility solutions include vehicle funding and other associated products and services.

### Business review

#### Introduction

The Company’s strategic aim is to become the “leading provider for outstanding business mobility”. In summary, the Company seeks to provide customers and corporate clients with solutions that meet their mobility needs through a comprehensive range of products and services. The Company aims to provide the best overall solution for each customer’s individual needs.

In order to realise this mission, it is the Company’s intention that its services will be delivered in the most operationally efficient way by employees who have the knowledge and confidence in their roles to provide outstanding customer service. The business will strive to implement innovative solutions to meet the future changing mobility requirements of its customers with products that go beyond traditional vehicle leasing and fleet management.

The Company continues to develop new products to meet the changing demands of the market and its customers. One such area of focus is the development of products to meet the Company’s customer’s total mobility solutions beyond those of traditional vehicle leasing. This strategy started in 2011 with the launch of AlphaCity, an innovative product designed to meet the corporate car sharing requirements of the Company’s customers, addressing such issues as pool cars and daily hire. Development and introduction of “e-Mobility” products started in 2012 and in 2013 the AlphaElectric product, a forward-looking solution designed to help companies assess the suitability of electric vehicles, support the introduction and provide in-life support services, was introduced as an advanced mobility solution.

The Company operates within the vehicle financial services market, competing with many other financial services institutions providing vehicle finance and car related services for corporate fleets. The Company is part of the BMW group of companies, the ultimate parent of which is the German car manufacturer Bayerische Motoren Werke Aktiengesellschaft, more commonly known as “BMW”. The Company upholds the values of the BMW Group by providing top-quality financial and service products backed by outstanding customer service in order to achieve the best customer outcomes.

The Company is ranked inside the top five corporate fleet and funding management companies in the UK, managing over 149,000 fleet vehicles.

Alphabet’s reputation in the market is as an innovative, progressive thought leader – through products such as AlphaCity and AlphaElectric - which still retains a personal touch when it comes to service and customer relationships. Wholly owned by BMW Group, the company has a collaborative ethos for working with suppliers, partners and other vehicle manufacturers in order to deliver truly multi-marque mobility and commercial vehicle solutions. External recognition from industry bodies, as well as key fleet media titles, are testament to the success and unique appeal of this approach. Alphabet was recognised as the ‘Leasing Company of the Year’ in the industry ‘Oscars’, the Fleet News Awards, earlier this year (March 2018) and previously in 2015. While other prominent titles, such as BusinessCar and FleetWorld, have bestowed similar recognition for innovations and outstanding service delivery since 2014 with FleetWorld Honours awards in February 2018 for ‘Innovation in Electric Mobility’ and ‘Innovation in Driver Management’. In September 2017, HR specialists Workplace Savings & Benefits voted Alphabet their ‘Best Car Scheme Provider’, while earlier last year Motor Finance recognised Alphabet as their ‘Fleet Services Provider of the Year’. In addition, Alphabet has achieved Silver status by Investors in People in 2016 while in 2018 the company was recognised by the Top Employers Institute for excellence in employee conditions for a fifth consecutive year.

The result of the EU referendum creates uncertainty for the automotive and financial services sectors in general and for overseas investors in particular. This uncertainty increases the challenge in 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 BMW Group continues to operate “business as usual” at all of its business operations in the UK while preparing for the outcome of the Brexit negotiations.

## Strategic Report *(continued)*

### Business review *(continued)*

#### Customers

The Company recognises the importance of treating customers fairly and appropriately at all times. The Senior Management Team is committed to developing a customer centric business, ensuring that all customers (regulated or otherwise) are treated in accordance with applicable laws and regulations, and in accordance with the standards of the Company.

The Company's strategic approach is to place customers at the heart of its business. The Company's plan for achieving its vision to be the leading provider of outstanding business mobility rests on aligning people, culture and leadership around meeting the needs and desires of its customers. That means treating customers fairly at all times and providing excellent service and relevant, desirable products. Key parts of this process are the Company's PRIME and PACE initiatives, launched in 2014 and 2016 respectively, which seek to empower employees to become effective contributors to the business, which in turn serves its customers.

#### Risk and Uncertainties

In line with our strategic theme of Profit Today and Tomorrow, the Company ensures that the risk and reward principle is properly embedded in the culture of the business. Our policy is to: "Enable the efficient and effective governance of risk ensuring the optimum balance between risk and reward."

The key risks the Company faces are residual value and credit risk. In addition other material risks include interest rate risk, liquidity risk, operational risk, repair, maintenance and tyre risk. There is a process of Risk Identification, Risk Evaluation, Risk Steering, Risk Monitoring and Risk Reporting in place. The principal risks arising from the Company's activities are detailed in note 18 to the accounts.

The Company has a risk strategy which is managed by a dedicated Risk Management Department, and has structured functions in accordance with the risks identified above and a defined risk appetite. The Risk Management Department is responsible for defining risk management methodologies, calculating adjustment factors and parameters, back-testing, and calculating standard risk costs and estimating expected losses for approval by the risk committees.

There is a formal structure of risk committees embedded into the organisation. The ultimate local committee, responsible for all risks of the entity, is the National Risk Committee (NRC), which is attended by all of the Company's Executive Committee members including all statutory board directors. The Chief Risk Officer is also a statutory board director and attends all board level committees.

A dedicated Risk Controlling function within the Finance Department is responsible for performing calculations in accordance with the methodologies set out by the Risk Management Department, monitoring the development of the actual risk cost and calculating the effects on the Company's balance sheet and profit and loss account.

#### Systems and Controls

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 Company has analysed and documented its processes, risks, and control activities and monitors and assesses the effectiveness of the controls on a regular basis in order to identify and address any areas of control weaknesses on a timely basis. Internal control activities are aligned with operational risk activities, whereby the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events is evaluated.

## Strategic Report *(continued)*

### Business Review *(continued)*

The Company seeks to promote an effective control environment in which control measures are accepted as necessary process steps, along with the notification of errors, weaknesses and deficiencies in order to manage the risks associated with internal processes. Employees are encouraged to identify and report errors, additional risks or potential improvements.

#### Compliance

Compliance is key to the Company's strategy. The Company is committed to embedding a robust compliance culture, ensuring that the business is compliant. The Company has taken steps to review its business model, processes and controls to ensure good customer outcomes and adherence to applicable regulatory requirements.

The Company's Executive Committee is responsible for overseeing the management of compliance risk, as reflected in its terms of reference and individual job descriptions and to enable proactive management of compliance risks, all members of the Executive Committee have received training to empower them to deliver against their responsibilities. A monthly compliance management information pack is produced and submitted to the Executive Committee and compliance is a standing agenda item. A Compliance Committee is in place to deal with specific compliance matters.

The Company benefits from independent validation from the BSI who reviews the Company on an annual basis to ensure it maintains its ISO9000 accreditation. The Company also holds its suppliers to the same standards to ensure that all third parties performing activities on its behalf are providing customers with the requisite level of service. During the period the Company has been, since 1 April 2014, authorised and regulated by the Financial Conduct Authority ("FCA") in respect of its consumer credit and hire business under permission number 706426.

The Company was, during the period to which these financial statements relate, registered with the Office of Fair Trading under the Money Laundering Regulations under registration number 10301.

The Company also has to comply with many laws, the most notable being the Consumer Credit Acts 1974 & 2006, The Consumer Protection from Unfair Trading Regulations 2008, The Data Protection Act 1998, The Financial Services and Markets Act 2000, The Proceeds of Crime Act 2002, Supply of Goods (Implied Terms) Act 1973, the Supply of Goods and Services Act 1982 and the Bribery Act 2010.

#### Internal Audit

The roles and responsibilities of the Internal Audit Function include:

- Assisting the businesses to mitigate high level control risks in the implementation of Group strategy;
- Providing a systematic, disciplined approach to examine, evaluate and report objectively on the adequacy of both the design and effectiveness of the systems of internal control and the effectiveness of risk management and governance processes.

Internal Audit consults the Board of Directors of the Company in the annual audit programme planning process and asks for suggestions on audit or consulting activities. The prioritisation of activities in the audit programme is revisited, in cooperation with local management, should additional suggestions or items requiring immediate action come up during the course of the year.

Internal audit plans, manages and undertakes audit services in accordance with the annual audit programme, ensuring that key risks and controls are adequately reviewed in line with the BMW Group Corporate Audit approach.

## Strategic Report *(continued)*

### Business Review *(continued)*

Internal Audit ensures the following regular reporting and exchange of information:

- Audit reports or audit memoranda including audit results published subsequent to audit activities, bi-annual (quarterly upon request) presentations in the Management Committee about audit activities, audit results and the follow up situation;
- Other reporting for example to departmental managers or the Compliance or Risk Management Departments on request.

### Performance and measurement

The Company's performance is monitored and assessed using a wide range of targets and measurements. Management accounts are produced on a monthly basis, which monitor actual performance against budgeted figures for a comprehensive set of performance indicators.

The Company now has a portfolio size 149,457 units, a decrease of 5% compared to the prior year (2016:156,827 units). The value of leased and financed assets was £2,296 million, representing a decrease of 5% from the prior year (2016: £2,416 million). The Company has re- focused with the target of increasing long term contract business.

The portfolio has contributed to an operating profit of £55.0 million. The profit for the year 2017 retained in the Company of £44.1m.

By order of the board



Stefan Oswald  
Director

Alphabet House  
Summit Avenue  
Farnborough  
Hampshire  
GU14 0FB

5<sup>th</sup> September 2018

## Directors' Report

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

### Proposed dividend

The directors have recommended the payment of a dividend of £20 million (2016: nil).

### Directors and directors' interests

The directors who held office during the year and up to the date of this report were as follows:

N J Brownrigg  
J Chuhan  
H J G C Vissers (resigned 1 March 2017)  
S Oswald (appointed 1 March 2017)

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

### People and culture

The Company is an organisation based on trust. Our people are energetic, passionate, brave, innovative and dynamic; open to change and adaptable to different ways of working. The Company is consistent, authentic, open and transparent.

The Company has a culture of empowerment and within this ensuring all employees are aware of their role & responsibility striving collaboratively towards joint goals and targets. It is forward thinking, stretching both employees and others; making an engaging, inspiring, challenging yet approachable team environment. Fun is an essential ingredient to the Company's culture making the workplace a happy place to be where success is celebrated and high performance rewarded.

The Company is in the process of developing a customer-centric training programme 'Alphabet Customer Experience' which is designed to encourage employees to think about how they can deliver exemplary service that surpasses the customer's expectations. This programme draws on the FCA's Treating Customers Fairly initiative and encourages employees to think about how these ideologies impact on their day-to-day roles.

### Political and charitable contributions

The Company made no political contributions during the year (2016: nil). The Company made no donations to UK charities during the year (2016: nil).

### Policy and practice on payment of creditors

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The average trade creditor payment period for 2017 was 3 days (2016: 3 days).

### 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

In pursuant to Section 487 of Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' Report (*continued*)

On 10 June 2003, the Company passed an elective resolution to dispense with the holding of an AGM and the laying of reports and financial statements.

By order of the Board

A handwritten signature in black ink, appearing to read 'Stefan Oswald', written over a horizontal line.

**Stefan Oswald**  
Director

Alphabet House  
Summit Avenue  
Farnborough  
Hampshire  
GU14 0FB

5<sup>th</sup> September 2018



## Statement of Directors' Responsibilities in respect of the Annual 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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## **Independent Auditor's report to the members of Alphabet (GB) Limited**

### **Opinion**

We have audited the financial statements of Alphabet (GB) Limited ("the company") for the year ended 31/12/2017 which comprise the Income Statement, Balance Sheet, Statement of changes in equity, Statement of cash flows, 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 31/12/2017 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.

### Directors' responsibilities

As explained more fully in their statement set out on page 9, 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.



Richard Bartlett-Rawlings (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
KPMG Cambridge,  
Botanic House,  
98-100 Hills Road,  
Cambridge,  
CB2 1JZ

5 September 2018

## Income statement

For the year ended 31 December 2017

|  | Note | 2017<br>£000  | 2016<br>£000<br>(restated,<br>see note 2) |
|--|------|---------------|---|
| Revenue                                | 2    | 1,296,673     | 1,146,320                                 |
| Cost of sales                          | 3    | (1,202,918)   | (1,086,166)                               |
| <b>Gross profit</b>                    |      | <b>93,755</b> | <b>60,154</b>                             |
| Other Operating Income                 |      | (172)         | 249                                       |
| Administrative expenses                |      | (38,621)      | (37,614)                                  |
| <b>Operating profit</b>                | 4    | <b>54,962</b> | <b>22,789</b>                             |
| Interest receivable and similar income |      | -             | 1,451                                     |
| <b>Profit before tax</b>               |      | <b>54,962</b> | <b>24,240</b>                             |
| Taxation                               | 7    | (10,873)      | 6,849                                     |
| <b>Profit for the year</b>             |      | <b>44,089</b> | <b>31,089</b>                             |

The Company has no other comprehensive income in the year (2016:£nil) and has therefore not presented a statement of comprehensive income.

All of the above figures relate to continuing operations.

The notes on pages 15 to 36 form part of these financial statements.

**Balance sheet**  
**at 31 December 2017**

|  | Note | 2017<br>£000       | 2016<br>£000       |
|--|------|--------------------|--------------------|
| <b>Non-current assets</b>                |      |                    |                    |
| Property, plant and equipment            | 8    | 98                 | 260                |
| Operating lease assets                   | 8    | 1,815,966          | 1,921,770          |
| Conditional sale receivables             | 11   | 21,379             | 22,389             |
| Finance lease receivables                | 12   | 103,508            | 101,653            |
| Deferred tax                             | 9    | 41,899             | 25,532             |
|  |      | <u>1,982,850</u>   | <u>2,071,604</u>   |
| <b>Current assets</b>                    |      |                    |                    |
| Inventories                              | 10   | 103,612            | 118,848            |
| Conditional sale receivables             | 11   | 26,359             | 21,653             |
| Finance lease receivables                | 12   | 66,629             | 68,043             |
| Trade and other receivables              | 13   | 144,304            | 154,922            |
| Cash or cash equivalent                  | 14   | 4,028              | 40                 |
|  |      | <u>344,932</u>     | <u>363,506</u>     |
| <b>Total assets</b>                      |      | <u>2,327,782</u>   | <u>2,435,110</u>   |
| <b>Current liabilities</b>               |      |                    |                    |
| Trade and other payables                 | 15   | (251,404)          | (270,600)          |
| Loan amounts due to BMW Group affiliates | 18   | (1,139,655)        | (1,065,236)        |
|  |      | <u>(1,391,059)</u> | <u>(1,335,836)</u> |
| <b>Non-current liabilities</b>           |      |                    |                    |
| Loan amounts due to BMW Group affiliates | 18   | (720,360)          | (927,000)          |
|  |      | <u>(720,360)</u>   | <u>(927,000)</u>   |
| <b>Total Liabilities</b>                 |      | <u>(2,111,419)</u> | <u>(2,262,836)</u> |
| <b>Net assets</b>                        |      | <u>216,363</u>     | <u>172,274</u>     |
| <b>Equity</b>                            |      |                    |                    |
| Share capital                            | 16   | 100                | 100                |
| Share premium                            |      | 1,900              | 1,900              |
| Retained earnings                        |      | 214,363            | 170,274            |
| <b>Total equity</b>                      |      | <u>216,363</u>     | <u>172,274</u>     |

The notes on pages 15 to 36 form part of these financial statements.

These financial statements were approved by the board of directors on 5<sup>th</sup> September 2018 and were signed on its behalf by:



**Stefan Oswald**  
Director  
Company registered number: 3282075



**John Chuhan**  
Director

## 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>£000 |
|-----------------------------|--------------------------|--------------------------|------------------------------|---------------|
| At 1 January 2016           | 100                      | 1,900                    | 139,185                      | 141,185       |
| Profit for the year         | -                        | -                        | 31,089                       | 31,089        |
|                             | <hr/>                    | <hr/>                    | <hr/>                        | <hr/>         |
| Balance at 31 December 2016 | 100                      | 1,900                    | 170,274                      | 172,274       |
|                             | <hr/>                    | <hr/>                    | <hr/>                        | <hr/>         |
| At 1 January 2017           | 100                      | 1,900                    | 170,274                      | 172,274       |
| Profit for the year         | -                        | -                        | 44,089                       | 44,089        |
|                             | <hr/>                    | <hr/>                    | <hr/>                        | <hr/>         |
| At 31 December 2017         | 100                      | 1,900                    | 214,363                      | 216,363       |
|                             | <hr/>                    | <hr/>                    | <hr/>                        | <hr/>         |

## 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 for the year   |      | 44,089           | 31,089           |
| Adjustments for:  |      |                  |                  |
| Taxation  | 7, 9 | (16,367)         | (25,647)         |
| Decrease in property, plant and equipment                       |      | 162              | 1,052            |
| Decrease/(Increase) in trade and other receivables              |      | 6,482            | (86,782)         |
| (Decrease)/Increase in trade and other payables                 |      | (66,524)         | 28,491           |
| (Increase) in operating lease assets                            |      | 105,804          | (238,334)        |
| Increase/(Decrease) in inventories                              |      | 15,234           | (44,948)         |
|   |      | <hr/>            | <hr/>            |
| <b>Cash generated/(consumed) by operations</b>                  |      | <b>88,880</b>    | <b>(335,079)</b> |
| Tax paid  |      | 47,328           | 42,431           |
|   |      | <hr/>            | <hr/>            |
| <b>Net cash inflows/(outflows) from operating activities</b>    |      | <b>136,208</b>   | <b>(292,648)</b> |
|   |      | <hr/>            | <hr/>            |
| <b>Cash flows from financing activities</b>                     |      |                  |                  |
| (Decrease)/Increase in loan amounts due to BMW Group affiliates |      | (132,220)        | 292,682          |
|   |      | <hr/>            | <hr/>            |
| <b>Net cash (outflows)/inflows from financing activities</b>    |      | <b>(132,220)</b> | <b>292,682</b>   |
|   |      | <hr/>            | <hr/>            |
| Net increase in cash and cash equivalents                       |      | 3,988            | 34               |
| Cash and cash equivalents at 1 January                          |      | 40               | 6                |
|   |      | <hr/>            | <hr/>            |
| <b>Cash and cash equivalents at 31 December</b>                 | 14   | <b>4,028</b>     | <b>40</b>        |
|   |      | <hr/>            | <hr/>            |

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The “Company” is incorporated in England and Wales and domiciled in the UK.

#### *Statement of compliance*

The Company’s financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”).

#### *Basis of preparation*

The financial statements have been prepared on the historical cost basis.

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

#### *Management estimates and judgements*

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements provided.

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. The actual outcome is not expected to differ significantly from the estimates and assumptions made.

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 if the revision affects only that period or the period of revision and future periods if this revision affects both current and future periods.

Judgement made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

#### *Bad debt provision*

Provisions are made relating to the recoverability of receivable balances to reflect unrecoverable amounts due to known defaults, and defaults incurred but not reported at the balance sheet date, which from experience are known to exist.

#### *Residual value provision*

Residual values represent the estimated value of the leased asset at the end of the lease period. Residual values are calculated after analysing the market place and the Company’s own historical experience in the market. Residual values of leased assets are reviewed regularly and any impairments are charged to the income statement in the period in which they arise.

#### *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 Business Review on pages 3 to 6 above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the primary statements and notes of these set of financial statements.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Going concern (continued)*

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. In addition, note 18 to the financial statements includes 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 directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

#### *Non derivative financial instruments*

##### *Trade and other receivables*

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

##### *Customer receivables*

Amounts due from customers under conditional sale receivables, finance leases and other advances are stated after deductions of provisions for bad and doubtful debts, comprising specific and collective provisions made to reflect the assessment of expected losses on existing debts, which are known to exist from experience.

##### *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.

##### *Interest-bearing borrowing*

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 losses.

##### *Trade and other payables*

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

#### *Assets subject to operating leases*

Operating lease assets are stated at cost less accumulated depreciation and impairment losses. Depreciation on operating lease assets is provided to write off the cost of the asset less the estimated residual value on a straight-line basis over the period of the lease.



## Notes (continued)

### 1 Accounting policies (continued)

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Stock comprises vehicles formerly on lease contracts awaiting disposal and vehicles awaiting assignment to a lease contract.

#### **Impairment excluding inventories and deferred tax assets**

##### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### *Non-financial assets*

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

#### **Revenue**

Revenue is the aggregate of operating lease rentals and earnings from conditional sale contracts.

##### *Operating lease income*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

##### *Finance lease income*

Minimum lease payments are apportioned between the finance income and the reduction of the receivable. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the leased asset.

#### **Maintenance income and costs**

Maintenance costs for vehicles leased by the Company or sold to customers under credit sale agreements are recognised when they are incurred. Maintenance income is deferred to cover future expected maintenance costs.

#### **Employee benefits**

##### *Defined benefit plans*

The majority of employees who joined the Company before 1 August 2013 were members of two group wide defined benefit pension plans: the BMW (UK) Operations Pension Scheme and the BMW (GB) Limited Employee Benefits Plan. Both of these schemes were closed on 30<sup>th</sup> September 2017 with the employees transferring to a defined contribution plan.

As there were no contractual agreement or stated group policy for charging the net defined benefit cost of the plans to participating entities, the net defined benefit cost of the pension plans is recognised fully by the principal employers, which are BMW (UK) Holdings Limited and BMW (UK) Limited. The Company then recognises a cost equal to its contribution payable for the period.

## Notes (continued)

### 1 Accounting policies (continued)

#### Defined contribution plan

Employees who joined the Company after, or were not members of any pension plan on 1st August 2013 are auto enrolled into a defined contribution scheme: the BMW (UK) Personal Pension Plan. All employees who were members of either of the defined benefit plans were auto enrolled into the defined contribution scheme: the BMW (UK) Personal Pension Plan on 1st October 2017. The Company recognises a cost equal to its contribution payable for the period.

#### 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 or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax balances are not discounted.

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 amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

#### Estimated impact of the adoption of IFRS 9 and IFRS 15

The Company is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Company has assessed the impact that these standards will have on the financial statements, in conjunction with our parent Company (BMW AG). The impact of the adoption of these standards on the Company's equity as at 1 January 2018 is summarised below.

|                   | Impact of adoption of IFRS 9 and IFRS 15 |  |   |   |
|-------------------|--|--|---|---|
|                   | As reported at 31 December 2017 (£000)   | Adjustments due to adoption of IFRS 9 (£000) | Adjustments due to adoption of IFRS 15 (£000) | Adjusted opening balance at 1 January 2018 (£000) |
| Reserves          | 9,225                                    | 25   | -   | 9,250   |
| Retained Earnings | 161,049                                  | -  | -   | 161,049   |

The total adjustment (net of tax) to the opening balance of the Company's equity at 1 January 2018 is £25,251. This is due to the change in methodology for calculating the bad debt provision under IFRS 9 compared to IAS39.

#### Adopted IFRSs not yet applied

IFRS 16 Leases (effective from 01/01/2019) was available for early adoption but has not been applied by the Company in these financial statements. The assessment of the impact of this available IFRS has been undertaken in conjunction with our parent Company (BMW AG). Its adoption is not expected to have a material effect on the financial statements.

## Notes (continued)

### 2 Revenue

Revenue is the aggregate of operating lease income and earnings from hire conditional sale contracts, finance leases and loans to BMW Group affiliates. The policy for income recognition is set out in note 1.

Amounts recognised within revenue in the income statement are set out below:

|                            | 2017<br>£000     | 2016<br>£000     |
|----------------------------|------------------|------------------|
| Conditional sale contracts | 1,900            | 1,995            |
| Finance lease contracts    | 7,569            | 7,685            |
| Operating leases           | 471,700          | 464,368          |
| Interest Revenue           | 48               | 35               |
| Maintenance Revenue        | 64,907           | 62,482           |
| Termination Revenue        | 735,522          | 596,778          |
| Daily Hire Revenue         | 7,860            | 7,051            |
| Other revenue              | 7,167            | 5,926            |
|                            | <u>1,296,673</u> | <u>1,146,320</u> |

#### Change in accounting presentation

Prior to 2017 amounts relating to the profit or loss on disposal of products previously leased to customers had been presented within revenue on a net basis. In the current year, the Company has elected to present gross proceeds upon sale of these assets within revenue, with the corresponding carrying amount of vehicles sold within cost of sales. This change in presentation aligns the Company with group accounting policies and presentation. In order to aid comparability the 2016 balances have been restated accordingly, leading to an increase in both revenue and cost of sales during the year ended December 2016 of £568.5m.

### 3 Cost of Sales

Cost of sales includes all costs directly attributable to a leased out product, including interest payable, depreciation, impairment losses on residual values and dealer and broker commissions.

Interest payable included within the cost of sales is as follows:

|                                    | 2017<br>£000  | 2016<br>£000  |
|------------------------------------|---------------|---------------|
| On loans from BMW Group affiliates | 24,960        | 29,467        |
|                                    | <u>24,960</u> | <u>29,467</u> |

Operating lease expenses included within the cost of sales are as follows:

|  | 2017<br>£000   | 2016<br>£000   |
|--|----------------|----------------|
| Depreciation of operating lease assets | 364,124        | 355,884        |
|  | <u>364,124</u> | <u>355,884</u> |

Included within cost of sales are expenses relating to the carrying amount of vehicles sold of £704.5m (2016: £568.5m).

## Notes (continued)

### 4 Auditor's remuneration

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Audit of these financial statements  | 75           | 73           |
| Amounts receivable by the auditors and their associates in respect of:<br>Audit related services | 18           | 18           |
|  | <u>93</u>    | <u>91</u>    |

### 5 Staff numbers and costs

The number of persons employed by the Company (including directors) at the end of the year, analysed by category, was as follows:

|                     | Number of employees |            |
|---------------------|---------------------|------------|
|                     | 2017                | 2016       |
| Administration      | 256                 | 253        |
| Sales and Marketing | 184                 | 184        |
|                     | <u>440</u>          | <u>437</u> |

The aggregate payroll costs of these persons were as follows:

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Wages and salaries  | 18,459        | 16,728        |
| Social security costs   | 2,181         | 1,880         |
| Pension contributions   | 3,146         | 2,981         |
| Surplus from closure of defined benefit scheme                    | (4,821)       | -             |
| Transition payments relating to closure of defined benefit scheme | 1,244         | -             |
|   | <u>20,209</u> | <u>21,589</u> |

### 6 Directors' remuneration

|                       | 2017<br>£000 | 2016<br>£000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 1,126        | 740          |
|                       | <u>1,126</u> | <u>740</u>   |

The aggregate emoluments of the highest paid director were £435,095 (2016: £244,643). Company pension contributions of £19,937 (2016: £17,940) were made in relation to the highest paid director. Pension contributions are included in the emoluments above.

Retirement benefits are accruing to three directors (2016: none) under money purchase schemes.

## Notes (continued)

### 7 Taxation

#### Recognised in the income statement

|   | 2017<br>£000         | 2016<br>£000          |
|---|----------------------|-----------------------|
| <b>Current tax (credit)/expense</b>               |                      |                       |
| Current year                                      | 24,617               | 24,881                |
| Adjustments for prior years                       | 2,623                | (6,083)               |
|   | <u>27,240</u>        | <u>18,798</u>         |
| <b>Deferred tax (see note 9)</b>                  |                      |                       |
| Origination and reversal of temporary differences | (12,393)             | (17,016)              |
| Effect of change in tax rate                      | -                    | (6)                   |
| Adjustments for prior years                       | (3,974)              | (8,625)               |
|   | <u>(16,367)</u>      | <u>(25,647)</u>       |
| <b>Total tax in income statement</b>              | <u><u>10,873</u></u> | <u><u>(6,849)</u></u> |

#### Reconciliation of effective tax rate

|   | 2017<br>£000         | 2016<br>£000          |
|---|----------------------|-----------------------|
| The tax charge is higher (2016: Lower) than the standard rate of corporation tax in the UK. The differences are explained below |                      |                       |
| Profit before tax   | 54,962               | 24,240                |
|   | <u>10,580</u>        | <u>4,848</u>          |
| Tax at the UK corporation tax rate of 19.25% (2016: 20%)  | 5                    | 13                    |
| Non-deductible expenses   | (1,352)              | (14,707)              |
| Adjustments for prior years   | 1,640                | 2,997                 |
| Effect from the change in tax rate  |                      |                       |
| <b>Total tax in income statement</b>  | <u><u>10,873</u></u> | <u><u>(6,849)</u></u> |

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

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 balance sheet date.

The effective tax rate reconciliation has therefore been calculated at an average rate of 19.25% (2016: 20%).

## Notes (continued)

### 8 Operating lease assets

|  | Office<br>equipment<br>£000 | Operating<br>lease assets<br>£000 | Total<br>£000    |
|--|-----------------------------|-----------------------------------|------------------|
| <b>Cost</b>                            |                             |                                   |                  |
| Balance at 1 January 2016              | 2,514                       | 2,336,151                         | 2,338,665        |
| Acquisitions                           | -                           | 1,334,300                         | 1,334,300        |
| Disposals                              | (1,863)                     | (989,708)                         | (991,571)        |
|  | <u>651</u>                  | <u>2,680,743</u>                  | <u>2,681,394</u> |
| Balance at 31 December 2016            | 651                         | 2,680,743                         | 2,681,394        |
|  | <u>651</u>                  | <u>2,680,743</u>                  | <u>2,681,394</u> |
| Balance at 1 January 2017              | 651                         | 2,680,743                         | 2,681,394        |
| Acquisitions                           | -                           | 1,020,202                         | 1,020,202        |
| Disposals                              | (258)                       | (1,112,083)                       | (1,112,341)      |
|  | <u>393</u>                  | <u>2,588,862</u>                  | <u>2,589,255</u> |
| Balance at 31 December 2017            | 393                         | 2,588,862                         | 2,589,255        |
|  | <u>393</u>                  | <u>2,588,862</u>                  | <u>2,589,255</u> |
| <b>Depreciation and impairment</b>     |                             |                                   |                  |
| Balance at 1 January 2016              | 1,203                       | 652,715                           | 653,918          |
| Depreciation charge for the year       | 191                         | 355,884                           | 356,075          |
| Impairment losses                      | -                           | 133,626                           | 133,626          |
| Disposals                              | (1,003)                     | (383,252)                         | (384,255)        |
|  | <u>391</u>                  | <u>758,973</u>                    | <u>759,364</u>   |
| Balance at 31 December 2016            | 391                         | 758,973                           | 759,364          |
|  | <u>391</u>                  | <u>758,973</u>                    | <u>759,364</u>   |
| Balance at 1 January 2017              | 391                         | 758,973                           | 759,364          |
| Depreciation charge for the year       | 29                          | 364,124                           | 364,153          |
| Impairment losses                      | -                           | 69,248                            | 69,248           |
| Disposals                              | (125)                       | (419,449)                         | (419,574)        |
|  | <u>295</u>                  | <u>772,896</u>                    | <u>773,191</u>   |
| Balance at 31 December 2017            | 295                         | 772,896                           | 773,191          |
|  | <u>295</u>                  | <u>772,896</u>                    | <u>773,191</u>   |
| <b>Net book value</b>                  |                             |                                   |                  |
| At 1 January 2016                      | 1,311                       | 1,683,436                         | 1,684,747        |
|  | <u>1,311</u>                | <u>1,683,436</u>                  | <u>1,684,747</u> |
| At 31 December 2016 and 1 January 2017 | 260                         | 1,921,770                         | 1,922,030        |
|  | <u>260</u>                  | <u>1,921,770</u>                  | <u>1,922,030</u> |
| At 31 December 2017                    | 98                          | 1,815,966                         | 1,816,064        |
|  | <u>98</u>                   | <u>1,815,966</u>                  | <u>1,816,064</u> |

Future minimum lease receipts under non-cancellable operating leases:

|   | 2017<br>£000   | 2016<br>£000   |
|---|----------------|----------------|
| Not later than one year                           | 347,926        | 390,489        |
| Later than one year and not later than five years | 311,771        | 336,015        |
| Later than five years                             | 5              | 12             |
|   | <u>659,702</u> | <u>726,516</u> |

## Notes (continued)

### 9 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

|                                      | Assets        |               | Liabilities |                | Net           |               |
|--------------------------------------|---------------|---------------|-------------|----------------|---------------|---------------|
|                                      | 2017          | 2016          | 2017        | 2016           | 2017          | 2016          |
|                                      | £000          | £000          | £000        | £000           | £000          | £000          |
| Tax losses carried forward           | -             | -             | -           | -              | -             | -             |
| Operating lease assets               | 12,230        | -             | -           | (2,448)        | 12,230        | (2,448)       |
| Temporary differences on impairments | 29,669        | 27,980        | -           | -              | 29,669        | 27,980        |
|                                      | <u>41,899</u> | <u>27,980</u> | <u>-</u>    | <u>(2,448)</u> | <u>41,899</u> | <u>25,532</u> |

#### Movement in deferred tax during the year

|                                      | 1 January<br>2017<br>£000 | Recognised<br>in income<br>£000 | 31 December<br>2017<br>£000 |
|--------------------------------------|---------------------------|---------------------------------|-----------------------------|
| Tax losses carried forward           | -                         | -                               | -                           |
| Operating lease assets               | (2,448)                   | 14,678                          | 12,230                      |
| Temporary differences on impairments | 27,980                    | 1,689                           | 29,669                      |
|                                      | <u>25,532</u>             | <u>16,367</u>                   | <u>41,899</u>               |

#### Movement in deferred tax during the prior year

|                                      | 1 January<br>2016<br>£000 | Recognised<br>in income<br>£000 | 31 December<br>2016<br>£000 |
|--------------------------------------|---------------------------|---------------------------------|-----------------------------|
| Tax losses carried forward           | -                         | -                               | -                           |
| Operating lease assets               | (13,313)                  | 10,865                          | (2,448)                     |
| Temporary differences on impairments | 13,198                    | 14,782                          | 27,980                      |
|                                      | <u>(115)</u>              | <u>25,647</u>                   | <u>25,532</u>               |

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

UK deferred tax assets and liabilities have been calculated at 17%.

## Notes (continued)

### 10 Inventories

|                               | 2017<br>£000   | 2016<br>£000   |
|-------------------------------|----------------|----------------|
| Vehicles held for remarketing | 103,612        | 118,848        |
|                               | <u>103,612</u> | <u>118,848</u> |

All items included within inventories are expected to be recovered within 12 months.

### 11 Conditional sale receivables

|                              | 2017<br>£000  | 2016<br>£000  |
|------------------------------|---------------|---------------|
| Conditional sale receivables |               |               |
| Non-current                  | 21,379        | 22,389        |
| Current                      | 26,359        | 21,653        |
|                              | <u>47,738</u> | <u>44,042</u> |

#### Gross investment in conditional sale receivables

|                         |               |               |
|-------------------------|---------------|---------------|
| Gross receivable        | 49,611        | 46,424        |
| Unearned finance income | (1,873)       | (2,382)       |
|                         | <u>47,738</u> | <u>44,042</u> |

#### Present value of minimum lease payments receivable

|   |               |               |
|---|---------------|---------------|
| Not later than one year                           | 26,359        | 21,653        |
| Later than one year and not later than five years | 21,379        | 22,389        |
|   | <u>47,738</u> | <u>44,042</u> |



## Notes (continued)

### 12 Finance lease receivables

|   | 2017<br>£000   | 2016<br>£000   |
|---|----------------|----------------|
| <b>Finance lease receivables</b>                              |                |                |
| Non-current   | 103,508        | 101,653        |
| Current   | 66,629         | 68,043         |
|   | <u>170,137</u> | <u>169,696</u> |
| <br><b>Gross investment in finance lease receivables</b>      |                |                |
| Gross receivable  | 180,724        | 180,749        |
| Unearned finance income                                       | (10,587)       | (11,053)       |
|   | <u>170,137</u> | <u>169,696</u> |
| <br><b>Present value of minimum lease payments receivable</b> |                |                |
| Not later than one year                                       | 66,629         | 68,043         |
| Later than one year and not later than five years             | 103,508        | 101,653        |
|   | <u>170,137</u> | <u>169,696</u> |

### 13 Trade and other receivables

|  | 2017<br>£000   | 2016<br>£000   |
|--|----------------|----------------|
| Amounts receivable from BMW Group affiliates | 78,674         | 74,910         |
| Other trade receivables                      | 34,289         | 43,333         |
| Prepayments and accrued income               | 31,341         | 36,679         |
|  | <u>144,304</u> | <u>154,922</u> |

Other trade receivables are stated after deductions of provisions for bad and doubtful debts and impairment amounting to £4.7 million (2016: £4.9 million).

## Notes (continued)

### 14 Cash and cash equivalents

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Cash and cash equivalents per balance sheet           | 4,028        | 40           |
| Cash and cash equivalents per statement of cash flows | 4,028        | 40           |

### 15 Trade and other payables

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Amounts due to BMW Group affiliates     | 105,901      | 131,979      |
| Other trade payables                    | 10,736       | 1,165        |
| Non-trade payables and accrued expenses | 125,976      | 131,635      |
| Other taxes payable                     | 8,791        | 5,821        |
|   | 251,404      | 270,600      |

All items included within trade and other payables are expected to be settled within 12 months.

### 16 Capital and reserves

#### Share capital

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| <i>Allotted, called up and fully paid</i><br>Ordinary shares of £1 each | 100          | 100          |

The holder of the ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

## Notes (continued)

### 16 Capital and reserves (continued)

#### Capital management

The Company's capital management objective is to support the objectives of the BMW Group. The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

### 17 Employee benefits

#### Defined benefit pension plans

The Company was a participating employer in the BMW (UK) Operations Pension Scheme and in the BMW (GB) Limited Employee Benefits Plan defined benefit schemes. Both of these defined benefit schemes were closed on 30<sup>th</sup> September 2017. The Plans were 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. Particulars of the BMW (UK) Operations Pension Scheme are disclosed in the financial statements of BMW (UK) Holdings Limited, and particulars of the BMW (GB) Limited Employee Benefits Plan scheme are disclosed in the financial statements of BMW (UK) Limited, each of which is available from Summit ONE, Summit Avenue, Farnborough, Hampshire.

There is no contractual agreement or stated BMW Group policy for charging the net defined benefit cost of the plans to participating entities, therefore the net defined benefit cost of the pension plans is recognised fully by the principal employers, BMW (UK) Holdings Limited and BMW (UK) Limited. The Company recognises a cost equal to its contribution payable for the period. The total expense relating to these plans in the current year was £1.6 million (2016: £1.4 million) and there were no contributions outstanding at the year-end (2016: nil).

#### Defined contribution plan

The Company is also a participating employer in a defined contribution pension plan: the BMW (UK) Personal Pension Plan. Through this plan the Company makes contributions on behalf of the employees, with no requirement for the employee(s) to make personal contributions. Employees who joined the Company after, or were not members of any pension scheme on 1 August 2013 are auto enrolled into this scheme. All employees who were members of the either of the defined benefit plans were auto enrolled into the defined contribution scheme: the BMW (UK) Personal Pension Plan on 1st October 2017. The Company recognises a cost equal to its contribution payable for the period. The total expense relating to these plans in the current year was £1.4 million (2016: £1.1 million) and there were no contributions outstanding at the year-end (2016: nil outstanding).

## Notes (continued)

### 18 Financial instruments

#### Finance income and expense

Gains and losses on financial instruments included within cost of sales are as follows:

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| <b>Finance expense</b>  |               |               |
| Interest expense on financial liabilities measured at amortised cost: |               |               |
| Loans from BMW Group affiliates                                       | 24,960        | 29,467        |
| <b>Total finance expense</b>  | <b>24,960</b> | <b>29,467</b> |

#### Disclosure of fair values of financial assets and liabilities

The fair value of all financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

|  | 2017                       |                       | 2016                       |                       |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
|  | Carrying<br>amount<br>£000 | Fair<br>Value<br>£000 | Carrying<br>amount<br>£000 | Fair<br>Value<br>£000 |
| <b>Financial assets:</b>                             |                            |                       |                            |                       |
| <b>Loan and receivables</b>                          |                            |                       |                            |                       |
| Non-current conditional sale receivables             | 21,379                     | 21,022                | 22,389                     | 22,081                |
| Current conditional sale receivables                 | 26,359                     | 26,188                | 21,653                     | 21,534                |
| Non-current finance lease receivables                | 103,508                    | 101,118               | 101,653                    | 99,915                |
| Current finance lease receivables                    | 66,629                     | 66,196                | 68,043                     | 67,666                |
| Trade and other receivables                          | 144,304                    | 144,304               | 154,922                    | 154,922               |
| Cash   | 4,028                      | 4,028                 | 40                         | 40                    |
| <b>Total financial assets</b>                        | <b>366,207</b>             | <b>362,856</b>        | <b>368,700</b>             | <b>366,158</b>        |
| <b>Financial liabilities:</b>                        |                            |                       |                            |                       |
| <b>Financial liabilities at amortised cost</b>       |                            |                       |                            |                       |
| Current trade and other payables                     | (251,404)                  | (251,404)             | (270,600)                  | (270,600)             |
| Current loan amounts due to BMW Group affiliates     | (1,139,655)                | (1,136,482)           | (1,065,236)                | (1,065,714)           |
| Non-current loan amounts due to BMW Group affiliates | (720,360)                  | (724,681)             | (927,000)                  | (944,394)             |
| <b>Total financial liabilities</b>                   | <b>(2,111,419)</b>         | <b>(2,112,567)</b>    | <b>(2,262,836)</b>         | <b>(2,280,708)</b>    |

## Notes (continued)

### 18 Financial instruments (continued)

#### *Fair values of financial instruments*

Detailed below are the assumptions applied in determining the fair value of financial instruments held by the Company:

#### *Conditional sale receivables*

Fair values of conditional sale receivables have been calculated by using the average internal rate of return used in conditional sale contracts written at the balance sheet date as a discount factor on the forecasted future monthly gross receivable amounts. The fair value of deductions of provisions for bad and doubtful debts of conditional sale receivables have been deemed to be of equivalent value to the carrying amount.

#### *Cash and cash equivalents, trade and other receivables, trade and other payables*

For trade and other receivables, cash and cash equivalents, and trade and other payables with a remaining life of less than one year, the notional amount is deemed to reflect fair value.

#### *Interest bearing borrowings*

Fair values of financial instruments (loan amounts due to BMW Group affiliates) are determined by using the Group's Treasury Management system. This system incorporates relevant and current external market information. Specifically, fair market values are calculated by using a discounted cash flow method. Each future cash flow is discounted by a factor based on the zero yield curve. The zero yield curve is calculated by the system using current market data.

#### *Financial risk management*

Whilst the Company accepts that all of its business activities involve risk, it seeks to protect its members by managing risks that arise from its activities appropriately. Against this background, during the last year the Company has strengthened the compliance team in order to meet the increasing regulatory demands and ensure all employees are trained and aware of the financial risks management the company undertakes to mitigate these risks.

The Company is exposed in particular to the following risks:

- Residual value risk
- Credit risk
- Liquidity risk
- Interest Rate risk
- Foreign Exchange Risk

## Notes (continued)

### 18 Financial instruments (continued)

#### Residual value risk

The principal risk arising from the Company's leasing activities relates to the non-realisation of the full amount of the residual values ("RV"), set by the Company at the inception of its leasing agreements. The profitability of the Company's vehicle leasing contracts is highly dependent on the residual value of the vehicle at the end of the agreement. RV risk arises on contract hire agreements and other operating lease arrangements where the vehicle is returned to the Company at the end of the primary lease term.

On inception of the lease, the Company uses its knowledge and experience of the market and industry to estimate an appropriate RV. This is compared to other providers using competitor surveys, such as those of the BVRLA and Insight and other market information. However, future RV's can be difficult to predict due to future market trends and customer demands, and the Company is exposed to the risk that they could fall, leading to reductions in profitability.

The Company manages this risk by continually monitoring the RV estimates built into the leasing portfolio, both against industry-wide data such as CAP and Autofutura, and the Company's own information on remarketing BMW, MINI and multi-marque vehicles. This ensures that any reduction in RV's is quickly identified so that appropriate action can be taken. Any required impairment is charged to the income statement.

The impairment calculation also includes costs associated with remarketing the vehicle at the end of the agreement, covering inspection/collection from the customer, transport and auction fees.

As a result of the risk management guidelines detailed above, the Company has estimated its future residual value exposure on Operating Lease assets:

|   | 2017<br>Operating Lease<br>Residual Value<br>£000 | 2016<br>Operating Lease<br>Residual Value<br>£000 |
|---|---|---|
| <b>Residual value exposure:</b>                   |   |   |
| Not later than one year                           | 84,630  | 54,624  |
| Later than one year and not later than five years | 79,881  | 97,872  |
| Later than five years                             | -   | -   |
|   | <hr/>   | <hr/>   |
| <b>Total</b>                                      | <b>164,511</b>                                    | <b>152,496</b>                                    |
|   | <hr/>   | <hr/>   |

## Notes (continued)

### 18 Financial instruments (continued)

#### Credit risk

Credit risk is the risk of financial loss to the Company if a commercial or individual customer to a financial instrument fails to meet its contractual obligations. It arises principally from vehicle finance agreements granted by the Company to consumers and business customers. These can be in the form of contract hire agreements or loans under hire purchase, credit sale and finance lease receivables.

#### Exposure to credit risk

For the Company, all of the Company's exposure to credit risk was held in the UK. The BMW Group has established general and comprehensive guidelines that are applicable to all Alphabet entities worldwide. The "Alphabet Credit Risk Guideline" and the "Net Exposure Calculation Guideline for Commercial Credits" define the principles for the management of retail and commercial credit risk within the Company. These are minimum guidelines supplemented by local policies and procedures. This methodology results in the recognition of impairment losses on individual and groups of assets. If there is objective evidence of impairment, such as overdue balances due from consumers, the Company recognises impairment losses on the basis of individual assets. In the event of overdue receivables, impairment losses are always recognised individually based on the length of period of the arrears. This is known as a specific loss provision. If there is no objective proof of impairment, potential future impairment losses based on past evidence are provided for on financial assets using a portfolio approach based on similar groups of assets. This is known as a collective loss provision.

The ageing of conditional sale and finance lease receivables and other receivables at the reporting date was:

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Current   | 27,341       | 33,208       |
| Aged 0 - 30 days  | 2,843        | 2,960        |
| Aged 31 - 60 days   | 1,123        | 1,468        |
| Aged 61 - 90 days   | 630          | 927          |
| Aged 91 - 120 days  | 445          | 421          |
| More than 120 days  | 533          | 1,486        |
| Less allowance for impairment:<br>Specific Bad debt provision | (2,429)      | (2,418)      |
| Total   | 30,486       | 38,052       |

## Notes (continued)

### 18 Financial instruments (continued)

#### Credit risk (continued)

The movement in the allowance for impairment during the year was as follows:

|                           | Balance at 1 Jan<br>2017<br>£000 | Net provision<br>movement<br>£000 | Net write offs<br>£000 | Balance at 31 Dec<br>2017<br>£000 |
|---------------------------|----------------------------------|-----------------------------------|------------------------|-----------------------------------|
| Specific Loss Provision   | 2,418                            | 2,057                             | (2,046)                | 2,429                             |
| Collective Loss Provision | 11,085                           | (7,666)                           | (1,107)                | 2,312                             |
|                           | <hr/>                            | <hr/>                             | <hr/>                  | <hr/>                             |
| Total                     | 13,503                           | (5,609)                           | (3,153)                | 4,741                             |
|                           | <hr/>                            | <hr/>                             | <hr/>                  | <hr/>                             |
|                           | Balance at 1 Jan<br>2016<br>£000 | Net provision<br>movement<br>£000 | Net write offs<br>£000 | Balance at 31 Dec<br>2016<br>£000 |
| Specific Loss Provision   | 1,995                            | 3,433                             | (3,010)                | 2,418                             |
| Collective Loss Provision | 9,265                            | 1,820                             | -                      | 11,085                            |
|                           | <hr/>                            | <hr/>                             | <hr/>                  | <hr/>                             |
| Total                     | 11,260                           | 5,253                             | (3,010)                | 13,503                            |
|                           | <hr/>                            | <hr/>                             | <hr/>                  | <hr/>                             |

The estimated fair value of collateral held for receivables on which impairment allowances were recognised totalled £241 million in the year (2016: £155 million). This related primarily to automotive vehicles.

Various tools and procedures are used to assess credit risk at contract inception, such as information from credit reference agencies, credit scoring techniques and on-site assessments. Credit limits for business customers are based on an assessment of financial and non-financial information and regularly monitored thereafter to ensure that the risk rating does not decline thereby placing the Company's exposure at risk.

The Company actively manages its credit exposures and when weaknesses in exposures are detected, either in individual exposures or in groups of exposures, action is taken to mitigate the risks. These include steps to reduce the amounts outstanding either through written or verbal communication with the customer and where appropriate, repossession and sale of the loan assets. The Company exercises forbearance.

#### Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due. To minimise this risk the Company has taken several measures. Its day-to-day liquidity is managed as part of the UK cash pooling of the BMW Group in a way that ensures that the Company can meet any obligation to make payments. In addition the Company follows the matched funding principle of matching our cash inflow and cash outflows, and perform a short-term forecasting for the next two days in order to ensure that requirements can be met.

The Company reports its funding requirements into the BMW Group wide liquidity planning which is the basis for obtaining liquidity in the world's financial markets. To ensure access to liquidity at attractive rates, the BMW Group is present in all important capital markets to enable a diversification of funding sources including bonds, commercial paper and asset-backed transactions. The Company has direct access to these funds to manage its liquidity requirements through BMW Malta Finance and BMW Finance N.V.



## Notes (continued)

### 18 Financial instruments (continued)

#### Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

|   |                         | 2017                                   |                        |                   |
|---|-------------------------|--|------------------------|-------------------|
|   | Carrying amount<br>£000 | Contractual cash flows<br>£000         | 1 year or less<br>£000 | 1-5 years<br>£000 |
| <b>Non-derivative financial liabilities</b> |                         |  |                        |                   |
| Loan amounts due to BMW Group affiliates    | 1,860,015               | 1,861,163                              | 1,136,482              | 724,681           |
| Trade and other payables                    | 251,404                 | 251,404                                | 251,404                | -                 |
|   |                         |  |                        |                   |
| <b>Total</b>                                | <b>2,111,419</b>        | <b>2,112,567</b>                       | <b>1,387,886</b>       | <b>724,681</b>    |
|   |                         |  |                        |                   |
|   | Carrying amount<br>£000 | 2016<br>Contractual cash flows<br>£000 | 1 year or less<br>£000 | 1-5 years<br>£000 |
| <b>Non-derivative financial liabilities</b> |                         |  |                        |                   |
| Loan amounts due to BMW Group affiliates    | 1,992,236               | 1,998,673                              | 1,059,084              | 939,589           |
| Trade and other payables                    | 270,600                 | 270,600                                | 270,600                | -                 |
|   |                         |  |                        |                   |
| <b>Total</b>                                | <b>2,262,836</b>        | <b>2,269,273</b>                       | <b>1,329,684</b>       | <b>939,589</b>    |

#### Interest rate risk

Interest rate risk arises from the provision of financing to the Company's customers. The Company has significant loans payable to BMW International Investment B.V. and BMW Finance N.V. which are at both fixed and variable rates of interest for their term. The maturities of these loans can vary from one month to a few years and this variation will influence the timing of new loans and therefore any movement in interest rates prevailing in the market will have an impact on the Company's cost of funding.

## Notes (continued)

### 18 Financial instruments (continued)

#### Interest rate risk (continued)

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

##### Fixed rate instruments

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Financial assets – conditional sale receivables         | 47,738       | 44,042       |
| Financial assets – finance lease receivables            | 170,137      | 169,696      |
| Financial liabilities – loans from BMW Group affiliates | (1,498,651)  | (1,867,094)  |
| Total   | (1,280,776)  | (1,653,356)  |

##### Variable rate instruments

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Financial liabilities – loans from BMW Group affiliates | (361,364)    | (126,142)    |
| Total   | (361,364)    | (126,142)    |

The Company has designated that the conditional sale and finance lease receivables due from its customers, the majority of which are at a fixed rate of interest, constitute the financial asset portion of the fixed rate instruments. The loans payable to BMW International Investment B.V. and BMW Finance N.V. are at both fixed and variable rates of interest for their term and therefore constitute the fixed and variable rate financial liabilities.

#### Sensitivity analysis

The Company applies a value-at-risk approach for internal reporting purposes and to manage interest rate risks. Value-at-risk is a statistical estimate, given a certain confidence level (99.98%), of how much a company can expect to lose on its positions, over a holding time period of 250 days, given a change in interest rates.

The value-at-risk was as follows:

|               | 2017<br>£000 | 2016<br>£000 |
|---------------|--------------|--------------|
| Value-at-risk | 29,000       | 23,700       |

#### Foreign exchange risk

The Company does not have any material exposure to foreign exchange risk due to the small number of financial transactions that take place in a currency other than pounds sterling.

## Notes (continued)

### 19 Related parties

The related parties with which the Company traded during the year or with whom there were outstanding assets or liabilities at the year-end are listed below. Each of the related parties listed at 2 is an indirect subsidiary of BMW AG, the ultimate parent company and controlling party.

1. BMW AG

2. Alphabet (UK) Fleet Management Limited

BMW Financial Services (GB) Limited  
BMW Financial Services Malta  
BMW Hams Hall Motoren GmbH  
BMW International Investment B.V.  
BMW Finance N.V.  
BMW (UK) Limited  
BMW (UK) Manufacturing Limited  
BMW (UK) Pensions Services Limited  
Rolls-Royce Motor Cars Limited  
Park Lane Limited  
Swindon Pressings Limited

Sales of goods and services to BMW Group affiliates were £4.1 million (2016: £3.9 million).

Interest receivable from BMW Group affiliates was £48 thousand (2016: £35 thousand).

Purchases of goods and services from BMW Group affiliates were £233.7 million (2016: £283.8 million).

Interest payable to BMW Group affiliates was £25.0 million (2016: £29.5 million). This is included in the income statement under cost of sales.

*Amounts receivable from related parties at the year end, which the Company expects to be settled in cash, were as follows:*

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Trade and other receivables due from BMW Group affiliates | <u>78,674</u> | <u>74,910</u> |

*Amounts payable to related parties at the year end, which the Company expects to be settled in cash were as follows:*

|  | 2017<br>£000   | 2016<br>£000   |
|--|----------------|----------------|
| Trade and other payables due to BMW Group affiliates | 105,901        | 131,979        |
| Current loans due to BMW Group affiliates            | 1,139,655      | 1,065,236      |
| Non-current loans due to BMW Group affiliates        | <u>720,360</u> | <u>927,000</u> |

#### *Transactions with key management personnel*

The directors consider themselves to be the key management personnel having authority and responsibility for directing the major activities and resources of the Company. Directors of the Company and their immediate relatives do not control any of the voting shares of the Company. Details in respect of the compensation of key management are disclosed in note 6.

## Notes (continued)

### 20 Ultimate parent company and parent company of larger group

The directors regard BMW AG, a company incorporated in Germany, as the ultimate parent company and controlling party. A copy of its group accounts, the only set of accounts in which the results of the Company are included, can be obtained from its offices at D-80788, Munich, Germany.

The Company's immediate parent undertaking is BMW (UK) Holdings Limited, a company incorporated in England and Wales with registered office Summit One, Summit Avenue, Farnborough, Hampshire.